



Report 418/2018/I

ANNUAL REPORT  
TO THE INTERNATIONAL COOPERATION AGENCY  
OF NATIONAL ENERGY REGULATORS  
AND TO THE EUROPEAN COMMISSION  
ON THE REGULATORY ACTIVITIES AND FULFILMENT OF DUTIES  
OF THE ITALIAN REGULATORY AUTHORITY  
FOR ENERGY, NETWORKS AND ENVIRONMENT

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2 August 2018

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## 1 FOREWORD

This document was written by the newly renamed The Italian Regulatory Authority for Energy, Networks and Environment, and contains a report on the accomplished activities and performances of the regulating tasks pursuant to articles 37.1.e) and 41.1.e) of the 2009/72/CE and 2009/73/CE guide lines respectively, to be submitted to the Agency for Cooperation between Energy Regulators (ACER) and the European Commission - in the yearly updated version as it has been doing for several years now.

The consolidated structure of the report was submitted to the ACER and the DG Energy of the European Commission, in compliance with what was defined by the European Council of Energy Regulators (CEER), so that the Italian situation illustrated in this document can be easily compared with the similar reports of the other Member States.

The main elements of structural evolution of the two Italian markets, electricity and natural gas, are analysed below, concerning their regulated activities and competition state. The report also includes the description of the recent legislation and regulatory evolution of the activities carried out on the energy market, in matters of consumer protection and security of the supplies, the latter for the competence aspects of the national regulator.

The Energy Regulator carries out its daily activities in the context of energetic transition of the Member State to which it belongs and, in general, of the European transition. It is, however, the bearer of an added value: its independence from constituted interests and the Government. It's no coincidence that the third EU energy package provides that the Regulator <<... *must not accept or request any guideline from the Governments of Member States*>>. With this special "charge" of independence that, requiring high autonomy of judgement and evaluation, implies the requirement of extraordinary skills, in order not to "depend" in any way on the regulated parties, within its distinct role, the Authority pursues the same purposes that need to be guaranteed in all the States of the Union: security of the supplies, accelerated decarbonisation of the entire economy and minimisation of the competitive prices for the economy and the well-being of the citizens. In other words, the very famous European 'trilemma'.

Italy, which is one the most important markets of the European Union, is advanced in pursuit of these three purposes and today it greets the *Clean Energy for all Europeans* package very favourably, which, beyond its challenging objectives, recognizes and values the important steps made by our Country in the last few years, particularly on the regulatory side. This is positive because the energy-climate sector "breathes" Europe, otherwise we could have a lack of effort to reach its objectives.

In this new scenario the national Authority have implemented new procedures of Co-regulation, in which decisions are taken at European or regional level, without forgetting the specifics of the single interconnected systems. Many network codes and "guidelines" have been created, and a European regulatory *corpus* that has launched a reform process that will last for several years in all the member States.

This is our last report as we have ended our seven-year Regulator mandate. The Italian Authority will nevertheless continue its own action with a renewed Board. We hope that the new Board will also continue the intense work with ACER and in CEER and with the other European regulators, for the integration of the markets and infrastructures.

Milan, July 31<sup>st</sup>, 2018

The President

(Guido Bortoni)

## 2 SUMMARY/MAIN DEVELOPMENTS IN THE ELECTRICITY AND NATURAL GAS MARKETS IN 2017

### Main changes in European legislation

In 2017, the activities of the European institutions concerning energy and the development of infrastructures focused on discussions within the European Council and Parliament of legislative proposals by the European Commission as part of the so-called *Clean Energy for all Europeans* package, published on 30 November 2016. These legislative proposals concern energy efficiency, renewable energy, the structure of the electricity market, the security of electricity supply and the rules on governance for the Energy Union.

Furthermore, in 2017, approval was granted for the Regulation (EU) 2017/1938 of the European Parliament and of the Council concerning measures to safeguard the security of gas supply, which introduces, among other things, a mechanism of solidarity and cooperation between neighbouring States in the case of energy emergency.

In the past year, Regulations have entered into force implementing the provisions of the Third Package for the electricity sector and two for the natural gas sector. In particular, in 2017, the following entered into force: EU Regulation 2195/2017 establishing the guidelines for the balancing markets (i.e. those markets used by network operators to obtain, even at cross-border level, the reserve resources necessary to keep the system balanced in real time); EU Regulation 2196/2017 establishing a network code on electricity emergency and restoration; EU Regulation 1485/2017 laying down the guidelines for electricity transmission system operation. As regards natural gas, on 17 March 2017, the EU Official Journal published amendments of the network code on capacity allocation mechanisms in gas transmission systems (EU Regulation 459/2017) containing new rules for the allocation of incremental capacity and of the network code on harmonised transmission tariff structures for gas (EU Regulation 460/2017 or TAR Code). The latter sets out the rules to promote the harmonisation of tariff structures for gas transmission.

### Main changes in national legislation

Over the course of 2017, the electricity, gas and water system sectors have been affected by some significant regulations described below in order of approval.

**Law no. 96/2017**

**Law no. 96 of 21 June 2017**, which introduced, inter alia, various measures for the development of the energy system. It established, inter alia:

- the identification of parameters to promote the interoperability of public and private electric vehicle charging stations, aimed at ensuring their broadest compatibility with the electrically powered vehicles in circulation;
- the restructuring of the incentives for owners of electricity generation plants, fuelled by sustainable bioliquids;
- the extension to 31 December 2017 of the deadline for the submission of documents to the Ministry of Economic Development by operators of electricity production plants fuelled by sustainable biomasses, biogas and bioliquids, who benefit from an incentive on the energy produced until 31 December 2021. The documents are needed for notification to the European Commission for the purposes of verifying the compatibility of the measures with the *Guidelines*

on *State aid for environmental protection and energy 2014-2020*, referred to in the Communication 2014/C 200/01 (*Guidelines*);

- Actions to regulate the controls and sanctions regarding incentives in the photovoltaic sector and in the wind power industry.

**Law no. 124/2017**

At the end of a long and complex parliamentary examination<sup>1</sup>, approval was granted for **Law no. 124 of 4 August 2017**, laying down the ***Annual Law for the Market and Competition***. This law, which entered into force on 29 August 2017, has introduced various rules relating to energy markets, the most important of which determine the removal of the transitional regulation of the prices in the natural gas sector (Protection Service or Standard Offer Service) and electricity sector (Enhanced Protection Service or Standard Offer Service) starting from 1 July 2019. From this date, therefore, there will be no price protection available for domestic consumers in the gas sector and domestic consumers and businesses with low voltage connection with fewer than 50 employees and an annual turnover of up to ten million euro in the electricity sector. For those who will be without an electricity supplier at the time of the removal of the standard offer service, a safeguarding service will be introduced, regulated by the Authority through insolvency proceedings for regional areas and under conditions that encourage transition to the free market. This is to ensure the continuity of supply.

The law also introduced a series of measures to support further development of the retail markets. In relation to this second aspect, the measures are described below.

To ensure the comparability and the transparency of offers for the supply of electricity and gas, the Authority must provide for the creation and management of a web portal for the collection and publication of offers on the retail market, with particular reference to domestic users, businesses with low voltage connection and companies with annual consumption not exceeding 200,000 Sm<sup>3</sup>. The portal will be created and managed by the operator of the Integrated Information System (SII), i.e. by the Acquirente Unico (AU, Single Buyer). The Authority must also set up a technical-advisory committee with the functions of guaranteeing the content of the portal.

For the purposes of publication of offers, the law requires that operators of the sale of electricity or gas send to the Authority and publish on their websites at least one variable price offer and one fixed price offer for domestic and non-domestic consumers connected at low voltage and for the users with annual consumption not exceeding 200,000 Sm<sup>3</sup>.

As established by Law no. 124/2017, the Authority has the task of submitting a report on the monitoring of retail electricity and gas markets to the Ministry of Economic Development, within 6 months of the entry into force, focusing particularly on the achievement of certain objectives for the termination of the standard offer regime in the retail energy and gas markets. On the basis of the report, within 60 days of its submission, the Minister of Economic Development must then pass a decree that accounts for the achievement of these objectives. Failure to achieve these objectives will lead to the implementation by the same Ministry and by the Authority, each within the limits of its powers, of the necessary measures to facilitate their achievement. The measure must also define the measures necessary to ensure that the termination of the standard offer regime and the informed entry of end consumers to the market take place according to mechanisms that ensure competition, plurality of suppliers and bids in the free market.

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<sup>1</sup> Which is also reported in previous *Annual Reports*.

With reference to the key issue of information to consumers, the law requires that end customers of electricity supplied under standard offer regime must receive appropriate disclosures from each supplier on the removal of price protection. Furthermore, it imposes on the Authority the obligation to ensure publicity and the dissemination of information on the full opening of the market and on the operating conditions of the services, as well as the effective treatment of complaints and conciliation procedures for all sectors that are subject to regulation and control.

In addition to introducing a provision to simplify the process of switching suppliers for customers, the law establishes that through a subsequent measure<sup>2</sup>, there must be a reform of the process of issuing and restructuring the so-called “*electricity and gas bonus*”, i.e. economic benefits in support of financially disadvantaged customers and domestic customers suffering from serious health conditions, such as to require the use of medical and therapeutic equipment powered by electricity, necessary to keep them alive.

It has been established that consumers have a right to pay electricity and gas bills in instalments in the event that they receive invoices with significant balances to settle owing to delays, interruptions to billing or extended unavailability of real consumption data. The right does not apply if the balance is due to reasons for which they themselves are responsible. At the same time, the law provides that the Authority identifies adequate measures to empower distributors, in the case of extended unavailability of real consumption data, and to facilitate the accessibility of measuring units for these distributors.

As a further measure for the transparency of the electricity and gas market, it has been established at the Ministry of Economic Development a *List of parties authorized to sell to end customers*; inclusion and persistence in this list is a necessary condition for performing such activities.

Furthermore, rules on the promotion of competition are identified, through the reduction in information asymmetry, as well as provisions on the “*close-out netting*”<sup>3</sup> clause envisaged for wholesale energy products.

Other measures included in Law no. 124/2017 concern:

- the evaluation of requests for the verification and certification of savings necessary for the issue of energy efficiency certificates to plants for the production of energy from renewable sources;
- regulations partially derogating from existing regulations on unbundling requirements for the operators of closed distribution system and for the operators of distribution systems that form part of a vertically integrated company serving fewer than 25,000 withdrawal points;
- provisions for regulating certain aspects of the natural gas production chain.

**Law no. 167/2017**

**Law no. 167 of 20 November 2017**, laying down the *Provisions for the fulfilment of the obligations arising from Italy’s membership of the European Union - European Law 2017*, amended the measures regarding State aid for environmental protection and energy 2014-2020, with specific regard to companies with high consumption of electricity (energy-intensive). The law has revised the regulation of concessions to energy-intensive businesses, establishing the general principles and referring to subsequent decrees of the Minister of Economic Development the definition of scope, concessions provided and criteria and methods

<sup>2</sup> That is to say, with a decree of the Minister of Economic Development, having consulted the Authority.

<sup>3</sup> This clause facilitates the procedures for terminating sales contracts: in the event of the insolvency of one of the contracting parties, the non-insolvent party may terminate pending electricity or gas operations and obtain an amount of termination (profits minus the overall losses and costs resulting from the early termination of the contract).



with which the Authority will provide for their implementation. In particular, it has established the progressive definition of the concessions on the basis of the intensity of the electricity consumption in relation to the turnover of energy-intensive companies, in compliance with the minimum contribution levels set by the European Commission, as well as the definition of the methods of application of the clause on gross added value, according to the provisions of the European Commission Communication on State aid for environmental protection and energy 2014-2020. Furthermore, the law has also established that the Authority must adapt, from 1 January (2018), the structure of the tariff components related to the general electricity system charges applied to non-domestic electricity customers to criteria that govern the network tariff for services of transmission, distribution and metering, while taking into account the different voltage levels and connection parameters, as well as the different nature and specifics of the charges in relation to the tariff.

Moreover, Law 167/2017 has amended the regulations in force concerning support for the production of energy from renewable sources, establishing that the production of electricity from plants with a nominal power up to a certain value (to be established with special decrees) must be given incentives, from the date of entry into service, differentiating according to source and power bracket.

Finally, the law also acted in relation to State aid for environmental protection and energy 2014-2020, with particular focus on companies with high gas consumption. The definition of companies with high natural gas consumption<sup>4</sup> must be determined on the basis of requirements and parameters relating to the minimum levels of consumption, the impact of the cost of natural gas on the value of the business activity and the exposure of the companies to international competition. The Authority shall ensure the redefinition of fees to cover the general costs of the gas system and of the criteria for allocating these charges to end customers. In addition, the Authority shall take all necessary measures to guarantee that all gas consumption exceeding 1 million S(m<sup>3</sup>)/year for non-energy uses will not be subject to the application of the corresponding fees established to cover the general costs of the gas system, the proceeds of which are intended to fund measures regarding common objectives for decarbonization.

**Law no. 205/2017**

The most significant innovations relating to the activities of the Authority are found in **Law no. 205 of 27 December 2017**, amending the *State budget for the financial year 2018 and multi-annual budget for the three-year period 2018-2020*, which has attributed new regulation and control functions in the waste sector, giving the Authority the new name of *Italian Regulatory Authority for Energy, Networks and Environment* (ARERA). The members of the Authority's Board have been increased to five, including the President, and are appointed pursuant to law<sup>5</sup>, upon the proposal of the Minister of Economic Development, in agreement with the Minister for the Environment and Protection of Land and Sea. The organisation chart of the Authority was accordingly increased by 25 permanent units.

Law no. 205/2017, however, also contains several other provisions of interest referring to the energy sectors. Among these are to be highlighted:

- provisions for the protection of consumers with regard to balance billing for the provision of electricity, gas and water services. In particular, a compliance period of two years for payment of sums due has been introduced to the supply contracts for such services. Furthermore, the user has the right to suspend the payment, pending verification of the lawfulness of the conduct

<sup>4</sup> Referred to a subsequent decree of the Minister of Economic Development.

<sup>5</sup> Law no. 481 of 14 November 1995.

of the operator as well as the right to reimbursement of payments made for balance overpayments. The Authority must define measures to encourage self-reading and provisions for end customer access to data regarding own consumption. By 1 July 2019, the Integrated Information System must enable end customers to access data regarding own consumption, at no extra charge;

- measures for the promotion of vehicle-to-grid technology, referring to a decree of the Minister of Economic Development, having consulted the Authority, the identification of the criteria and methods to facilitate the dissemination of such technology, including via their participation in the electricity markets and specific measures of rebalancing the purchase costs in relation to retail energy prices;
- assigning Sogin (the company responsible for decommissioning) the task of dismantling of the nuclear reactor located in the Ispra Research Centre (Varese), implementing that stipulated in the Agreement between the Government and the European Atomic Energy Community of 27 November 2009. In particular, the law establishes that the definition of covering charges must be ensured by the use of the revenue from the tariff component A<sub>2</sub>;
- extension to 31 December 2018 of the deadline after which the operators of plants powered by sustainable biomass, biogas and bioliquids no longer benefit from the preceding incentives on the energy produced. These operators are awarded the right to benefit from the incentives for five years from the return to operation of the plants, instead of up to 31 December 2021;
- actions on the regulation of controls and sanctions regarding incentives in the photovoltaic sector subjecting the provision of incentives to the outcome of the controls performed. In particular, the law requires that, in the event that the violations identified ~~found~~ during controls performed by the Gestore dei Servizi Energetici (GSE, Energy Services Manager), or its authorised representatives, are significant for the purposes of the provision of incentives, the GSE shall order a reduction of the incentive of between 20% and 80%, depending on the extent of the violation;
- provisions on energy efficiency and regulatory adaptation concerning public lighting installations;
- extension of one year (to 31 December 2018) for awarding incentives for large energy efficiency projects with certain requirements indicated by the same provision.

As regards the secondary regulatory activity of the government, there are certain other important measures to recall, issued between the end of 2017 and early 2018. These include:

- the decree of the Minister of Economic Development of 21 December 2017 that governed the concessions to energy-intensive companies, in order to bring national legislation in line with that of the EU. The measure allows the price differential of electricity paid by companies most exposed to foreign competition to be reduced, introducing even in Italy the new measures permitted by the EU, in order to achieve the progressive alignment of the costs to Italian companies of supplying electricity with the levels of other European competitors.
- the decree of the Minister of Economic Development of 22 December 2017 laying down the methods of operation of the National Fund for Energy Efficiency. This Fund will support energy efficiency interventions undertaken by companies and Public Administration on buildings, plants and production processes.

- Finally, on 2 March 2018, the Minister of Economic Development signed the decrees for the promotion of the use of biomethane in the transport sector and for concessions for companies with high consumption of natural gas. With the first of the two decrees, Italy sets the objective of 10% consumption of renewable energy by 2020 in the transport sector, which includes the national sub-target for advanced biomethane and other advanced biofuels of 0.9% by 2020 and 1.5% by 2022. The mechanism envisaged is funded by sales of petrol and diesel. It is also required that biofuels, most importantly imported biofuels (biodiesel), be replaced with biomethane produced in Italy, in order to promote the construction of plants for the treatment of urban waste.

The second decree defines, in accordance with the Community Guidelines on State Aid, which companies with high consumption of natural gas will be granted access to an incentive scheme to be adopted with subsequent decree pursuant to the aforementioned Law no. 167/2017. The measure reviews the definition of “gas-intensive” company to bring it in line with the EU Guidelines on State Aid in the Energy Sector and sets the general rules of cumulation of incentives for companies with a high natural gas consumption, if they also benefit from concessions relating to the cost of electricity. In addition, for businesses that use natural gas as a raw material for non-combustible use (including chemistry and fertilisers) and with consumption exceeding a certain threshold, there shall be processes through which the Authority can introduce the exemption from payment of specific tariff components to cover the costs of decarbonization.

## Developments in the electricity market

### *Main changes to the regulation*

With regard to **unbundling**, in June 2017 the Authority issued formal notice to a series of non-compliant businesses concerning their failure to submit the information with which companies declare their unbundling obligations provided for by the regulation. Subsequent to the formal notices, appropriate sanction procedures were initiated against the companies that had yet to comply with the declaration of their obligations.

With regard to the **dispatching service**, as far back as June 2016, the Authority outlined its guidelines concerning the organic reform of the electricity dispatching service regulations. The reform has the primary purpose of opening up the MSD (Dispatching Service Market) to the participation of demand and production units powered by non-programmable renewable sources. In 2017, the process of reform is pursued, within the context of achieving the definition of a new *Integrated Text of Electrical Dispatching* (TIDE), in line with European legislation (and in particular with the European regulations on electrical balancing, the operation of the electricity system and with the *Capacity Allocation and Congestion Management - CACM*) regulations.

Pending the definition of the TIDE, certain important actions have already been undertaken. A first action concerned an initial opening of the MSD, allowing participation by the consumption units, distributed generation and non-programmable production units, in order to make new dispatching resources available immediately. This participation takes place by means of pilot projects, identified by Terna, whose execution does not require forms of economic incentives in favour of the dispatching users and that do not involve the consumption units and production units that fall under the dispatching contract of the AU (Single Buyer) and the GSE (Energy Services Manager), respectively. A second action concerned the regulation of imbalances: The Authority has defined

the transitional measures to avoid the irregularities found in existing legislation that have allowed some dispatching users to reap profit unrelated to the aims of the dispatching service, by means of programming at levels structurally and appreciably different from those to be reasonably expected. The adoption of these measures allowed a return to the promotion of actual single pricing imbalances, fully in line with the European regulation on electricity balancing, from 1 September 2017 and for all units not subject to compulsory enabling.

For non-programmable renewable energy, the existing regulation remains, on the basis of which dispatching users can choose, every year, whether to apply the regulation of imbalances foreseen for the other non-enabled production units or the new regulations specifically introduced for non-programmable renewable sources.

Finally, the Authority has redefined the timelines for the determination and the publication by Terna of the three dispatching payments: payment for the provision of resources in the market for the dispatching service or uplift, the payment to cover the costs of the modulation of wind power production, the payment to cover the costs of the units essential for system security. In the past, these fees were not determined and published by the beginning of the period to which they refer. Thanks to this measure, payments can be applied to sales contracts in a “transitional” manner, making it simpler for both suppliers and end customers. The three payments, starting from those relating to the first quarter of 2018, are determined by Terna on a quarterly basis by the fifteenth day of the month preceding the quarter to which they refer.

On the issue of the **regulation of network security and reliability**, in 2017, the Authority was concerned with **essential plants**. The plants essential to the security of the electricity system are the structures that are technically and structurally essential to the resolution of network congestions or to maintaining adequate levels of security of the national electricity system, for significant periods of time. These plants are remunerated via the ordinary regime (i.e. through the tariff system) or through the reintegration of variable costs. At the end of a complex process that began in 2016 to evaluate potential abuses in the wholesale electricity market pursuant to Regulation (EU) 1227/2011 (REMIT), which was conducted in coordination with the Antitrust Authority and taking into account the commitments made by Enel Produzione, the Authority ordered the admission to the cost reintegration regime of the Brindisi Sud plant of the aforementioned company, pursuant to the basic provisions on dispatching, limited to the year 2017. Given that Terna subsequently indicated that the Brindisi Sud plant is essential to the safety of the electricity system for 2018 as well, the Authority confirmed the plant’s admission to the reintegration regime for 2018 too, in the light of the persistence of the expected net benefits for consumers. Over the course of 2017, the Authority also admitted the Rosen 132kV plant of Engie Italia to the cost reintegration regime for the period between 15 May 2017 and 31 December 2017, as well as the Sippic Capri Power Plant, albeit under certain conditions.

Alongside the two regimes indicated above (ordinary and cost reintegration), there is also a third regime: the alternative or essentiality regime. The alternative essentiality regime features simplified obligations and remuneration as compared to the typical regimes and requires the signing of a contract between Terna and the dispatching user owner of the essential plants, governed by art. 65-bis of Resolution 111/06. In 2017, the Authority defined the technical and economic parameters relevant to the application of the alternative regime to essential production capacity, determining, for each dispatching user, the owner of that capacity (CVA Trading, Enel Produzione, Eni and Isab), the minimum quantity of power of commitment, the maximum price and minimum price to be reached and the fixed charge. The values of the economic parameters (prices and fixed charge) were

set on the basis of the standard cost structure of an open-cycle gas turbine plant. Finally, the Authority approved the contract proposals put forward by Terna in relation to dispatching users that have subscribed to the alternative regime for 2018 as well (CVA Trading, Enel Produzione, Eni and Isab).

Still on the subject of the regulation of network safety and reliability, we must recall the measures taken in 2017 in relation to **internal user networks and simple production and consumption systems**. By “electricity networks”, the current regulatory framework means all those electricity systems which involve the coexistence of multiple end customers and/or producers of electricity. In such systems, the transport of electricity for delivery to end customers consists of transmission and/or distribution. Within the framework of electricity networks, we can distinguish two subsets: public networks<sup>6</sup>, managed by owners of an electricity transmission licence (Terna) or distribution licence, and Closed Distribution Systems (SDCs), private electricity networks, managed by parties other than Terna and by distribution companies, which distribute electricity within an industrial, commercial or shared services site in a geographically limited area and that, minus particular exceptions expressly provided for by the Authority regulations, do not supply domestic customers. In turn, the SDCs are divided into Internal User Networks (RIUs) and other SDCs, referred to as Other Closed Distribution Systems (ASDCs).

Following the approval of the three European regulations, RfG - Requirements for Generators, DCC - Demand Connection Code and HVDC - High-Voltage Direct Current, which lay down the requirements for the connection to electricity networks (electricity generators, consumption plants, systems with high voltage direct current and power generation plants connected with direct current), the Authority has initiated a process to integrate them under the regulations in force in Italy. As part of this process, the Authority has introduced several **innovations relating to the electricity production plant connection service**. Amongst other things, it has simplified the technical and economic conditions for the connection of high-efficiency microgeneration plants i.e. microgeneration plants powered by renewable sources, possibly equipped with storage systems. It has also initiated a process for revising the methods of determining the payment to cover the costs of network plant testing, undertaken by the applicants themselves, for the connection of electricity production plants to medium and high voltage distribution networks.

On the **regulation of the technical quality of services**, in 2017 the Authority continued its action to promote an increase in the resilience of the electricity networks, in order to improve the capacity to cope with severe and extended meteorological events. In addition, it introduced new rules on the experimental regulations to encourage the reduction of the duration of interruptions with prior notification of the electricity distribution service.

In Italy, since 2015, the Authority has promoted the improvement of the continuity of electricity transmission service via a mechanism of rewards and penalties that refers to the indicator of energy not supplied, calculated nationally. In particular, the Authority has outlined the transition from input-based regulation, adopted since 2015, to regulation more focused on the output of the transmission service. For the current regulation period (2016-2019), the Authority has provided for transitional incentive-based regulation, as well as the progressive definition of new output-focused incentive-based regulation instruments.

On the issue of **tariffs for connection and access to the networks**, in October 2017, the Authority presented its first proposals for the introduction of an approach based on the overall control of expenditure (so-called *TOTEX* approach) for the payment of operating costs. As established in 2015,

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<sup>6</sup> The public networks are divided into networks used by Terna for the provision of transmission and distribution networks.



from 2020, the TOTEX approach will replace the current incentive-based regulation and rate-of-return regulation schemes for capital costs adopted in the previous regulatory period.

With reference to the services of distribution and metering of electricity for the period 2016-2019, in order to promote aggregation among small distribution companies, the Authority introduced differentiated methods of payment of capital costs for companies with more than 100,000 withdrawal points connected to their own networks and companies that fall below this threshold. More precisely, for companies with more than 100,000 withdrawal points, there is a regime of individual recognition of investments in force. Instead, for the determination of reference tariffs for distribution companies supplying up to 100,000 withdrawal points, it is required that mechanisms be defined for the recognition of costs based on parametric criteria with reference to both the distribution service and the metering service. Consistently with this regulatory framework, in December 2017, compulsory tariffs relating to the distribution and metering services for 2018 for non-domestic customers and domestic customers were approved. For companies that supply up to 100,000 withdrawal points, in any case, the criteria of parametric tariff recognition originally envisaged had to be amended as a result of the approval of Law no. 124/2017, which established, *inter alia*, that for electricity distribution companies supplying fewer than 25,000 withdrawal points, "the methods of recognition of costs for electricity distribution and metering must be based on parametric logic, which also takes into account the supplied user density, in compliance with the general principles of efficiency and affordability and with the aim of ensuring the simplification of regulation and the reduction of the associated administrative costs". In the light of the new provisions of the primary legislation, the Authority has issued a document for consultation that includes further guidelines on the parametric recognition of costs and the initial guidelines on the promotion of aggregation, delimiting the application of the parametric regime to companies that supply fewer than 25,000 withdrawal points. In the consultation, it was proposed that the parametric cost regime be introduced from 2017 with a mechanism of progressiveness until 2019.

In 2014, Legislative Decree no. 102 of 4 July 2014, which transposed the EU Directive on Energy Efficiency, established that the Authority had to adjust the components of the electricity tariff, in order to overcome both the progressive structure with regard to consumption (with the identification of service cost-based tariff components), and encourage virtuous behaviour and, finally, promote the achievement of efficiency objectives. The legislative decree also requires that the Authority formulate proposals for the definition of any new criteria for determining cost compensation to be awarded to economically disadvantaged segments of the population (social bonus). The *Annual Report 2016* described the steps of the process through which the Authority defined the gradual path to be followed to complete the tariff reform, overcoming the current progressive tariff structure by 2018.

As part of this three-year pathway, the first stage was implemented on 1 January 2016, with the redefinition of the tariff payments relating to network services (transmission, distribution and metering), so as to increase the fixed rates applied to customers with tariff D2 (residents with installed power not exceeding 3 kW) and to buffer the progressive structure of variable rates (expressed in c€/kWh).

The second stage of the reform was implemented on 1 January 2017, including:

- the adoption of the trinomial and non-progressive structure (indicated as TD) for tariff prices for network services (transmission, distribution and metering), to be applied to all domestic customers, regardless of their registered permanent address;

- the redefinition of prices covering the general system costs in order to mitigate the effect of progressive consumption and to limit the number of different rates among annual consumption bands to two;
- the phasing out of the distinction of domestic customers into sub-types, maintaining only the difference between supplying applications in the place of residence of the customer (resident customers) or in places other than the place of residence (non-resident customers);
- a reduction in the progressiveness that had hitherto characterized the structure of the tariff component refunding the differential for commercialization applied to all end customers entitled to standard offer, aligning it to that applied for payments to cover general system costs;
- measures aimed at facilitating final domestic customers to optimize their expenditure for the supply of electricity, by identifying the level of contractually subscribed power that best suits their needs (introduction of contractually subscribed power levels with a wider choice and reduction for 24 months with effect from 1st April 2017, of costs associated with each change to this contractual aspect).

On the basis of the programme outlined earlier, the band structure was expected to be totally phased out by 1 January 2018. However, close to this date, the Authority identified the risk that the electricity bills included the combined effects of the final step of the tariff reform for domestic customers with those arising from new measures relating to the review of concessions for energy-intensive companies. For this reason, it asked the Government and Parliament for guidelines on the objectives, in consideration of the fact that it is impossible to identify for general charges a structure of fees adherent to the costs, since these charges do not correspond to a specific service, but are used to cover the need for revenue for public policies that are not covered by general taxation. In the light of indications received from the Government and Parliament, the Authority decided to defer implementation of the third and final stage of the reform to 1 January 2019, whilst maintaining the tariff structures applied to domestic customers in 2017 unchanged for 2018. The rates of payments to cover the general costs of the system were also defined in such a way that, over the course of 2018, the maintenance of differentiated rates between the two bands of consumption allows the moderation, for domestic customers with low consumption, of the effects of the increase in the charges connected to the review of concessions for energy-intensive companies. Finally, it was decided to extend for a further year, namely until the completion of the transition to the new tariff structure (1 January 2019), the applicability of the economic conditions dedicated to domestic customers who have subscribed to the experimental tariff system for heat pumps, in order to ensure the protection of their investments.

Over the course of 2017, preliminary activities continued in relation to the **reform of the tariff components of the general electricity system charges for non-domestic users**, whose term of effect was set by national law as of 1 January 2018. These activities were coordinated with the parallel procedure for the reform of concessions for energy-intensive companies. Following consultations and taking into account the provisions of the decisions of the European Commission on this matter, in June 2017, the Authority defined the main and substantial characteristics of the new tariff structure of general charges for non-household customers to be applied from 1 January 2018, requiring that, in the new structure, the existing components A2, A3, A4, A5, As, MCT, UC4, UC7 be combined to form only two groupings: the component “general charges related to the support of renewable energy and CHP” (A<sub>SOS</sub>) and the component “remaining general charges” (A<sub>RIM</sub>) and that

both have a trinomial structure: i.e. a unitary rate expressed in euro cents/delivery point/year, a unitary rate expressed in euro cents/kW/year and a unitary rate expressed in euro cents/kWh.

It was also established that the grouping  $A_{SOS}$  must be divided into customers who do not benefit from the concessions foreseen for energy-intensive companies (non-subsidised customers) and subsidised customers and that the latter be divided according to category of concession. The component  $A_E$ , which financed the concessions awarded to subsidised customers to the end of 2017, is replaced (implicitly) from 2018 by the differences in tariff levels of the grouping of general charges in relation to the support of renewable energy and cogeneration ( $A_{SOS}$ ) applicable to subsidised customers, on the one hand, and non-subsidised customers (including domestic customers) on the other. It was also established that the logic of the grouping of the various general charge components described above also be applied to domestic customers, without prejudice to the different tariff structure applied to these customers for general charges.

At the end of December 2017, the Authority defined, for both domestic and non-domestic users, the rates of tariff components  $A_{SOS}$ ,  $A_{RIM}$ , UC3 and UC6 starting from 1 January 2018.

The new tariff structure of the general system charges costs for non-domestic customers also took into account the provisions for the **reform of concessions for energy-intensive companies**, adopted at the end of 2017 and which has the same date of effect.

Over the course of 2017, in fact, in accordance with the provisions of the “Regulations on State aid for environmental protection and energy 2014-2020”, the European Commission approved the plan of adaptation presented by the Italian Government for the period prior to 1 January 2018. The plan foresees a gradual adjustment, capable of guaranteeing for all energy-intensive companies payment of the minimum expected contribution to charges to support renewable energy and cogeneration of mechanism CIP 6/92<sup>7</sup>. This is insofar as the decision of the Commission established that energy-intensive companies, which since 2011 have not guaranteed payment of the minimum contribution to the charges for renewable sources and cogeneration (companies in situations of overcompensation), must pay any sums not paid (even through the reduction of subsidies not yet issued), in order to comply with the payment of the minimum contribution foreseen by the Adjustment Plan for each year. Following the decision of the European Commission, the Authority ordered preliminary investigations into overcompensation for the period 2011 to 2014 and for the year 2015. Subsequently the Authority issued provisions to the Energy and Environmental Services Fund (CSEA) for the recovery of sums corresponding to the overcompensation established for the period 2011 to 2014. The data relating to the subsidies for 2016 are currently being verified by the CSEA.

2016 saw the end of the second regulatory period, outlined in 2013, which established the criteria for the **recognition of the charges resulting from the decommissioning of nuclear power stations divested**, closing the fuel cycle and related and consequent activities. Since this closure was not completed, the Authority has provided for an extension of the existing regulation and has estimated the nuclear charges for 2017, hoping “...that this year will be fruitfully dedicated to laying the foundations for the presentation of a Full-Life Programme that marks a definitive discontinuity”. In November 2017, Sogin, the company responsible for the decommissioning, presented the new full-life programme of the nuclear contract that is currently under analysis at the offices of the Authority.

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<sup>7</sup> This is a measure adopted in Italy in 1992, which promoted the exploitation of renewable sources or similar by plants powered by renewable and similar sources that began operating after 30 January 1991, to which were ensured the purchase of energy at subsidised prices for a period of between 8 and 15 years from the entry into operation of the plants.



### *International coordination*

In 2017, the activities of the Authority towards the integration of the Italian electricity market into the European market, in addition to activities undertaken in collaboration with other EU regulatory authorities, focused mainly on: investments in new infrastructures and their consistency with the EU Development Plans, the implementation of European regulations for the electricity market and the approval of the Market Codes.

On the subject of **investment in new infrastructure and consistency with the EU Development Plans**, the Authority published in December 2017 its assessment of the draft ten-year development plan of the national transmission grid. This assessment follows the consultation process that took place from the beginning of May to the end of July 2017, which also involved organisation of public discussion sessions. In its assessment, as well as highlighting the innovative nature of the draft Development Plan 2017, especially in relation to the implementation of the new cost-benefit analysis methods (so-called CBA 2.0) and making recommendations for future improvements, the Authority gave its positive opinion to the approval of the draft Development Plan 2017 by the Minister for Economic Development, under certain conditions.

In addition, over the course of the year, the Authority assessed the consistency between the ten-year development plan of the national transmission grid and the EU development plan, *Ten Year Network Development* (TYNDP), in two circumstances: in the formulation of its contribution to ACER Opinion no. 08/2017 of 3 April 2017 on electrical projects in national development plans and TYNDP 2016 and in the preparatory stage of the above mentioned assessment of the development plan of the national transmission grid.

The **European regulations** on the electricity market, also identified as network codes or guidelines, are regulatory measures of a technical nature that serve to complete the internal energy market. They can be grouped into three main families: market, connection and network management. The network codes identify rules that can be directly implemented at national level, whilst the guidelines provide for the subsequent drafting of a series of implementing provisions: therefore, the publication of the Regulations does not prevent the development and publication of secondary legislation but requires the development of specific rules that the regulators of each Member State are called upon to evaluate and approve. The implementation of guidelines and network codes at the end of 2017 is still incomplete: whilst certain activities have been completed, many other will require the continued commitment of the Authority in the years to come. The elaboration of the "methods" was launched in 2015 in reference to the *Capacity Allocation and Congestion Management Guidelines*, to then be extended to other guidelines between 2016 (*Forward Capacity Allocation Guidelines* or FCA GL) and 2017 (*System Operation Guidelines* or SO GL, *Electricity Balancing Guidelines* or EB GL). 6 of the 15 "methods" envisaged within the framework of the FCA Regulations have yet to be completed.

The FCA Regulations lays down the requirements which must be met by the long-term transmission rights granted at European level, together with the terms of allocation. Over the course of 2017, the Authority approved the methodologies for the exchange of data relating to the generation and the load needed to prepare the European network model and the requirements for the establishment of the single platform of allocation and for the subdivision of the related costs. The Authority also participated in the process of approval of the harmonized rules for the allocation of long-term transmission rights, which was concluded with Decision 03/2017 adopted by ACER. At a regional level, the Authority approved, with prior unanimous agreement in the corresponding regional forums, the proposals for the type of long-term transmission rights and for the specific rules of allocation applicable on the borders with Austria, Slovenia, France and Greece.

Within the framework of the implementation of the CACM Regulations, the Authority was mainly involved in the evaluation, undertaken jointly with other European regulators, of the different methodologies that TSO and NEMO are called upon to develop for the creation of integrated European markets with a single day ahead and intraday coupling forecast period. Approval was granted for the method for performing the function of *Market Coupling Operator*, which represents the backbone of the operation of the future integrated European market and methodology relating to the common network model that the TSOs are called upon to create in order to be able to proceed with a joint and harmonized calculation of the different inter-zonal capacities to be made available to the market.

In addition to the implementation of the different methodologies, the CACM Regulations also govern the methods of reviewing the configuration of the offer areas at European, regional (CCR) and national level. The zonal configuration currently in force in Italy dates back to 2012. At the beginning of 2018, the Authority formally launched a revision of the zones pursuant to CACM Regulations (launched on a national basis and limited to the internal zones with negligible impact on the zones of neighbouring countries). Over the course of 2017, the specific rules of allocation of long-term transmission rights on the border with Switzerland were approved, as well as the rules of allocation of single day and intraday capacity. These rules are also valid, for single day capacity, on the border with Greece for which market coupling has not yet been implemented pursuant to CACM Regulations, and for intraday capacity, on the border with Austria and France pending the implementation of single intraday coupling at European level.

The European Regulation 2195/2017 laying down guidelines for balancing the electric system (Balancing Regulation) entered into force on 18 December 2017, therefore the workflow that will lead to the adoption at national level of the methods of implementing the guidelines is expected as from 2018 and for subsequent years. However, in the course of 2017, the Authority participated continuously in the special task force of regulators, dialoguing with the working groups of the association of TSOs (ENTSO-E), who have long been involved in implementation projects that will lead to the formal definition of the methodologies required pursuant to the Balancing Regulation.

Finally, in 2017, the Authority increased its commitment on an international level, reinforcing multilateral and bilateral dialogue and institutional cooperation and collaborating with European and international institutions to help remove the obstacles that prevent or slow the sharing of common rules on energy. The Authority has also promoted initiatives to strengthen its role as regulator of reference in the Balkans and in the Mediterranean basin, which are geographical areas of primary importance for the Italian energy system due to the increase in new investment in energy infrastructures foreseen for coming years.

#### *Wholesale and retail markets*

According to provisional data by Terna in 2017, **electricity demand** increased after the fall in the previous year. In fact, as compared to 2016, there was an increase of 2.2%, due to climatic effects and economic recovery. Demand was met by national production, which rose by 2%, covering, as in 2016, a share of the total national requirement of 89%. Compared to the previous year, there has been a decrease in imported electricity (-0.7%) and exported electricity (-16.6%) with a balance of energy traded with foreign countries up by 2.0%. Imports decreased from France, essentially due to the unavailability of the French nuclear power plants that lasted to the first half of 2017, in the same way as imports from Slovenia, whilst flows from Switzerland increased. After years of continuous reductions, **gross national production** grew for the third consecutive year, rising from 289.8 TWh in 2016 to 295.5 TWh in 2017 (+2.1%). Thermoelectric production was almost entirely responsible for this increase, growing by approximately 5% compared to the previous year. As in 2016, natural gas

saw the most marked increase (+10.5%), whilst there was a significant decrease for all the other energy sources, especially in the case of solid fuels (-9%) and other combustibles (-7.4%). The reduction was less significant for petroleum products (-1.7%). Production from renewables decreased by 3.3%, with a significant drop in hydroelectric production (-14.8%) due to the poor water resources. The decline in hydroelectric production was partly offset by the increase of 14% in photovoltaic generation; wind power production is essentially stable and there was a slight decrease in geothermic production and production from biomass and waste. Essentially, gas sources achieved almost half (47%) of gross production, a percentage that hadn't been recorded since 2009.

In Italy electricity generation plants powered by renewable resources benefit from various incentive mechanisms that use various methods. The incentive tools enabled incentives to be applied to a quantity of electricity that stood at around 65 TWh in 2017, just under the 65.6 of in 2016, at a cost that decreased by 1.5 billion euro for 2017 (from 13.6 billion to 12.1 billion euro).

With the exception of Enel and Engie, whose market share decreased slightly (-1.6% and -0.8% respectively), all of the other corporate groups recorded practically stable or increased market shares compared to the previous year. The Herfindahal-Hirschman Index (HHI) on gross generation, equal to 686, showed a decrease compared to 2016, when it stood at 718. The Czech group Energeticky A Prumislovy Holding (EPH) entered to form part of the list of corporate groups with at least 5% of net generation.

As mentioned above, the share of domestic requirements covered by the **foreign balance** remained unchanged at 11.8% as in 2016, because it too grew by 2% compared to the previous year. In 2017, the amount of electricity **traded in the 'Sistema Italia'** increased, in particular in the first half of the year, reaching the highest level of the last five years, at 292 TWh (+1.1% compared to 2016). The volumes traded on the Power Exchange reached 211 TWh (+4.3%), the highest level recorded since 2010, supported in sales by national and foreign non-institutional operators (+6.6%) and in purchase by the AU (Single Buyer) (+26.6%), which for the first time in recent years met more than 90% of its requirements in the Power Exchange. Programmes deriving from registration of bilateral over-the-counter trade on the PCE decreased again (81 TWh, -6.2%), at their historic low. In 2017, the **average electricity purchase price (PUN)** recovered from the lowest levels of 2016, reaching 53.95 €/MWh (+26.1%), encouraged by a rise in fuel costs, the slight increase in purchases greater use of thermoelectric generation and fewer imports from cheaper nuclear plants in France. During the year, market coupling allocated on the northern border a capacity of 2.8 GWh on average every hour in imports +330 (MWh) and 1.2 GWh in exports (+101 MWh): the increase was concentrated on the French border for imports (2,185 MWh) and on the Slovenian border for exports (358 MWh).

The **number of retail market suppliers** grew in 2017 by 22 units on the free market. The trend of expansion in the sales segment has persisted almost without interruption since 2008. Of the 410 active companies, 34.4% sell energy in between 1 and 5 regions; 88 companies, or 21.5%, have sold electricity all over Italy; the remaining 181 companies operated in between 6 and 19 regions. In 2016, 16.7% of 402 active suppliers sold all over Italy and 39.1% had a sales area limited to 5 regions. Foreign presence (at least in reference to primary level direct shareholding) is not particularly high: only 16 companies (of the 397 that provided this data) have a non-Italian majority shareholder. The majority of direct foreign shareholders are Swiss, Luxembourg or Spanish companies, but there are also majority shareholders from other countries (Germany, Austria, Slovenia, United Kingdom and USA).

According to the results of the *Annual Survey on the Electricity and Gas Sector* (to be considered provisional for 2017, as usual) just over 256.5 TWh were sold on the end market to fewer than 37 million customers. Overall energy consumption rose by 0.9% compared to 2016, whilst the number

of consumers decreased by 1.3%. As has been ongoing for several years now, the standard offer service diminished further, but its decline was more than offset by the growth of the free market and the safeguarded categories: in fact, both expanded in terms of both customers supplied and energy sold. The overall growth was supported more by household consumption than by consumption in the non-domestic sector; vice versa, more customers were lost in the non-domestic sector as compared to those lost in the domestic sector.

In an end market that expanded overall by 2.4 TWh, the sales volumes of the standard offer market fell by 2.7 TWh (-5.2% compared to 2016), while the free market gained 5 TWh compared to the previous year (+2.5%) and in the safeguarded category regime sales rose by 0.1 TWh. **Again in 2017, the movement of domestic consumers continued towards the free market.**

The number of consumers decreased. The reduction in withdrawal points was greater in number among households, falling by 365,000 units, than in the non-domestic sector, where the points decreased by 135,000 units as compared to 2016. In terms of overall reduction, the path of movement of consumers toward the free market continued: against 1,536,000 domestic withdrawal points lost in the standard offer market with respect to 2016, the free market in fact recorded an increase of 1,171,000. The average consumption per unit of households in the standard offer market is lower than that of households who purchase energy on the free market: 1,852 kWh/year against 2.119 kWh/year, but the differential in 2017 was reduced as compared to that shown in 2016.

In 2017, the **safeguarded categories** increased slightly: energy sold grew by 2% (+0.1 TWh), even though the increase was decidedly lower than that of the previous two years; the number of customers supplied increased by approximately 2,000 units, almost all connected with low voltage and, among these, in particular, public lighting system customers, whereas the growth in volumes purchased was recorded for customers connected with low and medium voltage. There was an increase recorded for electricity supplied on the **free market** in 2017: with 202 TWh sold, in fact, the level of sales rose by 2.5% compared to 2016. The total number of customers supplied increased by 1.4 million units, more in the domestic sector (+11.4%) than in the non-domestic sector (+5.7%). The average consumption per unit thus decreased by a further 7%, a trend that has been ongoing for many years. The continuous resizing is partly due to domestic consumers entering this market, typically characterized by lower average withdrawal than non-domestic consumers (and increasingly low over time) but is above all explained by the reduction of non-domestic consumption.

This year, for the second time the *Annual Survey on the Electricity and Gas Sectors* asked electricity and natural gas certain questions aimed at assessing the quantity, types and the methods of supply that companies offer to customers who have chosen to be supplied by the free market. The results presented should be interpreted with caution. Nevertheless, it emerged that: the average number of commercial offers that sales companies are able to make to their potential customers was 14.5 for the domestic customers and 60.5 for non-domestic customers. Of 14.5 offers on average made available to domestic customers, 4.4 can only be purchased online but, up to now, households do not seem to be very interested in this type of offer, with a take-up of just 3.8%. As concerns the preferred type of price, it was found that 84% of households has subscribed to a fixed price contract on the free market (i.e. with the price that does not change for at least one year from the time of the subscription), while only 16% chose a variable price contract, i.e. with the price that changes according to the times and methods established by the contract itself.

Overall, therefore, in 2017 the standard offer market acquired 19.5% of all energy sold to end markets (against 20.7% in 2016). The safeguarded categories have absorbed 1.7% (same as in 2016) and the free market purchased 78.8% (against 77.6% in 2016). In terms of withdrawal points, the

ratio was inverted: 58.1% of customers were still supplied under standard offer, while 41.6% went over to the free market.

The **dominant operator** of the entire Italian electricity market remains the Enel Group, whose market share rose once again, to 37.5% (from 34.8% in 2016) and is still some distance ahead of its nearest competitor group. With an overall market share of 4.5%, second place was taken by Eni Group, moving up from third place in 2016, overtaking Edison Group, whose share stalled at 4.2%. Enel Group maintains its position in the total market thanks to its substantial dominance in the so-called mass market, made up of the domestic sector and non-domestic customers connected at low voltage: more than half of this market - 54.6%, to be precise - is in fact supplied by Enel, while Eni, which is in second place, holds a share 3.6%. Furthermore, in 2017, Enel also maintained its dominant position in the segments of non-domestic customers with medium and high/very high voltage, which it had lost in 2013 and regained in 2016. In 2017, the concentration of the total market increased: the first three operators (corporate groups) covered 45.9% of the total sales (this figure was 43.6% in 2016); the HHI rose to 1,521 from the 1,342 recorded in 2016. It takes 16 corporate groups (one fewer than last year) to exceed 75 % of total sales.

In 2017, customer switching in the electricity market was greater than that of the previous year. Overall, almost 3.8 million customers (83,000 more than in 2016), i.e. 10.3%, changed supplier at least once during the year. In terms of volume, this corresponds to 33% of the total energy distributed. Contrary to events in recent years, in 2017 switching increased among non-domestic customers with medium and high voltage, in terms of the withdrawal points and energy. The number of households that changed supplier at least once in the course of the year (2 million and 326,000 withdrawal points) decreased slightly compared to 2016 (when approximately 2.5 million domestic customers switched supplier), but in terms of volume, the switching rate grew (11.6% against 10.5% in 2016).

The **average price for domestic consumers** was 211.4 c€/kWh after taxes (of which 104.1 cents is the cost of the supply). The prices charged to domestic customers divided into classes of consumption show strong variability. The price falls as the size of the customer increases up to the third class (1.800-2.500 kWh/year), then rises from this class to the next (2.500-3.500 kWh/year) and decreases again and definitively in for the top three classes (5,000 kWh/year upwards). Therefore, there is no longer the characteristic U-shaped trend that emerged in recent years. This is due to the implementation of the first stage of the network tariff reform, aimed at gradually phasing out the progressive structure of tariffs. The cost of supply, however, as may be reasonably expected, decreases continuously with an increase in consumption. The electricity prices paid in the market by customers who have subscribed to a dual fuel contract were almost invariably more expensive than buying electricity with a specific contract, but the number of these customers and the amount of energy purchased by them was decidedly low.

With regard to the **Energy and Environment Help Desk call centre**, from 1 January 2017 to 31 December 2017, it handled 362,151 calls in service hours and another 59,855 out of hours, for a total of 422,036 calls. The issues dealt with in the phone calls received by the Help Desk concerned, in particular, the gas and electricity bonus, which were the subject of 50% of calls, with a slight increase compared to 2016, and the methods of dispute resolution (18%). In 2017, the contact centre of the Consumer Help Desk received 4,583 written requests for information, of which 45.6% classified as complex because connected to potential disputes; it also received 7,524 second-level complaints to which it replied with a standard letter informing customers disputes must be resolved by activating a conciliatory procedure using the Conciliation Service or other bodies for the out-of-court settlement of disputes.



## Developments in the gas market

### *Main changes to the regulation*

In April 2017, the Authority ordered the preliminary recertification for Società Gasdotti Italia S.p.a. as the operator of natural gas transport under proprietary separation. The recertification of the company, already certified as transport operator according to the model of ownership unbundling, was necessary due to the modification of the company's control structure (on 15 September 2016, Società Gasdotti Italia was acquired by the Luxembourg company Sun Holdings Sarl, in turn owned by Macquarie European infrastructure Fund 4 and Swiss Life GIO II EUR Holding) and was designed to ascertain the continuity of the basic conditions of the first certification adopted and compliance with the obligations provided for by Directive 2009/73/EC, as well as to verify that the acquisition of control of the transport system operator by third country parties does not put at risk the security of energy supply of the Member State and of the European Community as envisaged by the same EU directive. Following the opinion issued by the European Commission, the Authority therefore adopted the final decision of **certification for Società Gasdotti Italia S.p.a.** as operator of natural gas transport under ownership unbundling.

2017 was the first year of **operation of the new balancing regime**, in accordance with the model defined in June 2016 that fully transposes Regulation (EU) 312/2014. Although the transition from the old to the new scheme occurred on 1 October 2016 without the introduction of transitional and progressiveness measures that the European Regulation would have allowed, there were no particular critical issues recorded in the first year of operation. In May 2017, measures were defined, in line with the provisions of the Integrated Text on Balancing, to ensure the neutrality of the manager of the balancing system with regard to the economic items deriving from the management of line-pack gas, unaccounted for gas<sup>8</sup>, gas of self-consumption and network leaks. Italy, compared with other European countries, thus appears to be in an advanced position of implementation of EU Regulation 312/2014.

Within the context of ongoing work for the **reform of the settlement regulations**, in August 2017, the Authority presented its final guidelines on the simplification of the methods of execution of the balancing and adjustment sessions provided for by the gas settlement regulations in force since 2013. Reform is needed to resolve, inter alia, the problems that the current regulations pose in relation to both the determination of economic items (following the adjustment session) and the possible presence of barriers to the access and contestability of the retail market. These barriers are due to the existence of a difference between the quantities of gas coming in to the distribution plant and those withdrawn by the end customers supplied; a difference that - as results from the data collected for the past few years - is characterized by considerable variations in terms of time and geographical area. Over the course of 2017, the Authority therefore completed the regulatory framework of reference for determining the items relating to the adjustment sessions for the preceding period (2013-2016) and until the entry into force of the new regulations planned for 2020. In February 2018, in fact, the Authority approved a new *Integrated text of provisions for regulating the physical and economic items of the balancing service for natural gas* (TISG). The measure (achieved following three consultations), provides for substantial amendments to the existing gas

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<sup>8</sup> i.e. the result of the commercial balance equation of the transmission network, which is computed daily by TSO, so that the amount of gas added to the system is equal to the amount withdrawn.

settlement regulation, in view of its comprehensive reform. In order to allow the necessary implementations, it was decided that the new TISG shall enter into force from 1 January 2020.

On the matter of **access to the transport service**, the Authority initiated a process for the integration and amendment of existing regulations on the allocation of capacity and incremental capacity at input points interconnected with foreign countries, in implementation of EU Regulation 459/2017 (so-called new CAM regulation). Following the completion of a pilot project for the allocation of capacity at the redelivery points of the gas transportation network supplying electricity generation plants, the Authority also established the introduction, from 1 October 2017, of the product of monthly capacity, in addition to the products of annual and daily capacity. In September 2017, provisions were introduced that allow holders of long-term transport capacity at the points of interconnection with foreign countries to rework over time their rights of transport. Finally, in December 2017, the Authority amended the existing provisions to extend to all points of interconnection with foreign countries the continuous transport service capacity allocation methods envisaged for the points of interconnection with the European Union and Switzerland and to adapt, consistently, the methods of determining the costs of deviation.

As has been ongoing for some years, for the thermal year 2017-2018 too, the **allocation of storage capacity** was undertaken on the basis of market criteria (tenders). However, once again, the market situation in Italy and in Europe was characterized by much lower seasonal differentials, such as to make, at least in the early part of the summer semester of 2017, the purchase of storage capacity an opportunity instead of a necessity for operators. This is due to the availability of winter gas at slightly higher gas prices as compared to those of summer gas. This situation, which reduces storage companies' possibility of generating revenue, made it necessary, even in 2017, to define a mechanism (similar to that of the year before) to neutralize the financial impacts on storage companies resulting from the tender procedures for the allocation of storage capacity.

With the aim of increasing and diversifying the sources of supply in Italy, the decree of the Minister of Economic Development of 6 December 2016 confirmed for 2017, the possibility of **allocating regasification capacity through tender procedures**, with a reserve price set by the Authority. Therefore, the Authority has regulated the tender procedure methods for the allocation of regasification capacity (and storage capacity for the integrated service); subsequently, criteria were defined for calculating the tender reserve price for the allocation of capacities for the integrated service. These reserve prices have not been disclosed to the system. Then, in September 2017, the Authority defined new regulations on the matter, which replace those issued in 2015. The new regulations introduce market criteria, based on tender procedures, for the allocation of both long and short-term regasification capacity.

In April 2017, the Authority launched a process for updating the directives for the **connections of biomethane production plants** to natural gas networks.

In February 2017, the Authority initiated a process to define the provisions on **tariffs and quality of service of natural gas transport and dispatching** for the fifth period of adjustment (5PRT). The Authority provided for the possibility of allowing the validity of 5PRT to run from the year 2019, in part in order to fully integrate the provisions that will be included in the European Network Code on the harmonized tariff structures for gas transport; therefore, it provided for the possibility of extending the main existing regulatory criteria for 2018, considering the option of introducing corrective measures with regard to the incentive mechanisms for the creation of new investments. As part of this process, in June 2017, the Authority published the guidelines on the regulatory criteria, as well as the criteria to be applied in the transitional period preceding 5PRT. Similarly, in March 2017, the Authority launched a process to define the provisions on **tariffs for the use of LNG**

**terminals** for the fifth period of regulation (5PR Gnl), intended also to define the initial regulation of the conditions, including economic conditions, of access and provision of the services that can be supplied via the LNG storage infrastructure, which are related to or serve the connection and creation of the national natural gas transport network, and a process to define the provisions on the obligations of accounting separation to transpose the provisions of national legislation on accounting separation for activities classified as Small-Scale LNG services provided by LNG terminals.

In December 2016, the **Regulation of the tariffs of gas distribution and metering services** (RTDG) was approved for the three-year period 2017-2019, which introduced new provisions on recognised operational costs, the determination of the tariff component to cover the costs of the metrological checks, recognition of the costs of remote metering/remote management systems and concentrators and definition of the standard costs of electronic metering units. In December 2017, the compulsory tariffs for natural gas distribution and metering services were approved, according to RTDG, for 2018.

In August 2017, a process was launched to define the standard costs including the costs of installation and commissioning, to be applied to **electronic meters on the gas distribution networks**, for 2018 and 2019. In the following month of November, the Authority presented its guidelines on the subject, while the relative provisions were approved in December. With reference to the methods of recognition of costs relating to the remote metering/remote management systems and the costs of concentrators, the decision to adopt parametric logic was deferred to the fifth period of regulation, which will start from 2020, requiring that the recognition of costs for 2018-2019 be undertaken with substantial continuity of criteria with what was done previously, on the basis of final balance data with an upper limit.

The process for performing **tenders for assigning the gas distribution service** at the level of minimum area was continued. The related measures adopted by the Authority in 2017 concerned primarily checks of the deviations between the VIR (residual industrial value of the plants) and RAB (regulatory asset value,) as well as analysis of the tender documentation submitted by contracting bodies in relation to the municipalities of five areas. Furthermore, the Authority launched a process for the implementation of the measures provided for by Law 124/2017 (mentioned earlier) concerning invitations to tender for assigning the natural gas distribution service. As part of this process, upon conclusion of the usual consultations in December 2017, the Authority approved the *Integrated text of the provisions for the determination and verification of the redemption value of the natural gas distribution networks for the purposes of area tenders* and the *Integrated text of the provisions for invitations to tender for the natural gas distribution service for the purposes of area tenders*.

#### *International coordination*

On the subject of **investment in new infrastructure and consistency with the EU Development Plans**, in October 2017, the Authority presented its evaluations of the Ten-year Development Plans for the transport network for 2014, 2015 and 2016, highlighting possible areas of improvement, in terms of both drafting, with reference to the transparency and completeness of the information content of the plan, and methodology, with reference to the systematic application of Cost-Benefit Analysis (ACB). ACB is needed to equip the Ten-year Plan with a tool useful for evaluating the development initiatives of the natural gas transport network, according to criteria of greater selectivity. The Authority also provided for the initiation of a technical round table of discussion between the Authority departments and the transport network operators on the ACB methodology, as well as the continued involvement of all stakeholders in plan consultations, including on the ACB technique, with the objective of creating a methodology that ensures the collection of the



information necessary to assess the usefulness of the measures for the system and their affordability and efficiency. The Ten-year Plans for 2017 were submitted by the operators within the deadline of 30 November 2017, and subject to consultation by the Authority in February 2018.

In 2017 the Authority also contributed to the implementation of the Treaty establishing the Energy Community of South East Europe and maintained constant international commitment in the context of the Mediterranean basin, in particular through MEDREG, which in 2017, for the gas sector, worked on the methodology for the application of *Guidelines of Good Practice on Capacity Allocation-Work methodology* in the member countries. In addition, the group worked to define the mapping of the gas infrastructure in the Mediterranean, to provide a clear overview, including the interconnection points, transmission pipelines, transmission and storage capacity and future investment plans of the MEDREG members.

#### *Wholesale and retail markets*

In 2017, the Italian economy marked a strong recovery: GDP recorded growth of 1.5% (net of inflation), compared to 2016. This growth was driven by the good performance of the industrial sector (2%), the activities of services (1.5%) and of construction (0.8%). Even the most gas intensive sectors showed excellent results. In 2017, moreover, the winter months were colder and the summer months hotter.

According to preliminary data released by the Ministry of Economic Development, in 2017, the **net consumption of natural gas** rose by 5.5 billion cubic meters, reaching 72.6 G(m<sup>3</sup>) from 68.9 G(m<sup>3</sup>) in 2016, an increase of 5.5%. Following the economic developments outlined above, in 2017, the industrial consumption recorded a marked rise of 8.3%, slightly higher than the 8.2% highlighted by the consumption of thermoelectric generation, again favoured in the first part of the year by the temporary unavailability of the French nuclear power stations, which reduced electricity imports from France. The increase in civil (residential and tertiary) consumption, however, was less significant, growing by 2.1% compared to 2016. Therefore, final demand for gas in 2017 reached 85% of the record high achieved in 2005, when consumption stood at 85.3 G(m<sup>3</sup>).

This increase in final demand was accompanied by an adequate increase in **net imports** (6.6%). The volumes of gas imported from abroad, in fact, increased by 4.4 G(m<sup>3</sup>) compared to 2016, reaching 69.7 G(m<sup>3</sup>); exports fell by 61 M(m<sup>3</sup>). Further reduction was seen in **national production** (-4.3%), albeit to a lesser degree than that of the last five years. Since, as we have seen, the increase in domestic demand has been met by higher imports, the **level of dependency from abroad**, measured as the ratio between gross imports and the gross domestic consumption, rose further to reach 92.7%, the highest value recorded to date.

With the exception of volumes from Holland, which decreased by almost 70% compared to 2016, imports increased from all other countries from which Italy buy imported gas, especially from Norway, Qatar and Algeria. In 2017, the weight of Russia among the countries that export to Italy fell to 39% from 41% in 2016, in the same way as Algeria's share dropped from 30% to 29%. The third country for importance is Qatar, from which Italy receives 10% of the total gas imported, followed by Libya, whose share remained stable at 7%. In 2017, 9% of Italian imports came from all the other countries together. As always, first place in the rankings of the importing companies was held by Eni, which purchased 35.2 G(m<sup>3</sup>) of gas in 2017, an increase of 5,1% compared to 2016. As in 2016, the increase in imports by Eni was lower than that recorded for total national imports; this caused a further decrease in the market share of the company.

As in previous years, the groups that hold a share of more than 5% of the overall gas supplied (i.e. produced or imported) are Eni, Edison and Enel. Together, these top three importers imported

85.1% of the natural gas entering the Italian market. Considering the quantities produced within national boundaries as well, these three groups account for 85.2% of all the natural gas supplied. Unlike in the past, this share fell (it stood at 86.6% in 2016), due to the increase of the Edison and Enel shares not offset by the fall in Eni shares. The three groups are also the only groups that each hold a share of more than 5% of the gas available, with an overall share for all three (88.8%) that is slightly higher than that of gas supplied. As concerns **residual life**, import contracts in place in 2017 were overall still long enough, but the contract structure is getting shorter from year to year, albeit very slowly: 56.8% of contracts (59.1% in 2016) will expire within the next ten years and 39.8% of these (42.5% in 2016) have expiry dates within the next five years. In contrast, 35.9 % of the contracts in force today have a residual life of more than 15 years. This share stood at 34.3% in 2016.

In 2017, the **total demand of the natural gas sector**, understood as the sum of the volumes of natural gas sold on the wholesale market (including reselling) and retail market plus self-consumption grew by 6.8%, reaching 285.6 G(m<sup>3</sup>). The wholesale market handled 210.8 G(m<sup>3</sup>), a significant increase compared to 2016 (+7.8%); the retail market handled 59.8 G(m<sup>3</sup>), recording an increase of 3.6% compared to 2016, while self-consumption totalled 15 G(m<sup>3</sup>), also an increase (+6.4%). As in 2016, 4 industrial groups held a share of more than 5% of the total demand in 2017.

As in 2016, also in 2017, there was no increase in the number of companies that operated in **the wholesale market** (on the contrary, it fell by 3 units), whereas the overall volume of gas they traded increased. In fact, 185 suppliers, 10 fewer than 2016, sold **altogether** 15 G(m<sup>3</sup>) more than 2016.

After years of continuous decline, in 2017, the concentration of this market increased slightly: the share of the biggest three companies (Eni, Enel Trade and Eni Trading & Shipping) rose to 31.3% from 30.8% calculated in 2016. Likewise, the combined market share of the top five companies (the three already cited plus Engie Global Markets and Edison) rose to 45.8% from 45.5%. Obviously, the HHI calculated only on the wholesale market also rose, from 524 to 534. In 2017, the average price in the wholesale market was 20.42 €/m<sup>3</sup>, slightly higher than the 20.04 €/m<sup>3</sup> of the Virtual Trading Point (VTP; Platts data) and an increase (+7.5%) compared to the 18.99 €/m<sup>3</sup> recorded in 2016.

The main trading platform in the wholesale market in Italy is the **Virtual Trading Point (VTP)**, operated by the main transport network operator, Snam Rete Gas. In 2017, 160 entities, 40% more than 2016, performed the trade, sale and acquisition of gas on the VTP. The positive trend in demand for natural gas has driven up the number of subscribers to the VTP, which in 2017 reached a maximum of 195 units. Among these subscribers, there was a significant increase in the number that performed transactions, up by 41% compared to 2016. In the same way, there was a significant increase (+38%) in the number of pure traders (i.e. non-user subscribers of the transport system). The OTC volumes traded on the VTP, which in 2016 had shown a substantial increase (16%), continued to grow, but in 2017 the increase stalled at 7%. There was very strong growth, of 26%, in the VTP-GME, a further increase on the 18% growth in 2016.

Within the scope of the **gas markets operated by the GME**, in 2017, an overall 45.9 TWh of volumes were traded, down slightly from that recorded in 2016 (-3%). However, there are profound changes in the allocation of these volumes on the different platforms, insofar as 2017 was the first year of full operation of the new gas balancing system. With regard to the prices on the different platforms, the M-GAS recorded values of between 19.26 €/MWh of the Market of Gas in Storage and 19.67 €/MWh of the Intraday market, and almost always lower than the average listing on the VTP for this year of 19.92 €/MWh (Thomson-Reuters data). The sharp rise recorded in the month of December on all spot markets is in part attributable to the activation by the Ministry of Economic Development of the state of early warning of the Emergency Gas Plan following the accident that occurred on the import pipeline from Austria. As noted in the final quarter of 2016, in 2017, a clear correlation was

confirmed between the listing on the VTP and the prices recorded on the M-GAS, represented by the System Average Price (SAP), confirming its role in providing users with clear price signals induced by the Balancing Manager to promote balancing by individual users themselves.

The provisional results of the *Survey on the Electricity and Gas Sectors*, conducted annually by the Authority, show that, in 2017, 59.8 G(m<sup>3</sup>) were sold to the **final market**, to which are added the 154 M(m<sup>3</sup>) supplied through services of last resort and default. Overall, therefore, the final sales amounted to almost 60 G(m<sup>3</sup>), an increase of 2 G(m<sup>3</sup>) compared to 2016. To have a comparable figure with the final gas consumption data published by the Ministry of Economic Development mentioned above, we must however consider the volumes related to self-consumption, more than 15 G(m<sup>3</sup>), that bring the value of overall consumption given by the Annual Survey to 75 G(m<sup>3</sup>), i.e. to a value comparable to the 72.6 G(m<sup>3</sup>) reported by the Ministry. The two sources classify the volumes of gas handled over the year in different ways. In 2017, as in recent years, self-consumption showed in any case a fairly significant increase, up by 6.4% in terms of volume, which was not manifested in terms of delivery points, which remained stable at around 2,600 units. This item has very strong influence on electricity generation (89.4% of self-consumption is recorded in this sector). The recovery of end consumption, which is significant in both Annual Survey data and ministerial data, appears to be tied to more consistent growth in the production sectors (around 5.2%), whereas growth in civil consumption is positive but less intense (around 2.4%).

The significant growth in sales on the final market is accompanied, as usual, by an increase (+18 units) in the **number of suppliers** operating in this segment of the production chain: from 402 operators in 2016 to 420. Therefore, the growth trend continues, as also observed in the electricity market, in the number of suppliers. Of the 420 suppliers in operation that responded to the Annual Survey, 11.7% (i.e. 49 entities) supply customers throughout the country, i.e. in all 19 Italian regions supplied with methane; 260 companies (61.9%) sold electricity in between 6 and 18 regions; the remaining 111 companies (26.4%) operated in between 1 and 5 regions. The number of companies that operate all over the country has grown continuously (7% in 2014, 8.4 % in 2015, 10% in 2016). The corporate breakdown of the share capital of gas suppliers displayed poor foreign presence: only 20 companies (of around 407 that provided this data) have a non-Italian majority shareholder. The direct foreign shareholders are mostly Luxembourg or Swiss companies, but there are also German, Austrian and Spanish companies. In 2017, concentration in the end sales market returned to growth, as compared to 2016. The leading three groups controlled 45%, while the previous year their share was 47.2%. Considering the top five groups, the proportion of the market served rose to 53.4% (against 55% in 2016). The Herfindahl-Hirshman Index calculated on the sales market was 817, lower than the 875 of 2016. No variation emerges in the top three positions of the end market: Eni, Edison and Enel still hold the top three places; all three, however, report a decrease in market share. The weight of the Eni group (this year 20,7%) fell by half a percentage point compared to 2016, as did that of the Enel Group, while Edison's share fell by 1.2 points compared to the previous year.

Overall, the quantities of gas increased compared to 2016 in almost all sectors with the exception of central heating and trade and services. Self-consumption, which mostly refers to the thermoelectric sector recorded a further increase (6.4%); the quantities of gas sold in the free market recorded an increase of 5.7%, while there was a loss of 6.8% in sales of the market with a reference price. Civil consumption (i.e. the domestic sector, together with central heating, the tertiary sector and public services) increased overall by 2.4% compared to 2016, while the uses in production (manufacturing and thermoelectric combined) recorded growth of 5.2%. The rate of growth of the civil sector improves significantly if we consider exclusively sales on the **free market**, which grew by 8.1% as compared to 2016. In fact, with the exception of the trade and services sector, which records a slight reduction (-0.5%), natural gas volumes sold in the free market to

households was 20.2% higher than in 2016, volumes sold to central heating increased by 7.4% and public services by 5.4%. The picture changes completely if, instead, we observe the **market with a reference price**, where there were very pronounced losses in terms of both volume and customers.

The proportion of volumes purchased on average on the free market was 67.9%, that of the market with a reference price was 12%, while self-consumption amounted for 20.1%. If we consider sales in its strict sense and therefore exclude self-consumption, 85% of the gas was purchased on the free market and the remaining 15% on the market with a reference price. In terms of customers, 51.7% turned to the market with a reference price, while 48.3% bought on the free market.

Again, in the gas sector, as already described for electricity, the *Annual Survey* asked suppliers of natural gas certain questions aimed at assessing the quantity, types and the methods of supply that companies offer customers who have chosen the free market. Taking into account the due caution required in the interpretation of results, it emerged that: the average number of commercial offers that sales companies are able to make to their potential customers was 13.7 for domestic customers, 7.6 for central heating with domestic use and 76.6 for non-domestic customers. Of 13.7 offers on average made available to domestic customers, 4.1 can only be purchased online but, up to now, households do not seem to be very interested in this type of offer, with a take-up of just 4.1%. As concerns the preferred type of price, it was found that 68.6% of households has subscribed to a fixed price contract on the free market (i.e. with the price that does not change for at least one year from the time of the subscription), while 31.4% chose a variable price contract, i.e. with the price that changes according to the times and methods established by the contract itself.

The percentage of **switching**, i.e. the number of customers who switched over to another provider during the calendar year 2017, was a total of 5.7%, or 48.5% when measured according to the consumption of customers who made the switch. Switching by domestic consumers in 2017 were confirmed as not particularly high but as being quite stable for several years.

The interim analysis of data gathered in the survey conducted by the Regulatory for 2017 shows that, last year, the **average price of gas** (weighted by the quantities sold), after taxes, set by the sales companies operating on the end market, was 34.3 c€/m<sup>3</sup>. This price was 33.8 c€/m<sup>3</sup> in 2016. Therefore, the overall average price of gas in Italy decreased by 1.5%. The class that has showed the biggest increase, in both absolute terms (2.5 c€/m<sup>3</sup>) and relative terms (around 11%), was the class of consumption of more than 20 million cubic metres. The classes of smaller consumers (up to 50,000 m<sup>3</sup>/year) showed slight increases of 0.4 and 0.9 c€/m<sup>3</sup>. Intermediate classes recorded decreases. This helped to reduce slightly the price gap between the smaller and larger customers, which during the five-year period under consideration fell from 30 to 27.8 c€/m<sup>3</sup>.

### Consumer protection

Italian legislation, thanks also to the most recent provisions on billing, complies with the requirements of Directives 2009/72/EC and 2009/73/EC on the consumer protection measures including those in Annex 1.

With regard to **guaranteed access to consumer data**, the regulations on billing give customers the right to information on actual consumption data. Furthermore, Italian legislation has established that the Integrated Information System (SII) must develop, via a central register of the withdrawal points and a system of operator accreditation, procedures for the centralised management of consumption data communication and the development of the respective services. The need for the Authority to intervene by strengthening the right of access to data by final customers, in order to increase awareness, according to the procedures outlined in the document was also reiterated by the provisions of Law no. 205/2017 (described in detail on p. 9), which established that by 1 July

2019, the SII must allow end users to access data regarding their own consumption, free of charge. In December 2017, the Authority illustrated its guidelines on making available consumption data history to final customers, completing and in part re-writing that presented in a previous consultation of 2015, in order to take into account developments that have been made since then and, in particular, the digital transformation that also affects the electrical sector. With this new document for consultation, the Authority pursued the primary goal of making withdrawal history or **energy footprint** data accessible and useful to final customers in digital format, with a view to the development of innovative services for energy efficiency and the active management of demand, made possible by the availability of the new tools brought into operation with the 2G metering system.

In May 2017, the Authority launched a new process for the promotion of new tools for the **information and the empowerment of domestic final customers and small enterprises** in the retail markets for electricity and natural gas, believing that targeted information for these customers allows them to overcome the mistrust resulting from the limited knowledge of the market, on the one hand, and enables customers to exercise informed self-protection on the market, on the other. There was the subsequent intervention of Law no. 124/2017, which, inter alia, established that, from 1 July 2019, price protection must be definitively phased out (as described in Chapter 2). The law requires that, starting from 1 January 2018, end customers of electricity supplied under the standard offer must receive appropriate information from their supplier in relation to the phasing out of price protection, according to the procedures laid down by the Authority and that the Authority must guarantee the publicity and dissemination of information on the phasing out of price protection and the conditions of the performance of services to the benefit of customers, even availing itself of the Single Buyer.

In November 2017, the Authority, in implementation of article 1, par. 69 of Law 124/17, provided further initiatives of empowerment of small size end customers and, pursuant to article 1, par. 72 of the same law, the creation of a project of publicity and dissemination of information. In particular, the provisions include the following:

- standard offer operators and suppliers on the gas market with a reference price, from 1 January 2018 to June 2019, must send their customers, as part of the summarised bill, an appropriate information notice regarding the removal of price protection, with content defined by the Authority in order to ensure its independence, neutrality and impartiality;
- the content of this information notice must have dynamic nature. The first notice must be included in two bills issued in the first half of 2018. There shall be two further information notices, which must be shown on all bills issued in the second half of 2018 and in the first half of 2019;
- with effect from 1 January 2018, suppliers must publish on the homepage of their websites the link to the “Retail market developments” section of the Authority website, devoted to the phasing out of price protection, and must redirect end customers, when they request by telephone information on their contracts in relation to the phasing out of price protection, to the Authority website and to the Help-desk call centre;
- a multimedia communication project must be implemented to publicise and disseminate information on the phasing out of the standard offer, the conditions of performance of service and the tools to reinforce end customer empowerment, including requesting the availability of space on public television to convey specific messages on the evolution of the retail market.



Over the course of 2017, the total bonuses granted issued amounted to 1.26 million, including both the electricity bonus, divided into the categories of economic hardship or physical disability, and the gas bonus. These three bonuses can be cumulated in compliance with the restriction that each ISEE (Equivalent Economic Situation Index)<sup>9</sup> household is entitled to only one bonus for each category.

Starting from 1 January 2017, the ISEE threshold for qualifying for the bonuses rose from 7,500 euro to 8,107.50 euro, as established by the decree of the Ministry of Economic Development of 29 December 2016; it remains unchanged for large families (ISEE not exceeding € 20,000). Moreover, for the electricity sector, the same decree:

- raised the discount on the net expenditure of the average household from 20% to 30% of gross average expenditure of the same average household;
- provided for the elimination of the condition of residence, according to which only one active supply could be subsidised at the place of residence of the person qualifying for the the bonus;
- maintained the condition of uniqueness, providing for qualification for compensation for economic hardship for a single domestic supply of electricity and/or gas in the name of one of the members of a household meeting the ISEE requirements;
- provided for the updating every three years by the Authority of the ISEE threshold, on the basis of the average value of the national consumer price index for the families of workers and employees in each three-year reference period.

At the beginning of 2017, the Authority implemented the aforementioned decree and extended the provisions identified by the decree for the electricity sector to the gas bonus (with the exception of the percentage discount).

In 2016, the *Testo integrato delle disposizioni dell’Autorità per l’energia elettrica il gas e il sistema idrico in materia di fatturazione del servizio di vendita al dettaglio per i clienti di energia elettrica e di gas naturale* (TIF; Integrated Text of the provisions of the Regulatory Authority for Electricity, Gas and Water on billing customers for the service of retail sale for electricity and gas) entered into force. With the TIF, The Authority sought to define a single text containing all the provisions relating to retail sale billing, with which suppliers are obliged to comply under their contracts with end customers. Suppliers have the obligation to include, in their basket of offers on the free market, a contract with billing clauses identical to those of the standard offer regimes, whereas for the other offers, they are free to waive these clauses as indicated in the TIF; in such cases, however, there are obligations of disclosure towards final customers.

In relation to the so-called “period billing”, the TIF defines, for each sector and for each type of customer, the frequency of issue of ordinary bills, establishing at the same time that free market suppliers can change this frequency but only by increasing it. In addition, time limit was imposed on bill issue of 45 days from the final day of consumption charged in the bill; this limitation may be different on the free market. Again in terms of the period billing (as is already imposed for the closing invoice, regulated in 2016), the Authority considered it appropriate to encourage the use of the self-reading for customers of both sectors that do not have meters enabled for remote metering, introducing the obligation for all suppliers to use it, in clearly defined periods indicated by the

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<sup>9</sup> The ISEE is a tool that measures the **economic condition** of Italian households. The indicator takes into account income, assets (**movable or immovable**) and of the characteristics of a family (number and category).

suppliers, and providing for specific methods to ensure that the end user is made aware of their option of using self-reading.

The Authority also provided for, to the benefit of customers, new **compensation** for which suppliers are liable in the case of the issue of a period bill beyond the deadline of 45 days from the final day of consumption charged in the bill and for which distributors are liable in the case in which the metering data has been estimated for two consecutive months for customers with remotely managed meters.

Together with the TIF, the Authority introduced specific obligations on metering and **payment in instalments** of bills, which entered into force in 2017 for cases of billing of abnormal amounts and failure to observe the billing period frequency established in the TIF.

For the management of disputes, the **energy customers Conciliation Service** has been in operation in Italy since 2012, managed (in pooling) by the Single Buyer and operational, under experimentation, from 1 April 2013, becoming fully operational from 1 January 2016. The Conciliation Service is a voluntary procedure of alternative dispute resolution, which can be activated by final customers of electricity and natural gas for any problem that has arisen (that does not fall under the subject of taxes) with regard to the energy operators (suppliers and distributors), in the case of failure to respond or unsatisfactory response to a complaint. The procedure is undertaken entirely online and in the presence of a third-party, impartial conciliator, expert in mediation. Any final agreement is effective as a settlement between the parties pursuant to art. 1965 of the Civil Code.

In terms of features, the Conciliation Service is already in line with EU legislation on *Alternative Dispute Resolution* (ADR), most recently with Directive 2013/11/EC of the European Parliament and Council of 21 May 2013 on the alternative resolution of consumer disputes, amending Regulation (EC) 2006/2004 and Directive 2009/22/EC.

The experimental stage of the Conciliation Service was concluded on 31 December 2015. Therefore, at the end of 2015, the Authority established the continuation of this service, with a change of scenario compared with the preceding stage involving the implementation of the obligation to attempt conciliation. In fact, with the approval of the new Consumer Code, which has assigned to the Authority the power to regulate, with its own measures, the methods of conduct of the alternative dispute resolution procedure, the attempt at conciliation has become a condition of the admissibility of proceedings brought before the judicial authority for disputes which have arisen in the regulated sectors.

In 2016, the Authority implemented this legislation with the approval of an *Integrated Text of Conciliation* (TICO), which introduced a **procedure for experimenting the mandatory attempt at conciliation with the Conciliation Service** and identified the established alternative procedures. The TICO, which has been operational since 1 January 2017 for the electricity and gas sectors, is applied to disputes arising between final customers of electricity supplied in low and/or medium voltage and final customers of natural gas, as well as final household or non-household customers of gases other than natural gas distributed via urban networks supplied at low pressure, including *prosumers* (producers and consumers of electricity) and operators - suppliers and distributors - and even the GSE, limited to the *prosumer*. The mandatory attempt at conciliation does not preclude, in any case, the application of emergency and precautionary legal measures.

The Authority extended the obligation to participate in the conciliation attempt to all operators (with the exception of suppliers of last resort); up until 31 December 2016, it applied only to standard offer operators for electricity, electricity and gas distributors and the GSE (for disputes

relating to special withdrawal net metering) and limited this obligation to participate to the first meeting. Any failure to comply with this obligation is subject to sanctions by the Authority pursuant to the legislation in force. The condition of admissibility for judicial proceedings shall be deemed to be met if the first meeting under the Conciliation Service is concluded without agreement, including in the event of non-appearance by the opposing party. The conciliators must fulfil specific requirements and must ensure impartiality, including via compliance with a specific code of ethics.

In the first year of operation of the TICO (1 January 2017 - 31 December 2017), 10,588 queries were submitted to the Conciliation Service, for an average of 42.6 queries/day. Of the queries received, 76% concerned a domestic end customer.

Of these queries, 76% were forwarded for conciliation. The overall rate of agreement was 68% of concluded proceedings, (minus abandoned proceedings, which counted for around 1% of those admitted), a decrease as compared to 2016. The average duration of proceedings concluded was 45 calendar days (46 for agreements, 42 with negative outcome), a decrease in comparison to the 60 days of 2016.

As **an alternative to the Conciliation Service of Authority**, final customers can also fulfil the obligation to attempt conciliation for judicial purposes by using the other procedures indicated in the TICO. These are, primarily, conciliation procedures with the Chambers of Commerce that adhere to the convention between the Authority and by Unioncamere signed on 28 December 2016 and with appropriate training on energy sectors. Secondly, for household customers only, there are procedures with the organisations registered on the ADR List established by the Authority.

On 31 March 2018, Unioncamere has communicated the adhesion of 44 Chambers of Commerce, pending completion of the reorganisation of the chambers of commerce system, whilst the Authority ADR List includes 15 organisations (including the Authority Conciliation Service).

### Security of supply

In implementation of the Third Energy Package, Legislative Decree no. 93/11 assigns the functions and responsibilities relating to the security and continuity of supply to the Ministry of Economic Development.



## 3 THE ELECTRICITY MARKET

### 3.1 Network Regulation

#### 3.1.1 Unbundling

In 2015 the Authority renewed<sup>10</sup> the specifications in matters of functional unbundling for the electricity and natural gas sectors, approving the related annexed Integrated text on functional unbundling (TIUF), in compliance with the provisions of the Legislative Decree of June 1<sup>st</sup>, 2011, n. 93, and of the Directives 2009/72/CE and 2009/73/CE. The TIUF<sup>11</sup>, effective since January 1<sup>st</sup>, 2016, has introduced new unbundling requirements in relation to communication and brand policies for all electricity and natural gas distributors, independently from their size or corporate form, imposing a complete separation, without any risk of confusion, between the electricity and natural gas sales and distribution activities and between the sale of electricity activity in the free market and the standard offer regime.

In 2016 the Authority<sup>12</sup> extended the deadline for the implementation of the unbundling requirement of the communication and brand policies for the companies that sell electricity to the consumers to January 1<sup>st</sup>, 2017. This extension was necessary in view of the approval of the so called “Competition draft law” (described in the summary), which highlights the new structure of the electricity market, to allow adequate coordination between the new regulatory framework and the requirement of communication and brand policy separation (debranding), with suitable methods to balance the pro-competition requirements, considering the economic-financial balance of the companies to which these provisions are applied.

In 2017<sup>13</sup> the Authority issued a formal notice to a series of non-compliant Companies to transmit the missing information with which the Companies declare their own obligation in matters of functional unbundling, provided by the TIUF, to the Authority. Specific sanctions have been provided for the Companies that still fail to comply after the above-mentioned formal notices.

#### Accounting unbundling

At the end of 2017<sup>14</sup> the Authority implemented the review of the accounting unbundling regulation of electricity, natural gas, water and district heating sectors. This procedure is focused on the re-examination of the regulation introduced in 2016<sup>15</sup> considering the regulatory developments in the sectors regulated by the Authority, and to improve the quality of the information.

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<sup>10</sup> Resolution 296/2015/R/com of June 22nd, 2015.

<sup>11</sup> That replaces the previous provisions found in the Resolution n. 11 of January 18th, 2007.

<sup>12</sup> With the Resolution 327/2016/R/eel of June 22nd, 2016.

<sup>13</sup> Resolution 390/2017/E/com of June 1st, 2017.

<sup>14</sup> Resolution 742/2017/R/com dated November 10th, 2017.

<sup>15</sup> Resolution 137/2016/R/com of March 24th, 2016, and relative Integrated text of accounting unbundling - Annexe A (TIUC).

### 3.1.2 Technical functioning

#### Dispatching services

In June 2016, the Authority outlined<sup>16</sup> its guidelines concerning the first phase of the organic reform of the electricity dispatching service regulations. The main purpose of the reform is to open the Dispatching Service Market (MSD) to the participation of demand and production units powered by non-programmable renewable sources.

For this reason, Terna has been asked to update its Network Code, with the objective of introducing:

- the eligible virtual production/consumption units (UVA). These units must be considered as aggregates of single input/withdrawal points located in the same relevant geographical MSD perimeter; only the production units that are smaller than 10 MVA can be accepted in the UVA, while the bigger production units (relevant units) must participate in the markets independently;
- the technical requirements that each UVA and each relevant production unit must comply with in order to allow the integration of the Terna dispatching systems;
- the minimum performance, in terms of supply of the dispatching resources that each UVA and each relevant production unit must guarantee to obtain market qualifications.

In the first phase, the Authority proposed to maintain aggregates for input and withdrawal separated. All the consumption and production units that are not processed on an hourly basis are excluded from the first phase of the reform, as the participation of profiled users would be risky for the dispatching users. The consumption units that supply the load interruptibility or super interruptibility service in Sicily and Sardinia are also excluded.

Furthermore, the coincidence between the party that supplies the dispatching services (*Balancing Service Provider* – BSP) and the party responsible for the economic regulation of the imbalance (*Balancing Responsible Party* – BRP) has been provided; the possible separation of these two figures has been forwarded to a subsequent phase of the reform.

The same supply modality, that are currently effective for the units eligible to participate in the MSD, have been provided for the newly qualified units, as well as the application of the same provisions for the economic regulation of the effective imbalances (*dual pricing* at marginal price).

In this phase the distribution companies interact only with Terna, identifying possible criticalities that can rise on their network, due to the definition of the UVA; they may also prevent the insertion, in a UVA, of one or more production or consumption units located on its network or define limits *ex ante* to their movement.

In 2017, the organic reform of the dispatching was pursued, within the context of the achievement of the definition of a new Integrated Text of Electrical Dispatching (TIDE), in line with European legislation (European regulations on electrical balancing, the operation of the electricity system and with the *Capacity Allocation and Congestion Management* – (CACM) regulations. The TIDE must be geared to:

- define the criteria that will be used by Terna to review the products that are traded on the Dispatching Services Market (MSD) and the methods for flexible supply of the resources, preserving the *Central Dispatching System* settings, when possible;

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<sup>16</sup> Document for consultation 298/2016/R/eel of June 9th, 2016.

- review the classification of the consumption and production units, overtaking the relevance concept currently used to distinguish the units that must participate individually in the markets and the units that can be aggregated;
- identify new aggregation criteria defined on the basis of the spatial dimension of each of the dispatching services for which the aggregate is enabled;
- review the provisions for the imbalances in order to supply the dispatching users with price signals that are coherent with the temporal, spatial and commodity dimensions that distinguish the value of the energy in real time, overtaking the current mechanism based on static zone/macro-zone aggregations and referring to nodal prices.

Pending the definition of the TIDE, certain important actions have already been undertaken.

A first action<sup>17</sup> concerned the initial opening of the MSD, allowing the participation of the consumption units, the distributed generation and the non-programmable production units, in order to make new dispatching resources available immediately. This participation is carried out with pilot projects, that:

- are identified by Terna, after consultation, and subsequently sent to the Authority for approval;
- unless specified otherwise, they are based on the current classification of the consumption and production units, including the relevance concept for the participation to the markets, to allow the rapid start-up without requiring major actions on the dispatching management systems;
- forms of economic incentives in favour of the dispatching users are not provided for the activation of the pilot projects; the involved operators can however benefit from the remuneration of the dispatching resources provided by the regulation, including the one deriving from eventual future supply procedures;
- don't involve the consumption and production units who are part of the dispatching contract of the Single Buyer (AU) and of the Energy Services Manager (GSE) respectively.

Pilot projects may involve:

- the voluntary participation in the MSD of the still unqualified relevant production units (including the storage systems equated to the production units<sup>18</sup>). They usually participate individually in the MSD, except for what was provided differently for Nodal Eligible Virtual Units (UVAN), with the same dispatching point valid for the participation to the Energy markets and for the valuation of effective imbalances. The counterparty for the supply of the dispatching resources is the dispatching user, owner of the dispatching point, that always coincides with the *Balance Service Provider* (BSP);
- the voluntary participation in the MSD of the non-relevant production units (also including the storage systems) and of the demand. They participate in the MSD on an aggregated basis, composing the Eligible Virtual Units (UVA) according to what is described below. The geographic perimeters of the aggregation must not go beyond the market zone and are defined by Terna in coherence with the network model used by the algorithm for the selection of the offers accepted in the MSD, so that the movement of the units included in the UVA does not lead to violations of the network constraints.

The UVA can be divided in:

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<sup>17</sup> Resolution 300/2017/R/eel of May 5th, 2017, that followed the Consultation document 298/2016/R/eel, of June 9th, 2016.

<sup>18</sup> Pursuant to Resolution 574/2014/R/eel of November 20th, 2014.

- Eligible Virtual Production Units (UVAP), characterized by the presence of only non-relevant production units (programmable or not), including the storage systems, that are part of the same dispatching contract. They are only noted for their participation in the MSD, while, for the participation in the energy markets and, consequently, for the determination of the imbalance costs, the units included in these types of UVA remain part of the already existing dispatching points for non-relevant production units. The counterparty for the supply of the dispatching resources is the BSP, which can be distinguished by the dispatching user; the BSP is therefore responsible for the non-compliance with the dispatching orders;
- Eligible Virtual Consumption Units of (UVAC), characterised by the limited presence of consumption units that are part of the same dispatching contract. They are only noted for their participation in the MSD, while, for the participation in the energy markets and, consequently, for the determination of the imbalance costs, the units included in these types of UVA remain part of the already existing dispatching points for consumption units. The counterparty for the supply of the dispatching resources is the BSP, which can be distinguished by the dispatching user; the BSP is therefore responsible for the non-compliance of the dispatching orders;
- Eligible Mixed Virtual Units (UVAM), characterized by the presence of non-relevant production units (programmable or not), including the storage systems, and consumption units. They are noted for their participation in the MSD and for their participation in the energy markets, and therefore they are associated to a newly established dispatching point;
- Eligible Virtual Nodal Units (UVAN), characterised by the presence of relevant production units which are not object of compulsory authorisation according to the Network Code and/or non-relevant production units (programmable or not), and possibly also of consumption units, subtended to the same node of the national transmission network.

The effective imbalances continue to be assessed on the basis of the regulation applied to the non-eligible units for all the units that are subject to voluntary MSD authorisations.

A second intervention concerned the regulation of the imbalances. In detail: The Authority defined the transitional measures to avoid the irregularities found in the existing legislation that have allowed certain dispatching users to reap profits that were unrelated to the goals of the dispatching service, by programming at levels structurally and appreciably different from those reasonably expected.

These transitory measures<sup>19</sup> are:

- the introduction, since July 1st, 2017, of arbitrage-free macro-zonal fees, in order to neutralize the economic advantages that the dispatching users could obtain from the difference between the zone prices inside the macro-zone;
- the adoption, since September 1st, 2017, of a new method of calculation of the zonal aggregate imbalances, based only on modified and corrected binding programs of the production and consumption units and on the recording of the current exchange between the different macro-zones, avoiding the use of effective input and withdrawal measures.

These actions, reducing the risk of the dispatching users obtaining significant economic benefits that could damage the electrical system, have allowed the return, since September 1st, 2017, and for all

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<sup>19</sup> Resolution 419/2017/R/eel, of June 8th, 2017, that followed the Consultation document 277/2017/R/eel of April 20th, 2017.

units that are not subject to compulsory authorisations, to a valuation of the effective *single pricing* type imbalances, completely in line with the European regulations in matters of electrical balancing.

The existing regulation remains<sup>20</sup> effective for the non-programmable renewable sources, on the basis of which each year the dispatching users can choose to apply:

- the regulation of the imbalances provided for the other non-authorized production units;
- the new regulation purposely introduced for the non-programmable renewable sources.

This regulation provides the definition of differentiated “bands” for each non-programmable source<sup>21</sup>, inside which the unit imbalance costs provided for the non-authorized production units are not applied. A type of commercial aggregation occurs in the bands, based on the zone, between relevant and non-relevant production units supplied by any non-programmable source that can access the mechanism, reducing the volume risk and the imbalance price associated to every single source and every single system. It is as if the different non-programmable sources in the bands compensate their own imbalances among them, attributing to the single dispatching users, from non-programmable sources, only the residual values and avoiding that they continue (as in the past) to be supported by the consumers. The wider the band (like in the wind power source case), the greater the beneficial effect deriving from commercial aggregation.

Finally, the Authority redefined<sup>22</sup> the deadlines for the determination and the publication, on behalf of Terna, of the three dispatching costs (cost for resource supplies in the market for the dispatching service or uplift, cost to cover the modulation of the wind production, cost to cover the essential units for the security of the system) that were not previously determined and published in the initial reference period, in order to allow them to be applied in sales contracts in a “transitional” way, simplifying things for the vendors and for the consumers. These charges are defined by Terna on a quarterly basis, by the fifteenth day of the month preceding the quarter to which they refer, starting from those relating to the first quarter of 2018.

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<sup>20</sup> Resolution 522/2014/R/eel dated October 23rd, 2014.

<sup>21</sup> The bands differentiated per source are:

- 49% of the modified and corrected binding program related to the dispatching points relative to the relevant production units powered by wind power;
- 31% of the modified and corrected binding program related to the dispatching units relative to the relevant production points powered by photovoltaic sources;
- 8% of the modified and corrected binding program related to the dispatching points relative to the relevant production units powered by with run of the river water sources;
- 1.5% of the modified and corrected binding program related to the dispatching points relative to the relevant production units powered by ‘other’ renewable non/programmable sources (mainly geothermal production units);
- 8% of the modified and corrected binding program related to the dispatching points relative to the non-relevant production (with a power below 10 MVA);

<sup>22</sup> Resolution 553/2017/R/eel of July 27th, 2017, that followed the Consultation document 374/2017/R/eel of May 25th, 2017.

### Security regulations and network reliability

#### ***Essential systems for the security of the electricity system: ordinary regime and costs re-integration regime***

The essential plants for the security of the electricity system are the structures that are technically and structurally essential to the resolution of network congestions or to maintaining adequate levels of security of the national electricity system, for significant periods of time. These systems are substantially remunerated through the ordinary regime (that is through the tariff system), or through the variable costs re-integration regime (in this case the company, owner of the plant, can also request an advanced payment)<sup>23</sup>.

At the end of a complex process<sup>24</sup> to evaluate potential abuses in the wholesale electricity market pursuant to Regulation (EU) 1227/2011 (REMIT), which was conducted in coordination with the Antitrust Authority and taking into account the commitments made by Enel Produzione, the Authority ordered<sup>25</sup> the admission to the cost reintegration regime of the Brindisi Sud plant of the aforementioned Company, pursuant to the basic dispatching<sup>26</sup> provisions.

In 2016, the Authority set-up<sup>27</sup>, also in relation to the Brindisi Sud plant, several procedures for the adoption of prescription measures and/or asymmetric regulation measures, respectively according to Art. 2, para. 20, letter. d), of Law n. 481/95, and Art. 43, para. 5, of the Legislative Decree n. 93/11, to promote competition and to guarantee good market functioning by means of an effective and proportioned opposition to any behaviour, on the energy wholesale markets and on the market for the service of susceptible dispatching, that could compromise the correct interaction between request and offer, with consequential negative effects on the energy markets. What's more, in view of the fact that the Brindisi Sud plant was essential for the security of the electrical system during the year 2017, the Authority also set-up<sup>28</sup> the procedure for the definition of the type of essentiality to apply to this system and clarified that the regulation for the resources that are essential for the security of the electrical system, according to the dispatching<sup>29</sup> regulations, is a form of asymmetric regulation, indicated in Art. 43, para. 5, of the Legislative Decree n. 93/11, since the offers related to the above-mentioned resources are subject to restrictions that limit the market power of the related users in the dispatching service market and contribute to the definition of its competitive conditions.

In December 2016 the Authority provided for<sup>30</sup> the continuation of the preliminary investigation on the application for the regime of costs reintegration requested by Enel Produzione for the Brindisi Sud plant, in coordination with the Antitrust Authority. Meanwhile the latter, as a result of the report<sup>31</sup> from the Authority, requested a preliminary investigation to determine the existence of a possible violation of the antitrust regulations with reference to the supply strategy of the Brindisi Sud plant adopted by the same Company (proceeding A498A).

As a result of an appropriate *market test*, conducted with the support of the Authority, the Antitrust Authority, has made the engagements introduced on April 19<sup>th</sup>, 2017, by Enel Produzione,

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<sup>23</sup> Both regimes are provided by articles 64 and 65 of the Resolution 111/06 of June 9th, 2006.

<sup>24</sup> Process set-up with the Resolutions 342/2016/E/eel of June 24th, 2016, and 459/2016/E/eel of August 4th, 2016.

<sup>25</sup> Resolution 314/2017/R/eel of May 5th, 2017.

<sup>26</sup> Resolution 111/06 of June 9th, 2006.

<sup>27</sup> With the above-mentioned Resolutions 342/2016/E/eel and 459/2016/E/eel.

<sup>28</sup> Resolution 609/2016/R/eel of October 27th, 2016.

<sup>29</sup> Resolution 111/06 of June 9th, 2016.

<sup>30</sup> Resolution 803/2016/R/eel of December 28th, 2016.

<sup>31</sup> Resolution 477/2016/E/eel of September 6th, 2016.



mandatory, with provision n. 26562, concerning the Brindisi Sud plant, for the years 2017-2019. The definitive engagements provide, among others, that:

- if the plant is not admitted to the costs re-integration regime and Enel Produzione obtains profits that are higher than what is indicated in the text of the engagements, net of the recognised variable costs, Enel Production must return the exceeding amounts (engagement n. 1);
- if the Brindisi Sud plant is admitted to the costs re-integration regime, Enel Produzione must voluntarily limit the fixed costs relevant for the determination of the re-integration cost, to an amount no higher than what is indicated in the text of the engagement, and, in any case, much lower than the fixed overall costs of the plant, defined according to the criteria of the dispatching regulations<sup>32</sup> (engagement n. 3);
- Enel Produzione must also accept the eventual application of the costs re-integration regime from January 1st, 2017.

Considering the expected benefits in terms of control and stabilisation of the *uplift* costs, the Authority accepted<sup>33</sup> the application for the costs re-integration regime proposed by Enel Produzione for the Brindisi Sud plant, as integrated by engagement n. 3, introduced by Enel Produzione to the Antitrust Authority in matters of final engagements. The above-mentioned provision also established:

- to admit the Brindisi Sud plant to the costs re-integration regime starting January 1st, 2017, for the definition of the same re-integration cost, in such a way as to include the contribution margin that Enel Produzione achieved on the electricity market in the calculation, with the same plant in 2017, until the effective date of the constraints connected to the costs re-integration regime provided in the dispatching<sup>34</sup> regulations;
- to apply the re-integration regime to the implementation of activities that depend on the determination of the relevant recognized variable costs, to formulate the offers and to calculate the figurative revenues on the energy markets, from the second day following the publication of the admission notice, concerning the application of constraints to the offers provided in the abovementioned regime;
- to close the proceeding<sup>35</sup> concerning the Brindisi Sud plant, given the submission - at the outcome of the same procedure - of this plant to the asymmetric regulation represented by the costs re-integration regime, with important savings - regarding the application of the dispatching<sup>36</sup> regulation criteria - that can be considered as a compensation of the strategies adopted in year 2016;
- to provide that, in the years 2018-2019, for the implementation of Engagement n. 1, in case the system is no longer subject to the costs re-integration regime, Enel Produzione must pay the possible amounts exceeding the limit indicated in the final engagements to Terna, and the latter must use these amounts to reduce the costs for the resource supplies in the dispatching service market.

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<sup>32</sup> Resolution 111/06 of June 9th, 2016.

<sup>33</sup> Resolution 314/2017/R/eel.

<sup>34</sup> Resolution 111/06 of June 9th, 2016.

<sup>35</sup> Launched with Resolution 342/2016/E/eel.

<sup>36</sup> Resolution 111/06 of June 9th, 2016.

Given that Terna subsequently indicated that the Brindisi Sud plant is essential to the security of the electricity system for 2018 as well, the Authority confirmed<sup>37</sup> the plant's admission to the costs reintegration regime for 2018, in the light of the persistence of the expected net benefits for consumers.

***Essential systems for the security of the electricity system: admission to the costs re-integration regime***

During the year 2017 the Authority admitted<sup>38</sup> the Rosen plant 132kV of Engie Italia, to the costs re-integration regime for the period from May 15th, 2017 (the day after the date of expiry of the related CIP 6/92 agreement) to December 31st, 2017. In order to be admitted, the owner of the plant updated the request previously communicated, to render it compliant with the criteria defined<sup>39</sup> by the Authority to manage the cases of plants - like the Rosen 132kV plant - that generate more energy than what is input into the national transmission network.

The Centrale elettrica di Capri of Sippic electricity plant was admitted<sup>40</sup> - conditionally - to the costs re-integration regime. The plant was defined by Terna as individually essential for the security of the electricity system from the date of the activation of the connection of 150kV Capri-Torre Centro and until the activation of the second connection of 150kV Capri-Sorrento and the re-categorisation to 150kV of the Sorrento-Vico Equense-Agerola-Lettere network. The completion of the above-mentioned actions is foreseen within 2022.

With the activation of the 150kV Capri-Torre Centro island-mainland connection, the production carried out by Sippic with the plant Centrale elettrica of Capri is transformed from an activity that is exclusively dedicated to the vertically integrated management of a permanently islander electricity system to an activity servicing Terna within a typically interconnected electricity system, but still subject to periods of isolation, in case of lack of connection. The transformation described above requires the parallel evolution of the configuration of the regulation applied to the productive activity carried out by Sippic, in order to consider the role assumed by the relative system that has become an essential resource for Terna, for the security of the electrical system. For this purpose, it has also been decided<sup>41</sup> to:

- submit the plant to the costs re-integration regime, under resolution 111/06, receiving the multi-annual admission request by Sippic, in order to apply a regulation to the plant which, regarding the tariff integration system adopted historically, is concentrated on the productive activity and is founded on criteria that render the covering of the costs dependent on the system performances and the realisation and activation of the investments;
- define the relevant technical-economic parameters for the application of the costs re-integration regime;
- to declare the investments on the plant admissible that are geared to improve its reliability and to make its activity more sustainable for the environment - limitedly to the part that concerns the productive activity -.
- to allow the formulation of requests of advanced payment of the costs re-integration regime, with schedules that consider the specific requirements of the plant's financial management;
- to indicate the criteria for the definition of the period in which the Capri plant is subject to the essentiality regulations, under resolution 111/06;

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<sup>37</sup> Resolution 928/2017/R/eel of December 28th, 2017.

<sup>38</sup> Resolution 331/2017/R/eel of May 12th, 2017.

<sup>39</sup> Resolution 802/2016/R/eel of December 28th, 2016.

<sup>40</sup> Resolution 491/2017/R/eel of June 28th, 2017.

<sup>41</sup> Resolution 491/2017/R/eel of June 28th, 2017.



- exclude that the plant be remunerated through the tariff integration system for the smaller electric companies, for the period mentioned above, pursuant to Art. 7 of Law n. 10/91, to avoid it benefiting from double remuneration.

In particular, for that which concerns the period of application of the regulation of under Resolution 111/06, the plant is admitted to the costs re-integration regime until December 31st, 2022, from the day after the date when a group of conditions are satisfied, including: a) the activation of the 150kV Capri-Torre Centro connection; b) the stipulation of the dispatching contract with the power Station plant of Capri as object; c) the fulfilment, on behalf of Sippic, of the requirements provided by the dispatching regulations and the Terna Network Code; d) the possibility that the plant can supply the service for which it has been declared essential by Terna, in compliance with the constraints provided by the costs re-integration regime of under Resolution 111/06, and other constraints to which the system is subjugated (i.e. environmental regulations).

At the end of 2017 the Authority endorsed the requests of admission to the costs re-integration regime presented by Enel Produzione for the Assemini<sup>42</sup> and Portoferraio<sup>43</sup> plants, for the year 2018, and by Ottana Energia for the Ottana Biopower<sup>44</sup> plant, for the years 2018-2019. The Authority evaluated these requests positively because of the greater expected benefit for the consumers, providing that the aforementioned plants would be subject to the re-integration regime rather than establishing that they would be deleted from the essential plants list and, consequently, freed from the offer constraints provided in Art. 64 and 65 of Resolution 111/06.

#### ***Essential plants for the security of the electricity system: ordinary regime and costs re-integration regime for 2017 and 2018***

The Authority has defined<sup>45</sup> the regulation related to the ordinary regime and the costs re-integration regime for the years 2017 – only for the Rosen 132kV and Brindisi Sud plants - and 2018. The ordinary regime provides for the dispatching user to receive an income equal to the possible positive difference between the variable cost admitted by the Authority and the market price of the previous day, for each production unit and for every hour. The income for an essential plant in re-integration regime is equal to the difference between the admitted production costs in relation to the considered plant, and its revenues achieved from the moment of insertion into the list of the essential plants, for the period of validity of the list itself.

The relevant technical-economic parameters, for the definition of the recognized variable cost of the Rosen 132kV plant, have been defined in detail for 2017<sup>46</sup>. Terna has thus formulated a proposal that considers the fact that the plant mentioned above generates energy flows that go beyond the electric power delivered into the national transmission network and the owner of the plant - Rosen Rosignano Energia - has requested certain changes, in order to take into account its technical peculiarities. The Authority accepted the requests of Rosen Rosignano Energia for that which concerns the productivity and emission standards, but it rejected those concerning the disposal standard, for lack of justification.

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<sup>42</sup> Resolution 910/2017/R/eel of December 27th, 2017.

<sup>43</sup> Resolution 911/2017/R/eel of December 27th, 2017.

<sup>44</sup> Resolution 912/2017/R/eel of December 27th, 2017.

<sup>45</sup> Resolutions 274/2017/R/eel of April 20th, 2017, 491/2017/R/eel of June 28th, 2017, 688/2017/R/eel of October 17th, 2017, 696/2017/R/eel of October 19th, 2017, 799/2017/R/eel of November 30th, 2017, 913/2017/R/eel of December 27th, 2017.

<sup>46</sup> Resolution 274/2017/R/eel.

During the year 2017, Enel Produzione has taken advantage of the faculty to request changes to the parameters for the definition of the recognized variable costs of the units of the Brindisi Sud plant, motivating the choice with the need to modify the operative procedures according to what was provided on September 28th, 2017 by the Judicial Authority, regarding the plant itself. The request of Enel Produzione was accepted<sup>47</sup>, jointly defining the effective date of the changes to the parameters for costs re-integration and formulation of the offers.

The Authority approved<sup>48</sup> Terna's proposals concerning the standards of the technology-fuel categories of the thermo-electric production units and the standard percentages for the valuation of the imbalances, for 2018. The Authority also confirmed the remuneration rate of the valid capital of 2017 for 2018, considering the costs re-integration regime, compensating the increment deriving from the increase of the productivity rate of the no risk activities with a corresponding decrease geared to reflect the acceleration in the recognition of the deposits of the re-integration compensation<sup>49</sup>.

The parameters for the calculation of the recognized variable cost for the plants indicated in the list of essential plants for year 2018, were approved in November 2017<sup>50</sup> (Assemini, Brindisi Sud, Fiumesanto, Montemartini, Ottana Biopower, Porcari, Porto Empedocle, Portoferraio, Rosen 132kV and San Filippo del Mela plants) and December 2017<sup>51</sup> (Centrale elettrica di Capri plant). The Authority also approved<sup>52</sup>, Terna's proposals for 2018, for the parameters for the localisation of the volumes that are strictly necessary to implement the programs under the technical profile, as modified - in the case of the Fiumesanto and San Filippo della Mela plants - by the requests proposed by EP Production and A2A Energiefuture, respectively.

In the context of the re-integration regime, the Authority integrated<sup>53</sup> the method of determination of the figurative revenues due to the absence of offers that are not justified by unavailability, to avoid that these revenues be overestimated in the case of units powered by several types of fuel. For this situation, the following has been established:

- to confirm - upon the definition of the conventional variable cost that the producer would have supported to run the unit in case it had been offered and accepted - the application of the configuration of the relevant variable cost for the re-integration in the calculation of the aforesaid figurative revenues, since, in the case in which the systems are powered by more than one fuel, this configuration - differently from that of the relevant variable cost for the formulation of the offers - provides that the weighting for the calculation of the combustible component be based on objective data (effective consumption instead of expected consumption);
- to carry out - with reference to the hours in which the effective consumption of all fuels is null - the weighting of the fuel value according to the effective consumption recorded on an annual basis.

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<sup>47</sup> Resolution 688/2017/R/eel.

<sup>48</sup> Resolution 696/2017/R/eel.

<sup>49</sup> Resolution 491/2017/R/eel.

<sup>50</sup> Resolution 799/2017/R/eel.

<sup>51</sup> Resolution 913/2017/R/eel.

<sup>52</sup> Resolution 799/2017/R/eel.

<sup>53</sup> Resolution 633/2017/R/eel.

***Essential plants for the security of the electricity system: alternative regime***

The alternative essentiality regime features simplified requirements and remuneration compared to the typical regimes and requires the signing of a contract between Terna and the dispatching user, owner of the essential plants, governed by Art. 65-bis of Resolution 111/06.

The Authority defined<sup>54</sup> the technical and economic parameters relevant to the application of the alternative regime to the essential production capacity, determining the minimum committed quantity of power, the maximum price and minimum price to be reached and the fixed charge, for each dispatching user who is also the owner of that capacity (CVA Trading, Enel Produzione, Eni and Isab). Precautionary measures have been adopted to define these amounts, concerning the expected programming at the outcome of the markets for the energy produced by the plants, in the light of the phenomena outlined in the context of the procedures of evaluation of potential abuses in the energy wholesale market<sup>55</sup>. The values of the financial parameters (prices and fixed charge) were set on the basis of the standard cost structure of an open-cycle gas turbine plant.

The technical-financial parameters for the application of the alternative essentiality regime were updated<sup>56</sup> for Enel Produzione, since this company, according to the current regulations, has expressed the intention to join the alternative regime only for the amounts of essential power of a part of the plants or plant groupings<sup>57</sup>.

Finally, the Authority approved<sup>58</sup> the contract proposals put forward by Terna in relation to dispatching users that have subscribed to the alternative regime for 2018 (CVA Trading, Enel Produzione, Eni and Isab).

***Internal user grids and simple production and consumption systems***

By “electricity networks”, the current regulatory framework refers to all those complex configuration electricity systems, involving the coexistence of multiple consumers and/or producers of electricity. In all these systems, the transport of electricity for delivery to consumers consists in activities of transmission and/or distribution.

Two subsets can be distinguished within the framework of the electricity networks: public grids<sup>59</sup>, managed by the owners of an electricity transmission licence (Terna) or distribution licence, and Closed Distribution Systems (SDCs), private electricity grids, managed by parties other Terna and by distribution companies, who distribute electricity within an industrial, commercial or shared services site in a geographically limited area and that, not calculating specific exceptions expressly provided by the Authority regulations, do not supply civilian customers. The SDCs are further divided into Internal User Networks (RIUs) defined by the Law n.99 of July 23rd, 2009, and recorded by the Authority with its own provisions, and the other SDCs, referred to as Other Self-Production Systems (ASDCs).

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<sup>54</sup> Resolution 696/2017/R/eel.

<sup>55</sup> Resolutions 342/2016/E/eel and 459/2016/E/eel.

<sup>56</sup> Resolution 842/2017/R/eel of December 5th, 2017,

<sup>57</sup> Pursuant to the Resolution 696/2017/R/eel.

<sup>58</sup> Resolution 891/2017/R/eel of December 21st, 2017,

<sup>59</sup> The public networks are divided into networks used by Terna for the provision of transmission and distribution networks.

In November 2015<sup>60</sup>, with the approval of the Integrated Text for the Closed Distribution Systems (TISDC) the regulation for the connection, metering, transmission, distribution, dispatching and sales services was defined for these structures.

The simple production and consumption systems that are a simplified model characterized by one single connection point, one producer of electricity and one consumer, are not considered to be part of the power networks.

The regulation for the Simple Production and Consumption systems<sup>61</sup> of which the Efficient User Systems (SEU) and the Existing Systems, equivalent to the Efficient User Systems (SESEU) represent the two main subsets, was defined in 2013 by the relative *Integrated text of the Simple Production and Consumption Systems* (TISSPC).

During 2017 the TISDC and the TISSPC were updated or integrated.

The first update is based on article 6, para. 9, of the Decree Law 244/16, called “Milleproroghe 2016”, under which:

- starting on January 1st, 2017, there is no more difference, from the point of view of the application of the tariff components to cover the general costs of the system, between the various types of feasible Simple Production and Consumption Systems (SSPC) or among the various types of qualified SDCs, for which the variable parts of the tariff components to cover the general system costs can only be applied to the electricity withdrawn from the public network;
- also in relation to the periods before January 1st, 2017, the tariff components that should have been applied to the consumed electricity but not drawn from the public network are no longer chargeable, with the only exception of the MCT tariff component<sup>62</sup>.

The formulation of article 6, para. 9, of the Decree Law 244/16, has allowed the introduction of many simplifications in the TISSPC, the TISDC and in the other provisions related to them, without modifying the number of current definitions. In particular, the Authority<sup>63</sup>:

- has reconsidered the role of the Energy Services Manager (GSE), as it is no longer necessary to request the qualifications of User Efficient System (SEU) and Existing Systems Equivalent to the User Efficient Systems (SESEU) for the configuration of new realisations, since they no longer involve tariff benefits. The new role of the GSE is to support the systemic rationalisation of the existing configurations, to carry out pooled sample verifications on the SSPC, including those newly realised, and to support the Authority in the activities for the definition of the SDC perimeters;
- has extended the same identification procedure, already enforced for the RIU, to the Other Closed Distribution Systems (ASDC);
- has chosen February 28th, 2018 as the deadline for the “hidden” consumers (who are not already connected to the public network or identified as being part of configurations included in SSPC and SDC) to self-declare themselves, avoiding the application of sanctions or penalties. This date therefore represents the conclusion of the systemic rationalisation process, to classify

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<sup>60</sup> Resolution 539/2015/R/eel of November 12th, 2015.

<sup>61</sup> Resolution 578/2013/R/eel of December 12th, 2013.

<sup>62</sup> The MCT tariff component continues to be applied for the consumed electricity not drawn from the public network in the case of the systems that are different from SEU, SESEU-A and SESEU-B (exempted pursuant to art. 4 of the Legislative Decree 56/10) and different from the SESEU-D (originally classified with the RIU and exempted pursuant to art. 33, codicil 6, of Law n. 99/09) and from the RIU.

<sup>63</sup> Resolution 276/2017/R/eel of April 20th, 2017.

the consumers of the electric system in one of the several configurations, identifying them as public network customers. The correct identification of the consumers allows them to access the public electricity market, choosing the sales company they consider most appropriate, and to benefit from their rights and from the quality regulations defined by the Authority. The provision has established that no retroactive regulation would be applied to “hidden” consumers who would self-declare themselves within February 28th, 2018 (with the only exception of the consumers who find themselves in private configurations, not admitted by the current regulations); and that a one-off penalty would have been applied to the “hidden” consumers who did not self-declare themselves within this final date, as well as the recovery of the tariff components left unpaid since January 1st, 2014, to be paid to the Fund for Energy and Environmental Services (CSEA).

A second update was carried out in December 2017<sup>64</sup> since the requirement to modify the definition of consumption unit<sup>65</sup> initially provided by the TISSPC and TISDC emerged during the recalled rationalisation period (finalized to frame the consumers of the power system in one of the several configurations, to identify them as public network clients). In detail, the requirement to avoid that the urban property units must necessarily be identified as consumption units different from the one that is related to the same main activity has arisen, when they are present in the same site in which the main activity (or “Core business”) was realised, and if they are made available to third parties to carry out activities for the distribution of goods or support services to the main activity (*outsourcing* processes for the efficiency of the “Core business”). The requirement to clarify the application of the definition of consumption units to residential contexts (concerning the so-called pertinences, such as garages, attics etc.) has become necessary.

The Authority has therefore modified the definition of consumption unit initially contained in the TISSPC and in the TISDC, providing that, normally, the consumption unit coincides with the single property unit and that it is possible to combine several property units in one single consumption unit in the following cases:

- property units in the full availability of the same physical or legal person bound by the pertinence constraint (main property unit and its pertinences) and that can be found on the same cadastral parcel or contiguous units;
- pertinent property units (attics, garages, basements etc.), even in the availability of several physical or legal persons, being part of one single condominium. The above group of pertinent property units can subsequently be incorporated in the consumption unit related to the condominium utilities;
- property units in the full availability of the same legal entity, possibly made available to third parties by this same legal entity, located on contiguous cadastral parcels, inside one single site and used for productive activities of goods and/or mostly destined to the realisation, in that same site, of one single end product and/or service.

One single “electric” consumer is however identified in all the cases in which the consumption unit (independently from the fact that it coincides with the property unit or with a group of property units when allowed) incorporates several different parties. The latter supplies services, not electricity, to the parties included in the same consumption unit: it cannot therefore configure a

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<sup>64</sup> Resolution 894/2017/R/eel of December 21st, 2017.

<sup>65</sup> We remind you that the consumption unit, found on the property unit and relative pertinences, is the instrument used to identify the end clients correctly.

sales activity of electricity and there can't be any invoicing for the supply of electricity inside the consumption units.

Lastly, the date within which the “hidden” consumers are forced to self-declare themselves by requesting a connection to the network manager of the competent territory, requesting the identification of an ASDC to the Authority, according to the TISDC (in this last case, acting through the party that will manage the ASDC), has been postponed from February 28th, 2018 to June 30th, 2018.

A third update was carried out in December 2017<sup>66</sup> to define the calculation criterion of the tariff components that cover general costs to be applied in the public network connection points, in the case of SDCs and SSPCs that include both high energy consumption companies and other consumers.

### Network connection times

The *Integrated Text of the output-based regulation for the distribution and metering services (TIQE)*<sup>67</sup> currently in effect for the regulation period 2016-2023, establishes specific standards for connections with the electricity distribution networks in MT and BT. The regulations provide:

- a maximum estimated time for the execution of works on the BT network equal to 20 work days and on MT network equal to 40 work days;
- a maximum time for the execution of simple works equal to 15 working days for the BT network and 30 work days for the MT network;
- a maximum supply activation time equal to 5 work days;
- a maximum supply deactivation time, upon request of the final customer, equal to 5 work days for the BT network and 7 work days for the MT network;
- a maximum supply reactivation time after a suspension due to non-payment equal to 1-week day.

The data related to the connections of active and passive users is reported below. The “active connections” are those requested by the electricity production plants to the transmission or distribution networks, mainly to allow these plants to input energy into the electric system. “Passive connections”, are those requested by the consumers to the distribution or transmission networks in order to allow to withdrawal of energy from the electricity system.

The data related to the connection of active users with the transmission network, reported in these pages, refers to the activities that were carried out by Terna, while the data related to the connections of active users with the distribution networks exclusively refers to the activities that were carried out by distribution companies with over 100,000 clients<sup>68</sup>. The numbers related with the connection of passive clients were collected by Terna and by the distribution companies in the context of the customary Survey on Regulated Sectors, carried out annually by the Authority. In 2017 Terna received 90 connection requests for electricity generation plants, corresponding to a total power of approximately 3.4 GWe. Terna provided 50 quotes<sup>69</sup> for these requests, corresponding to a total power of approximately 2.2 GW, with average delays for the availability of

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<sup>66</sup> Resolution 921/2017/R/eel of December 28th, 2017.

<sup>67</sup> Approved with the Resolution 646/2015/R/eel of December 22nd, 2015.

<sup>68</sup> All the distribution companies with over 100.000 clients, (AcegasApsAmga, Areti, Deval, E-distribuzione, Edyna, Inrete, Ireti, Megareti, Set Distribuzione and Unareti), sent the Authority the information concerning 2017, on April 20th, 2018, relative to the connection of the electricity producing plants.

<sup>69</sup> The listings emitted following specific requests in years other than 2017 are excluded.



the quotes (net of the allowed interruptions) equal to 39 working days. 28 of the available quotes were accepted in 2017, corresponding to a total power of slightly less than 1.4 GW. The request for the availability of Minimum Technical Detail Solutions (STMD) was made, for two of these, corresponding to 40 MW, that were delivered and accepted in both cases. The connection was activated on December 31st, 2017 for one of these, with a relative power of 13 MW.

With reference to the connection of the electricity generation systems to the distribution networks, in 2017 the distribution companies received slightly less than 56,100 connection requests for electricity production plants to be connected with low and medium voltage networks, corresponding to a total power of approximately 1.4 GW, and, considering the latter, they provided approximately 51,400 quotes in the same year, corresponding to a total power of approximately 1.1 GW, with average delays to provide the quote, net of the allowed interruptions, equal to:

- 15 work days, for input power requests up to 100 kW;
- 35 work days, for input power requests higher than 100kW and up to 1,000 kW;
- 46 work days, for input power requests higher than 1,000 kW;

Approximately 47,600 quotes of the total available ones were accepted within the year, corresponding to a total power of slightly less than 0.8 GW. In 2017 approximately 34,200 connections were created, in relation to the requests received in the same year, corresponding to approximately 300 MW, with average connection times, net of the allowed interruptions, equal to:

- 10 work days, for simple jobs<sup>70</sup>,
- 44 work days, for complex jobs<sup>71</sup>,

while the average delays for the activation of the connection, net of the allowed interruptions, is of 8 work days.

In 2017 the only distribution company that received connection requests for electricity production systems to be connected with high tension networks was E-distribuzione who received 14 connection requests, corresponding to a total power of approximately 230 MW; E-distribuzione provided 7 quotes in the same year, corresponding to a total power of approximately 146 MW, with average delays to provide the quote, net of the allowed interruptions, equal to 31 work days.

6 of the provided quotes, corresponding to a power slightly lower than 100 MW, were accepted in 2017; none of these required the STMD availability request. Therefore in 2017, there were no connections related to connection requests for electricity production systems to be connected with high-tension networks that presented a connection request in the same year.

Concerning passive client connections, on the basis of preliminary estimates, the collected data shows that slightly more than 245,000 connections with distribution networks were carried out in 2017 (Table 3.1), nearly all in low voltage. The average time to connect clients is of 9 work days. In particular, the average delay for the realisation of low voltage connections is of 6-8 work days. The average time to obtain a medium voltage connection is slightly longer, equal to 17.3 work days. The data highlights a lower number of requests compared to 2016 (last year they were 262,206, or 6.4% more) and a slight increase in the connection delays.

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<sup>70</sup> Simple jobs are the realisation, modification or replacement, state of the art level, of the network manager's facility, carried out with a limited intervention on the plug and eventually on the measuring group.

<sup>71</sup> Complex jobs are the realisation, modification or replacement, state of the art level, of the network manager's facility, in all the cases that are not included in the definition of simple jobs.

An average of 8.5 work days were necessary to obtain a passive connection to the low or medium voltage network in 2016, and this year we recorded an increase of 0.5 work days, 5.4% more time. It is important to specify that the number of indicated days doesn't include the time to obtain the eventual authorisations and the time needed for eventual implementations on behalf of the consumer.

Each distributor carried out an average of 1,845 connections during the year. If we exclude the operators that didn't carry out any connections (56 parties) from the calculation, the average number of connections carried out by each distributor during the year is equal to 3,187.

In 2017 Terna connected three new passive clients in high and very high voltage. The average connection time (excluding the time needed to obtain eventual authorizations and the time for eventual implementations on behalf of the consumer) was of 423 work days, including the administration delays for the management of the documentation; the time for the implementations on behalf of the consumers lasted 631 work days.

**Table 3.1 Number of passive user connections with the distribution networks and average connection time in 2017**

VOLTAGE LEVEL	NUMBER OF CONNECTIONS▲		AVERAGE DELAY (WORK DAYS) <sup>(A)</sup>	
	2016	2017	2016	2017
Low voltage	260,991	244,094	6.7	6.8
Medium voltage	1,215	1,274	14.6	17.3
<b>TOTAL</b>	<b>262,206</b>	<b>245,368</b>	<b>8.5</b>	<b>9.0</b>

(A) Value calculated without considering those who do not have a connection, excluding the time needed to obtain the eventual authorisations and the time needed for eventual implementations on behalf of the end client.

Source: Annual surveys on regulated sectors.

### Innovations related to the connection service of the electricity generation plants

Following the approval of the three European regulations, RfG, DCC and HVDC<sup>72</sup>, which lay down the requirements for the connection to electricity networks (electricity generators, consumption plants, systems with high voltage direct current and power generation plants connected with direct current), the Authority has launched<sup>73</sup> a procedure to integrate them under the current regulations in force in Italy.

Within this procedure, in the first instance the Authority defined<sup>74</sup> the criteria for the concession of derogations to the requirements provided by the European regulations. More precisely, for the analysis of the derogation requests it was provided that:

<sup>72</sup> The Regulation (EU) 2016/631 of the European Commission of April 14th, 2016 introduces a network code with the requirements for the connection of electric generators (RfG Regulation - *Requirements for Generators*).

The Regulation (EU) 2016/1388 of the European Commission of August 17th, 2016 introduces a network code with the requirements for the connection of consumption plants connected to the transmission system, for the distribution systems connected to the transmission system, for the distribution systems, including closed distribution systems and the consumption units used to supply services to manage the requests (Regulation DCC - *Demand Connection Code*).

The Regulation (EU) 2016/1447 of the European Commission of August 26th, 2016, introduces a network code with the requirements for the connection of high voltage direct current systems (HVDC) and the power generation plants connected with direct current (Regulation HVDC - *High-Voltage Direct Current*).

<sup>73</sup> Resolution 67/2017/R/eel of February 16th, 2017,

<sup>74</sup> Resolution 273/2017/R/eel, of April 20th, 2017, that followed the Consultation document 68/2017/R/eel, of February 16th, 2017,

- the manager of the network, to which the facilities and/or systems for which the derogation is requested, are or will be connected, also supported by the surrounding network managers (including the TSOs), evaluates the impact of the eventual derogation on the security and quality of the service related to the electricity network to which the facilities and/or systems for which the derogation is requested, are or will be connected, also considering eventual risks connected to the security of industrial production, in particular with reference to the industrial systems with high accident risks;
- the TSO assesses, jointly with what was previously described, or following the valuations - if positive - previously described with reference to a network manager that is different from the TSO itself, the impact of the eventual derogation on the security of the national electricity system, and the eventual impacts that the requested derogation would have on cross-border trading;
- the Authority assesses the cost-benefits relation, considering the contributions of TSOs/DSOs, made available by the applicant party, in compliance with what is provided by the RfG, DCC and HVDC regulations;
- the Authority, considering the contributions of TSOs/DSOs, assesses the activities that the applicant party means to implement in order to forego the necessity of a derogation, the necessary time delays and relative costs, and the eventual further actions that could be undertaken to mitigate the eventual criticalities deriving from the derogation.

For the derogation to be granted by the Authority, it is necessary to demonstrate, in particular:

- there are no risks for the security of the national electricity system;
- there are no risks for the security of the electricity network to which the facilities and/or systems for which the derogation has been requested, are or will be connected, and that there will be only negligible impacts on the service quality, and that there will be no criticalities for industrial systems with high accident risks;
- there are no risks for the security of cross-border trading;
- the cost-benefits relation highlights that the requirements provided by the regulations, involve costs that are higher than the benefits, when applied;
- the applicant must demonstrate that he will implement all the available actions to exceed the need of an eventual derogation and to mitigate eventual criticalities (provided that these are considered acceptable according to the previous letters).

The same Resolution 273/2017/R/eel, also provides that:

- derogations cannot be granted if there have already been previous requests, formulated in the national context and a comparable context, for which there has already been a negative outcome;
- the possibility to further integrate the criteria for the concession of derogations, also with more specific elements, following the complete implementation of the European regulations;

Secondly, pursuant to the RfG regulations, the Authority<sup>75</sup> has classified the generating units sold by Baxi, ÖkoFEN and SenerTec as emerging technology<sup>76</sup> for which the companies have presented

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<sup>75</sup> Resolution 554/2017/R/eel of July 27th, 2017.

<sup>76</sup> Pursuant to art. 66, par. 2, of the RfG regulations, a type of generating unit can be admitted among the emerging technologies only if the following conditions are met:

derogation requests to the Authority<sup>77</sup>. The classification between the emergent technologies, as provided by the RfG regulations, involves the total derogation of the provisions of the RfG regulations themselves: the generating units included in these classifications can therefore be connected to the electricity networks without the compliance with connection requirements provided by the European regulations. Furthermore, the Resolution 554/2017/R/eel, activating the RfG regulations, has provided that the Baxi, ÖkoFEN and SenerTec companies must present the Authority with a bimonthly update of the sales of the generating units classified among the emergent technologies in Italy and an update on the sales of the generating units in the continental European area. If the maximum cumulative capacity of all the generating units sold in Italy and classified among the emergent technologies exceeds the limit provided by article 67 of the RfG regulations (equal to 41,7 MW), all the classifications of the emergent technologies will be withdrawn by the Authority.

Concerning the connection service to the electricity networks of the production systems regulated with the Active Connections Integrated Text (TICA), the Authority:

- has activated<sup>78</sup> the Decree of the Minister of Economic Development of March 16th, 2017, containing the *“Approval of the unique models for the realization, connection and functioning of high rendering micro-co-generation plants and micro-cogeneration powered by renewable sources”*, simplifying the technical and economic conditions for the connection of high rendering micro-co-generation systems, that is of micro-cogeneration systems powered by renewable sources, eventually equipped with storage systems, having all the following characteristics:
  - realised on-site with final clients already equipped with low or medium voltage active withdrawal points;
  - having a power that is no higher than the one already available in the withdrawal points;
  - powered by biomass, biogas, bioliquids, i.e. methane gas or LPG;
  - for which the access to the on-site trading regime is simultaneously requested;
  - do not determine the alteration of the status of the locations and the exterior aspect of the buildings when falling into the context of the application of the Heritage and Cultural Activities Code, according to what is provided by the Legislative Decree 42/04;
  - with a generating capacity lower than 50 kWe.

It has also been provided that the simplifications introduced in the V1 Variation to the CEI 0-21 Regulation, concerning the technical requirements for the connection of production systems with a power lower than 800 W<sup>79</sup>, find application since August 4th, 2017 (effective date of the aforesaid regulation);

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- be type A (generating unit connected to a voltage lower than 110 kV and with a power of at least 0,8 kW and a maximum of 1 MW);
  - it works with an available market technology;
  - the cumulative sales of this technology in a synchronous area at the time of the request of classification among emerging technologies is no higher than 25% of the maximum cumulative capacity level (pursuant to art. 67, paragraph 1, of the RfG regulations, the maximum cumulative capacity level of the generating units classified among the emerging technologies in a synchronous areas of 0,1% of the maximum yearly charge for 2014 in the same synchronous area).

<sup>77</sup> With the same Resolution 554/2017/R/eel the Viessmann generating units had also been classified as emerging technology but following the second request presented by the same company, these generating units were excluded, with Resolution 845/2017/R/eel, from the list of generating units classified as emerging technology.

<sup>78</sup> Resolution 581/2017/R/eel of August 3rd, 2017.

<sup>79</sup> The limit provided by the RfG regulations, under which the same European regulations do not apply.

- has launched a procedure<sup>80</sup> to review the methods to determine the amount needed to cover the costs of network plant testing, undertaken by the applicants themselves, for the connection of electricity generation plants to medium and high voltage distribution networks, after the specification of the perimeter of the activities whose average costs are covered by it.

### Regulation of the technical quality of the services

#### *Continuity of the electricity distribution service*

In 2017 the Authority continued its action on the regulation of the technical quality of services, to promote an increase in the resilience of the electricity networks, in order to improve the capacity to cope with severe and extended meteorological events. The resilience of the electricity networks can be represented with two complementary characteristics: the capacity of the electricity system to resist mechanical stress, closely depending on the planning limits and the type of meteorological events (so-called stress resistance), and the capacity of the electricity system to bring itself back to an acceptable operative status, after interruptions, also with temporary actions (so-called restoration). The Resilience Table, created in 2016 and coordinated by the Authority Offices, has further studied the methods that can be applied by the network operators to identify the parts of the electricity networks that are most at risk, concerning the different adverse meteorological phenomena, like the ice sleeves on the aerial lines on bare conductors, the falling of tall trees, situated outside the buffer zone, on the aerial lines because of the excessive weight of snow, floods and flooding inside the transformer cabins of the underground network due to intense rain, etc. (so-called risk factors). Work subgroups have been created, in the context of the Resilience Table, coordinated by the operators, to analyse the different risk factors, since the beginning of 2018.

In March 2017<sup>81</sup> new provisions were introduced for the network operators, effective since October 1st, 2017, with the objective of accelerating the restoration of the electricity distribution service in case of emergencies due to adverse meteorological phenomena. In particular:

- the establishment of the principle for which the responsibility for interruptions of long duration, even when triggered by force majeure, becomes the responsibility of the network operators 72 hours after the beginning of the interruption;
- automatic indemnifications have been provided for the consumers until the tenth day of interruption, triplicating the maximum amount previously enforced.

In the first part of 2017, Terna and the main distributors elaborated and transmitted a preliminary version of the Work Programs to the Authority, to locate the weaker parts of the distribution network, in the application of the Guidelines approved in March 2017<sup>82</sup>. The examination of these Programs allowed the Authority to carry out a consultation<sup>83</sup> in which the guidelines were defined, in terms of:

- reputation incentive, to stimulate the planning and publication phases of the operations to increase the resilience of electricity networks and, concerning the larger size distribution

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<sup>80</sup> Resolution 105/2018/R/eel of March 1st, 2018,

<sup>81</sup> Resolution 127/2017/R/eel of March 9th, 2017,

<sup>82</sup> Determine the Infrastructure Management of March 7th, n. 2/2017.

<sup>83</sup> Document for consultation 645/2017/R/eel of September 21st, 2017,

companies, to request a gradual passage from the current development Programs to the Integrated Distribution Plans;

- financial incentives, to favour the increase of the stress resistance of the network, caused by adverse meteorological phenomena and in order to improve the effectiveness of the restoration of the supply, resulting from a disconnection caused by adverse meteorological phenomena.

### ***New output-based regulation mechanism of the electricity distribution services: programmed interruptions***

The Authority has introduced<sup>84</sup> new regulations in matters of experimental regulation promoting the decrease of the duration of the planned interruptions of the electricity distribution service.

The distribution companies identify the participating territorial areas.

In September 2017<sup>85</sup> the departure level and the objective level were published, for the period between 2017 and 2019, for territorial areas that are admitted to the experimental mechanism promoting the decrease in the duration of the interruptions with previous notice.

### ***Quality and output of the electricity transmission service***

In December 2015<sup>86</sup> the integrated Text for the output-based regulation of the electricity transmission service for the regulation period 2016-2023 (TIQ.TRA) was approved, that promotes the improvement of the continuity of the electricity transmission service through a mechanism of premiums and penalties referring to the unused energy indicator, calculated on a national basis.

In December 2017<sup>87</sup>:

- the TIQ.TRA was modified, foreseeing that the obligation for the publication, on behalf of Terna, of the minimum and maximum values of the expected effective voltage and the effective voltage would refer to the distribution companies (primary cabins) and to the AAT or AT consumers connected to the relevant network;
- the minimum requirements<sup>88</sup> for the preparation of the ten-year network development plan of national transmission and for the relative benefit and cost analyses, have been updated;
- the regulation<sup>89</sup> related to the document containing the description of the scenes of the ten-year development plan, that was published by Terna for the first time in January 2018<sup>90</sup>, has been modified;
- the following have been verified positively, according to the Terna Network Code:
  - chapter 11, concerning the transmission service quality;
  - chapter 2 and Annex A.74, concerning the detailed aspects of the new costs-benefits analysis method. This Annexe reflects the provisions of the regulation introduced in November 2016<sup>91</sup>, that provides two specific indicators related to the resilience variation of the

<sup>84</sup> Resolution 549/2016/R/eel of October 6th, 2016,

<sup>85</sup> Resolution 612/2017/R/eel of September 7th, 2017,

<sup>86</sup> Resolution 653/2015/R/eel of December 3rd, 2015.

<sup>87</sup> Resolution 856/2017/R/eel of December 14th, 2017,

<sup>88</sup> Contained in Annexe A of Resolution 627/2016/R/eel.

<sup>89</sup> Contained in Resolution 111/06 of June 9th, 2006.

<sup>90</sup> According to what is provided in the Resolutions 627/2016/R/eel and 654/2017/R/eel of September 28th, 2017.

<sup>91</sup> Resolution 627/2016/R/eel of November 4th, 2016,



electricity system that are evaluated and quantified by Terna as differential “with” and “without” a development operation for the transmission network.

The Authority has outlined the transition from the *input-based* regulation, adopted until the fourth period of regulation (2012-2015), to a regulation mainly focused on ulterior outputs compared to the reliability of the transmission service regulation, already launched in the previous regulation periods.

The Authority has therefore provided, for the half period of the current regulation (2016-2019)<sup>92</sup>:

- an *input-based* transitory incentive regulation according to article 20 of the Integrated Transport Text (TIT) and a regulation to promote the investment efficiency according to article 21 of the TIT;
- the progressive definition of new incentive regulation tools focused on the outputs, which was activated in the following months.

Considering this last point, the Authority carried out a consultation in the summer of 2017<sup>93</sup> and subsequently adopted two provisions<sup>94</sup>, dealing with five aspects:

- short term incentives to certain propaedeutic tools needed for the definition and measurement of the utility for the system (application of “2,0 CBA” and objective capacity definition) and to the *output-based* incentive regulation;
- incentive for the transmission system manager to obtain *Connecting Europe Facility* contributions for the financing of development actions;
- adaptations for the incentive mechanisms related to high-risk infrastructural projects;
- incentives for the realisation of additional transport capacity between zones and at the borders;
- initial guidelines for incentives for the efficiency of the dispatching service, that subsequently evolved into incentives for the realisation of the transport capacity for network developments other than the “inter-zonal” of the previous point.

Concerning the preparatory tools for the output-based regulation, Terna is entitled to receive an annual premium of a maximum of 1,5 million Euro per year for each year from 2017 to 2019, in case the activities defined by the Authority in para. 39,1 of the TIQ.TRA are carried out in appropriate quality and in compliance with the provided deadlines. In the definition of the reward mechanism, the Authority has also defined general quality criteria and independent external verifications, with two methods: i) “*model-based*”, that is with assignments to a company using market and network models for the possible replication of the simulations carried out by Terna and ii) “*expert-based*”, that is with assignments to individual experts or companies/agencies that would supply an appraisal on the basis of the experience and the evidence emerged from the market outcomes and the exercise of the electricity system and from the simulations on the expected behaviour, without necessarily using all the network and market simulation *tools*.

Concerning the incentive to obtain *Connecting Europe Facility* contributions to reduce the tariff impact for the network clients, Terna is entitled to receive, for 2018 and 2019, an integration of the recognized cost in case it obtains contributions to the financing of transmission operations. The integration is proportioned to the received *Connecting Europe Facility* contribution and is limited to

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<sup>92</sup> Resolutions 653/2015/R/eel and 654/2015/R/eel of December 23rd, 2015,

<sup>93</sup> Document for consultation 542/2017/R/eel of July 20th, 2017.

<sup>94</sup> Resolution (December 21st, 2017, 884/2017/R/eel, and March 8th, 2018, 129/2018/R/eel.

a maximum value on one side, and, on the other, requires that the contribution exceeds an initial threshold (30 million Euro) under which the incentive is not applicable.

Concerning the incentive mechanisms of high risk infrastructural projects, the Authority provided a simplified preparation, consultation and analysis path for the applications, that can be applied to the transmission projects with a construction duration of more than 3 years and with a benefits/costs ratio higher than 1,5, if Terna limits itself to request the remuneration of the fixed assets in progress, with a remuneration rate determined in the hypothesis of 80% of capital debt and 20% of personal capital.

Concerning the mechanisms promoting the realization of additional transport capacity between zones and at the borders, the Authority has provided that Terna, in the period between 2019 and 2023, is entitled to receive a premium for the realisation of additional transport capacity, compared to the capacity of the previous year, for the sections between the relevant network zones and to the network sections with the adjacent electricity systems. The premiums are limitedly determined by the “objective transport capacity” for each network section and in proportion with the capacity effectively realised and launched on the market. The premiums are partially valued as a percentage of the congestion effectively recorded in 2016 and 2017 and partially as a percentage of the annual benefit expected in the previous day market. The total premiums are limited to a maximum of 150 million Euros in the five-year period of 2019-2023.

Concerning the mechanisms promoting the realisation of further transport capacity (network developments for the resolution of congestions inside the zones, of the network bonds for the regulation of the voltage and essentiality conditions), the Authority provided that, for the valuation of the relative premiums, their outputs must be assessed, considering the expected net benefit<sup>95</sup> and the variation, in decrease, of the dispatching costs, due to these actions.

### Protection measures for the electricity system

Please refer to the paragraph related to network security and reliability for the protection measures of the electricity system.

#### 3.1.3 Network tariffs for connection and access

##### Tariff regulation for transmission, distribution and metering services

As already reported in the previous editions of the Annual Report, in 2015 the Authority defined<sup>96</sup> the tariff regulation of the electricity transmission, distribution and metering services for the regulation period of 2016-2023, approving, in addition to the Integrated text of the provisions for the supply of electricity transmission and distribution services (TIT – Annex A) and the Integrated text of electricity metering (TIME) and the Integrated text of the economic conditions for the connection service supply (TIC – Annex C), effective from January 1st, 2016.

The duration of the regulatory period is divided into two sub-periods, each of four years (NPR1: 2016-2019 and NPR2: 2020-2023). Concerning the NPR1, the definition of incentive regulation schemes for the recognition of the operational costs is provided and rate-of-return type regulation schemes for the capital expenditures, in methodological continuity with the criteria adopted in the

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<sup>95</sup> Based on Annexe A of Resolution 627/2016/R/eel.

<sup>96</sup> Resolution 654/2015/R/eel of December 23rd, 2015.

previous regulation period. The annual reduction rate of the recognized unit costs has been fixed to:

- 1.0% for the transmission service;
- 1.9% for the distribution service (including the service marketing costs);
- 1.0% for the metering service;

Concerning the NPR2, the adoption of an approach for the total control of the expenditure is provided in a developmental way (*totex* approach).

The first guidelines in matters of *totex* were reported<sup>97</sup> by the Authority in October 2017. The first hypotheses were reported for the introduction of a new approach of incentive regulation based on the total control of the expenditure and on a *business plan* assessment proposed by the network operators in relation to the expected demand, system development requirements and expected output for the infrastructural services regulated by the electricity sector. Considerations on the purposes connected to the introduction of these models were proposed, and the main characteristics of this approach were described, for a deeper integration between the tariff and continuity regulation and service quality and the support for the innovation, according to the following *output-based* logics:

- focusing on the total expenditure, overcoming the current regime that considers the operational costs and the investments separately;
- *forward-looking* guidelines;
- application of a regulation menu.

The Authority has developed a plan of activities over several years, providing specific recognition and consultation phases and the creation of *ad hoc* working groups, to make the incentives of the tariff regulation consistent with the objectives of greater selectivity of investment, following the example of international regulatory *best practices*. More precisely, the main areas of study, that are preparatory to the development of a *totex* approach, are the following:

- *business plan*: the companies submit their own *business plans* to the regulators, in which they are required to explain to the NRA their assessment on the demand of the service. On the basis of the assessment investment choices are formulated, the pursued objectives are specified, and the most efficient solutions are defined, in order to reach these objectives. These activities are integrated with public debate procedures, in which the companies acquire the point of view of the stakeholders by means of public debate sessions;
- *cost assessment*: the regulator develops analysis tools to critically verify the expenditure forecasts formulated by the companies, with the estimation of a cost baseline;
- *incentives*: the regulator arranges incentives for service efficiency and quality, to direct company conduct;
- *management of the uncertainties and progress control*: the regulator must develop a physical and economic performance control system.

The first elements and delays for the activity plan have been defined in the consultation document, indicating the objectives, the tools and the main output for each development phase.

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<sup>97</sup> Document for consultation 683/2017/R/eel.

The first plan development phase has the objective of aligning the expectations and knowledge of the operators and *stakeholders* regarding the reform contents. Then comes the phase of *data gap analysis*, which involves the Authority and the operators directly and has the purpose to define the information requirements, needed for the development of the *totex* approach. Then comes the phase of localisation and definition of the regulation criteria, which will be adopted with the enforcement of the *totex* approach. Then there is the activation phase with the presentation, analysis and approval of the *business plan*. Last of all, there is the report phase for the control, monitoring and execution of the *business plan*.

Concerning the context of application, in the consultation document it is possible to foresee, in the fifth regulation period, the application of the *totex* approach to the national transmission manager and, for the distribution service, to guarantee a wide coverage of the national territory albeit limiting the number of interested parties.

### Tariffs for the transmission service

The Authority has defined<sup>98</sup> the tariffs for the supply of electricity transmission services for 2018, approving the tariff proposals introduced by the transmission system manager concerning the update, for 2018, of the reference revenues to cover the costs afferent to the transmission activity and of the costs incurred for the development of the dispatching activity. The Authority considers it appropriate to recognize the increase of the remuneration rate on the investments approved in August 2017<sup>99</sup> and that became effective in 2016.

### Tariffs for the distribution and metering services

Concerning the electricity distribution and metering services for the period 2016-2019, the Authority<sup>100</sup> has introduced differentiated capital expenditure acknowledgement methods between the companies with over 100.000 withdrawal points connected to their own networks and the companies that are placed under that threshold, to favour the aggregations among the small size distribution companies.

For the companies with over 100.000 withdrawal points, a continuity method is provided with the criteria adopted in the period of regulation 2012-2015, under the profile of the determination of operational costs and under the capital expenditures profile (individual investment acknowledgement regime).

Concerning the distribution companies that supply up to 100.000 withdrawal points, for the definition of the reference rates it has been provided that the cost acknowledgement mechanisms must be defined based on parametric criteria, regarding the distribution and metering services.

In continuity with the previous regulation period, the de-coupling of the tariff applied to the consumers (“mandatory tariff”) and the reference tariffs for the determination of constraints for the admitted revenues for each distribution company, have also been provided.

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<sup>98</sup> With the Resolution 883/2017/R/eel of December 21st, 2017.

<sup>99</sup> With the Resolution 579/2017/R/eel of August 3rd, 2017.

<sup>100</sup> With the Resolution 654/2015/R/eel of December 23rd, 2015.

Consistently with this regulatory framework, in December 2017, compulsory tariffs were approved, relating to the distribution and metering services for 2018 for non-domestic clients<sup>101</sup> and domestic clients<sup>102</sup>.

For the companies that supply over 100.000 withdrawal points, the temporary reference tariffs for the definition of the revenues related to 2017 have been determined<sup>103</sup> in April 2017.

Parametric<sup>104</sup> type tariff acknowledgement criteria were originally provided for the companies that supply up to 100.000 withdrawal points. Subsequently<sup>105</sup>, Law n. 124 of August 4th, 2017, established, among other things, that for the electricity distribution companies that supply less than 25.000 withdrawal points (excluding the companies benefitting from tariff integrations pursuant to article 7 of the Law n.10 of January 9th, 1991,) *“the methods of cost acknowledgement for the activities of distribution and metering of electricity are based on parametric logics, which also consider the density of the supplied users, in compliance with the general efficiency and economy principles and with the objective to guarantee the simplification of the regulation and the reduction of the connected administration costs”*.

In the light of the new provisions of the primary legislation, the Authority has issued a document for consultation<sup>106</sup> that includes further guidelines on the parametric recognition of costs and the initial guidelines on the promotion of aggregation, limiting the application of the parametric regime to companies that supply fewer than 25,000 withdrawal points. In the consultation, it was proposed that the parametric cost regime be introduced in 2017, with a progressive mechanism until 2019.

### Tariff provisions in matters of second generation 2G smart metering Systems

The regulation concerning the 2G smart metering systems has also been carried out with the definition of the regulation for the acknowledgement of the costs for low voltage electricity metering. In fact, following a wide range consultation<sup>107</sup> activity, the Authority defined<sup>108</sup> the criteria for the acknowledgement of the capital expenditures of the *2G smart metering* systems, based on incentive regulation schemes. These outlines are only applied to the capital expenditures for the three-year period of 2017-2019, while from 2020 on, the acknowledgement of the same expenditures will be based on an approach founded on the total expense (*totex*).

After the definition of the criteria for the costs acknowledgement on behalf of the Authority, the e-distribution company introduced the implementation program for the second-generation *smart metering* systems (2G), followed by public consultation activities, programme evaluation, its tariff impact and the emerged observations.

At the conclusion of the preliminary investigation, the Authority approved<sup>109</sup> the programme provided by e-distribution for the fifteen-year period of 2017-2031, fixing the effective date to January 1st, 2017. The total provided capital expenditure has turned out compatible with the substantial invariance of the metering service tariffs for the consumers. The Authority considered it

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<sup>101</sup> Resolution 882/2017/R/eel of December 21st, 2017.

<sup>102</sup> Resolution 907/2017/R/eel of December 27th, 2017.

<sup>103</sup> Resolution 286/2017/R/eel and 287/2017/R/eel of April 28th, 2017

<sup>104</sup> In the consultation document 428/2016/R/eel, distributed in relation to the procedures launched with Resolution of October 9th, 2014, 483/2017/R/eel, the first hypotheses in matters of the parametric acknowledgement of costs were defined by the Authority.

<sup>105</sup> In detail, art. 1, codicil 92, of the Law n. 124 of August 4th, 2017 modified art. 38 of the Legislative decree n. 93 of June 1st, 2011.

<sup>106</sup> Consultation document 580/2017/R/eel of August 7th, 2017.

<sup>107</sup> Consultation documents 267/2016/R/eel, and 457/2016/R/ee of May 26th, 2016

<sup>108</sup> Resolution 646/2016/R/eel of November 10th, 2016.

<sup>109</sup> Resolution 222/2017/R/eel.

appropriate to define further specific conditions, for the approval of the Programme, to protect the consumers and the efficiency of the service. In particular:

- with reference to the readings on the 2G meter display, the obligation to also show the readings of the totalizers of the previous month and to maintain these readings visible for at least 18 months from the date of replacement of the meter;
- the obligation of the possibility to request the verification of the replacement reading available for the consumer for 15 days;
- with reference to the direct communication of the data from the meter to the consumer, through appropriate devices (so called Chain 2), in the context of the engagement assumed by e-distribution to monitor its effective operation on field, the Authority has provided the obligation to include verifications of possible interferences in the communication between the meter and user devices, during the monitoring.

In consideration of the limited availability of the Chain 2 services, the incentives for the benefit of e-distribution have been frozen for 2017.

### Progressive review of domestic tariffs

Legislative Decree no. 102 of 4 July 2014, which transposed the EU Directive on Energy Efficiency, established<sup>110</sup> that the Authority had to adjust the components of the electricity tariff, in order to overcome both the progressive structure with regard to consumption (with the identification of service cost-based tariff components), and encourage virtuous behaviour and, finally, promote the achievement of the efficiency objectives. The Legislative Decree also requires that the Authority formulate proposals for the definition of any new criteria for determining expenditure compensations to be awarded to the financially disadvantaged sectors of the population (social *bonus*).

The *Annual Report 2016* described the steps of the process through which the Authority defined<sup>111</sup> the gradual path to be followed to complete the tariff reform, overcoming the current progressive tariff structure by 2018, following the gradual path defined in table 3.2.

**Table 3.2 Gradual approach for the domestic tariff reform**

Option G2	From January 1st, 2016	From January 1st, 2017	From January 1st, 2018
Network services	Reduced progression	New non-progressive structure	New non-progressive structure
Sales services	Same as 2015	New non-progressive structure	New non-progressive structure
General costs	Same as 2015	Transitory structure	New non-progressive structure
Subscribed Power	Data availability	Data availability	Data availability
		Size redefinition	Size redefinition
		Fixed costs decrease	Fixed costs decrease

Source: ARERA, Document for consultation 293/2015/R/eel.

<sup>110</sup> Article 11, codicil 3.

<sup>111</sup> Resolution 582/2015/R/eel of December 2nd, 2015.



As part of this three-year path, the first stage was implemented on 1 January 2016, with the redefinition of the tariff payments relating to network services (transmission, distribution and metering), in order to increase the fixed rates applied to customers with tariff D2 (residents with installed power not exceeding 3 kW) and to buffer the progressive structure of variable rates (expressed in c€/kWh).

The second stage of the reform was implemented<sup>112</sup> on 1 January 2017, including:

- the adoption of the trinomial and non-progressive regime structure (indicated as TD), for the tariff amounts for the network services (transmission, distribution and metering), to be applied to all domestic customers, regardless of their residence status;
- the redefinition of the amounts to cover the general system costs to buffer the progressive effect on consumption and to limit the number of different bands of annual consumption rates to two;
- phasing out the division of domestic customers into sub-types, maintaining only the difference between supplying applications in the place of residence of the customer (resident customers) or in places other than the place of residence (non-resident customers);
- a reduction in the progressiveness that had hitherto characterized the structure of the tariff component refunding the difference for marketing applied to all consumers entitled to the standard offer, aligning it to that applied for the amounts to cover general system costs;
- measures to assist end domestic customers in the optimization of their expenditure for the supply of electricity, through the identification of the contractually subscribed power level that most fits their needs (introduction of subscribed contractually installed power levels with a denser pitch and reduction of the costs associated with each operation of variation of this contractual aspect to 24 months, with effect from 1 April 2017).

On the basis of the programme outlined earlier<sup>113</sup>, the bracket structure was expected to be totally phased out by 1 January 2018. However, when reaching this date, the Authority realised the risk that electricity bills would include the combined effects of the final step of the tariff reform for domestic customers and those arising from new measures relating to the review of concessions for energy-intensive companies<sup>114</sup>. With a specific notice<sup>115</sup>, the Authority supplied an assessment of the entity of the aforesaid cumulative effects and highlighted that in order to ensure the compliance with the gradualness principle formulated in the Legislative Decree 102/14, the Government and Parliament could assess the opportunity to supply the Authority with Directives on the objectives to be privileged in consideration of the fact that, as already declared two years before<sup>116</sup>, it is not possible to define a fee structure adherent to the general costs, since these costs do not correspond to a specific service, but are used to cover the requirement of public policy revenues that are not covered by general taxation.

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<sup>112</sup> Resolution, 782/2016/R/eel of December 22nd, 2016

<sup>113</sup> Resolution 582/2015/R/eel

<sup>114</sup> See the following paragraph dedicated to "Subsidies for high electricity consuming companies".

<sup>115</sup> Notice for the Government and Parliament 733/2017/l/eel of November 2nd, 2017,

<sup>116</sup> Notice 292/2015/l/eel

This notice<sup>117</sup> stimulated a parliamentary debate at the X Productive Activities Commission of the Italian Chamber of Deputies, from which a request of in-depth studies and integrations was requested to the Authority, who supplied them in November 2017<sup>118</sup>. The debate in Commission was therefore concluded in December 2017 with the approval of three resolutions engaging the Government to assume initiatives finalized, among other things, to delay the completion of the tariff reform for the domestic clients for one year. In the same month, the Ministry of the Economic Development transmitted to the Authority the invitation to adopt initiatives for a delay of at least one year of the last phase of the domestic reform.

In the light of the indications received from the Government and Parliament, the Authority has therefore established<sup>119</sup> to:

- defer the implementation of the third and final stage of the reform to 1 January 2019, whilst maintaining the tariff structures applied to domestic customers in 2017 unchanged for 2018.
- the rates of the amounts to cover the general costs of the system were also defined in such a way that, over the course of 2018, the maintenance of differentiated rates between the two bands of consumption allows the attenuation, for domestic customers with low consumption, of the effects of the increase in the charges connected to the review of concessions for energy-intensive companies.
- extend for a further year, namely until the completion of the transition to the new tariff structure (1 January 2019), the applicability of the economic conditions dedicated to domestic customers who have subscribed to the experimental tariff system for heat pumps, in order to ensure the protection of their investments.

Concerning the actions for the optimization of the contractually engaged power level answering to the clients' requirements, after the first six months of application of the facilities in matter, the eight main distribution companies (representing 98% of all Italian domestic clients) were requested to supply detailed data related to the requests for power variations received between 1 April and 30 September 2017.

During the considered period, the recorded requests were close to 71,000 and they concerned approximately 0.25% of the domestic clients supplied by the same eight companies. Considering the sign and the entity of the requested power variations, it is first of all important to identify the net prevalence of the increases compared to the decreases: 5 requests on 6 are to increase the subscribed power (Table 3.3).

**Table 3.3 Summary of the data related to the number and the total entity of the power variations recorded in the six months that were monitored**

VARIATIONS	NUMBER	SHARE	kW
Positive	11,391	16%	-23,495
Negative	59,525	84%	115,458
<b>TOTAL</b>	<b>70,916</b>	<b>100%</b>	<b>91,963</b>

Source: ARERA.

Altogether the total power consumption has grown in six months to nearly 92 MW; this is an

<sup>117</sup> Notice 733/2017/I/eel

<sup>118</sup> Memory 805/2017/I/eel of November 30th, 2017,

<sup>119</sup> Resolution 867/2017/R/eel

important increase compared to the initial situation of the group of interested clients (+71%), but still imperceptible at the national level, as it represents less than 0.1% of the total power consumed by the Italian domestic sector (93.3 GW). Concerning the entity of the single power variations requested by the monitored domestic clients, there were few decrease requests of 0,5 kW (i.e. to go from 3 to 2.5 kW), while nearly half of the interested parties requested a power increase of 1.5 kW and over 20% of 3 kW.

### Reform of the general costs for non-domestic clients

During 2017 the investigation activities concerning the reform of the tariff components of the general costs of the electricity system for non-resident users, pursuant to Article 3, para. 2, letter b), of the Decree-law 210/15, whose effective date was defined to 1 January 2018 in Article 6, para. 9, of the Decree-law 244/16. These activities were coordinated in parallel with the procedure for the reform of concessions for energy-intensive companies<sup>120</sup>.

With decision C (2017) 3406 the European Commission has in fact approved the adjustment plan introduced by the Government in compliance with what is provided in paragraph 199, section 3.7.3, of the European Regulations for State Aid in the Energy and Environment sectors. This adjustment plan refers to Hypothesis “C” presented in the consultation activated by the Authority in May 2016<sup>121</sup>, as a new structure of the general system costs.

After the outcome of the consultation and taking into account what was provided in the decision of the European Commission C (2017) 3406, in June 2017, the Authority defined<sup>122</sup> the main and substantial characteristics of the new tariff structure of the general costs for non-domestic clients effective on 1 January 2018, providing that the new structure:

- is relative to the current components A2, A3, A4, A5, As, MCT, UC4 and UC7;
- the aforesaid components are grouped into two single groups: “general costs related to the support of renewable energies and co-generation” and “remaining general costs”;
- each of the two aforesaid groups has a trinomial structure: a single rate expressed in Euro cents/withdrawal point/year, a single rate expressed in Euro cents/kW/year and a single rate expressed in Euro cents/kWh;
- for the application of the rate expressed in Euro cents/kW/year, mentioned in the previous point, the relevant power notion is the one provided by the Integrated Transport Text for the application of network rates.

It has also been provided that the grouping relative to the support of the renewable energies and the co-generation can have a differentiated structure among the clients who do not benefit from the facilities provided for energy-intensive companies (non-benefiting clients) and facilitated clients, and, for the latter, per facility classification; and that the component that financed the facilities recognized to the clients, who will benefit for the whole of 2017 (component AE), be replaced (implicitly), from 2018 on, by the differences in the tariff levels of the cost grouping relative to the support of the renewable energies and co-generation (ASOS) that can be applied to the clients who benefit on one side, and to the non-benefiting clients (including domestic clients) on the other.

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<sup>120</sup> See the paragraph dedicated to “Subsidies for high electricity consuming companies”.

<sup>121</sup> Document for consultation 255/2016/R/eel.

<sup>122</sup> Resolution 481/2017/R/eel

The Authority has therefore established that the rates of the general costs and of the further components to apply to all the types of clients be distinguished in the following groups:

- “General costs relative to the support of the renewable energies and co-generation” ( $A_{SOS}$ ), differentiated in the application of the facility classifications, including non-benefiting clients (zero benefit);
- “Remaining general costs” ( $A_{RIM}$ );
- Equalisation components UC3 and UC6.

It was also established that the logic of the grouping of the various components of general charges described above also be applied to domestic customers, without prejudice to the different tariff structure applied to these customers for general charges.

In a subsequent consultation<sup>123</sup>, we discovered that there is a clear preference for the “C 25-75” hypothesis, which provides that the rates of the elements of the tariff component  $A_{SOS}$  can be defined as a linear combination of:

- rates defined by multiplying the sum of the rates (per input point, per kW and per kWh) of components TRAS, DIS, MIS, UC3 and UC6, by a multiplication coefficient, equal for all types of non-domestic clients, with the objective of collecting an amount equal to 25% of the total yield;
- a constant rate per supplied kWh and uniform for all types of non-domestic clients, with the objective of collecting an amount equal to the remaining 75% of the total yield.

This same hypothesis “C 25-75” provides that the rates of the elements of the  $A_{RIM}$  tariff components be defined by applying a multiplication coefficient to the sum of the rates of the TRAS, DIS, MIS, UC3 and UC6 components, equal for all types of non-domestic clients.

The Authority has made<sup>124</sup> the changes to the *Integrated Transport Text* concerning the tariff structure of the general costs of the system for non-domestic clients. These changes also take into account the provisions for the reform of the facilities for energy-intensive companies<sup>125</sup>, with the same effective date<sup>126</sup>. The structures of the  $A_{SOS}$  and  $A_{RIM}$  components have been defined with a dedicated provision<sup>127</sup>, always in application of Hypothesis “C 25-75”.

The Authority defined<sup>128</sup> the rates of tariff components  $A_{SOS}$ ,  $A_{RIM}$ , UC3 and UC6 starting from 1 January 2018, for both domestic and non-domestic users.

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<sup>123</sup> Document for consultation 552/2017/R/eel.

<sup>124</sup> Resolution 922/2017/R/eel

<sup>125</sup> Resolution 921/2017/R/eel

<sup>126</sup> See the following paragraph dedicated to “Subsidies for high electricity consuming companies”.

<sup>127</sup> Resolution 922/2017/R/eel

<sup>128</sup> Resolution 923/2017/R/eel

**Table 3.4 Tariff components A<sub>2</sub>, A<sub>3</sub>, A<sub>4</sub>, A<sub>5</sub>, UC<sub>4</sub>, UC<sub>7</sub> and MCT, per type of client**

Year 2017

TYPE	ENERGY WITHDRAWN		POWER		WITHDRAWAL POINTS		GENERAL COSTS	
	TWh	SHARE	GW	SHARE	NUMBER	SHARE	M€	SHARE
<b>DOMESTIC CLIENTS</b>								
Residents	50.14	18.99%	73.85	40.94%	23,276,300	64.01%	1,744.75	12.77%
Non residents	7.38	2.80%	19.46	10.79%	5,993,673	16.48%	1,008.98	7.39%
<b>TOTAL DOMESTIC</b>	<b>57.53</b>	<b>21.78%</b>	<b>93.32</b>	<b>51.73%</b>	<b>29,269,973</b>	<b>80.49%</b>	<b>2,753.73</b>	<b>20.16%</b>
<b>NON DOMESTIC CLIENTS</b>								
Clients for public lighting (BT and MT)	5.69	2.15%	n.d.	n.d.	n.d.	n.d.	335.13	2.45%
Non domestic clients BT (excluding public lighting)	68.66	26.00%	52.15	28.91%	6,993,981	19.23%	4,892.24	35.82%
MT clients (excluding public lighting)	93.68	35.47%	25.17	13.95%	101,028	0.28%	4,693.41	34.36%
AT/AAT clients (including railway traction consumption)	38.53	14.59%	9.76	5.41%	1,118	0.00%	983.31	7.20%
<b>TOTAL NON DOMESTIC</b>	<b>206.55</b>	<b>78.22%</b>	<b>87.07</b>	<b>48.27%</b>	<b>7,096,127</b>	<b>19.51%</b>	<b>10,904.09</b>	<b>79.84%</b>
<b>TOTAL</b>	<b>264.08</b>	<b>100.00%</b>	<b>180.39</b>	<b>100.00%</b>	<b>36,366,101</b>	<b>100.00%</b>	<b>13,657.81</b>	<b>100.00%</b>

Source: ARERA processing on CSEA and GSE sources.

In table 3.4 one can find the amounts of withdrawn energy, per type of customers, the number of withdrawal points and the power used, as well as the amount of general costs at the aggregate level, referring to year 2017.

### Status of the incentives for renewable and assimilated sources

In 2017 the costs inherent to the incentives for the production from renewable sources had a significant decrease compared to the previous year. The Authority therefore diminished<sup>129</sup> the tariff component A<sub>3</sub>, fixing it at a level that covers the competent costs of the same year and the residual costs of the previous years.

In the first months of 2017 a favourable financial situation emerged for the A<sub>3</sub> account due to the effect of the payment modes established by the GSE for the incentives pursuant to Article 24, para. 5, letter b), of Legislative Decree 28/11 (as put into effect by Article 19 of the Inter-ministry Decree of 6 July 2012), different from the comprehensive all-inclusive output standing charge.

The Authority consequently lowered<sup>130</sup> the tariff component A<sub>3</sub> even lower, foreseeing a level that, in absence of modifications of the regulation or the costs to be covered, should allow the substantial stability of the component in the short-medium term.

<sup>129</sup> Resolution 814/2016/R/com.

<sup>130</sup> Resolution 200/2017/R/com.

**Table 3.5 Details of A<sub>3</sub> costs**

COMPETENCE COSTS	2016		2017 <sup>(A)</sup>	
	VALUE	share%	VALUE	share%
Renewable electric power trading CIP6	267	1.9	232	1.6
Withdrawal of green certifications	2,062	14.3	137	1.1
Conversion of CV (Green Certification) in incentives	3,320	23.0	3,217	25.7
Photovoltaic	5,981	41.4	6,353	50.8
Dedicated withdrawal	49	0.3	18	0.1
All-inclusive rate	1,940	13.4	1,810	14.5
Exchange on spot	181	1.3	139	1.1
Incentives managed by FER	305	2.1	394	3.2
Other	1	0.01	1	0.01
<b>TOTAL RENEWABLES</b>	<b>14,106</b>	<b>97.7</b>	<b>12,301</b>	<b>98.4</b>
Assimilated electric power trading CIP6	272	1.9	180	1.4
Assimilated CO <sub>2</sub> costs	36	0.2	24	0.2
Assimilated green certification covering	14	0,1	0	0.0
Costs deriving from the resolution of CIP6	9	0.1	0	0.0
<b>TOTAL ASSIMILATED</b>	<b>331</b>	<b>2.3</b>	<b>204</b>	<b>1.6</b>
<b>TOTAL COSTS A<sub>3</sub></b>	<b>14,437</b>	<b>100.0</b>	<b>12,505</b>	<b>100.0</b>

(A) Preliminary data.

Source: ARERA processing on GSE data.

### Subsidies for energy-intensive companies

Article 39, para. 3, of Decree-law n. 83 of 22 June 2012, as modified by the conversion law n. 134, of 7 August 2012, provides subsidies for energy-intensive companies, to be put into effect according to the criteria established by the Authority.

During 2017, in compliance with what was provided in paragraph 199 of the “Guidelines on State aid for environmental protection and energy 2014-2020”, of which in the Communication 2014/C 200/01 (hereinafter: Guide Lines), the European Commission approved the upgrading plan introduced by the Italian Government, with decision C (2017) 3406, for the period preceding 1 January 2018, that provides a gradual regulation to ensure each company with high electricity consumption with the payment of the minimum contribution provided by the costs for the support of renewable sources and co-generation of the Cip 6/92 mechanism.

The decision of the European Commission C (2017) 3406 provides (see points 62 and 66 of the decision):

- a minimum contribution equal to the lowest value between 15% of the theoretical contribution to the costs of the so called “A3\* perimeter” (defined in point 37, letter a, of the decision) and 0.5% of the gross value added for the companies with high energy consumption operating in the sectors of Annexes 3 and 5 of the Guidelines and characterized by an index of energetic intensity compared to the gross value added, calculated as indicated in Annexe 4 of the Guide Lines (hereinafter: *electro-intensity*) higher than 20%;
- a minimum contribution equal to the lower value between 15% of the theoretical contribution to the costs of the A3\* perimeter and 4% of the gross value added for the companies with high



energy consumption operating in the sectors of Annexe 3 and characterized by an *electro-intensity* index lower than 20%;

- a minimum contribution equal to 20% of the theoretical contribution to the costs of the A3\* perimeter for the companies with high energy consumption not operating in the recalled sectors of Annexes 3 and 5 of the Guidelines, but included in the high energy consuming companies lists in the years 2013 and 2014, in application of the “*grandfathering clause*” (see paragraph 3.7.2 of the Guidelines), that is for the companies with high energy consumption operating in the sectors of Annexe 5 and characterized by an *electro-intensity* index lower than 20%;
- a minimum contribution equal to 100% of the theoretical contribution to the costs of the A3\* perimeter for the companies that are not part of the categories of the previous points from i) to iii);
- the application of a coefficient % of the minimum contribution requested for the support to the renewable sources, as defined in the previous points, that changes annually in application of the curve of progressive adjustment found in paragraph 197 of the Guidelines, as shown in table 3.6.

In particular, pursuant to point (67) of decision C (2017) 3406, the energy-intensive companies that, have not guaranteed payment of the minimum contribution to the charges for renewable sources and co-generation (hereinafter: companies in overcompensation situations) since 2011, must pay all unpaid sums (even through the reduction of subsidies not yet issued), in order to comply with the payment of the minimum contribution foreseen by the regulation Plan for each year.

**Table 3.6 Progressive regulation curve: coefficient of the minimal contribution.**

YEAR	% OF THE MINIMUM REQUIRED CONTRIBUTION
2011	5%
2012	10%
2013	15%
2014	20%
2015	30%
2016	45%
2017	60%

Source: Regulation Programme approved with decision C (2017) 3406 of the European Commission.

Following the decision C (2017) 3406 of the European Commission, the Authority has made provisions<sup>131</sup> to the Equalisation Fund of the Energetic and Environmental Services (CSEA) in matters of facilities in favour of the high electricity consumption companies, referring to 2015 and to the definitive regulation of the competences for 2013 and 2014, with the exception of the companies that are in overcompensation conditions; preliminary investigations for the assessment of the overcompensation have been established in the first instance for the period from 2011 to 2014, and subsequently for year 2015. Subsequently the Authority issued<sup>132</sup> provisions to the Energy and Environmental Services Fund (CSEA) for the recovery of sums corresponding to the overcompensation established for the period 2011 to 2014. The Authority has also made provisions<sup>133</sup> to the CSEA for the opening of the on-line portal for the collection of the declarations

<sup>131</sup> Resolution 507/2017/R/eel of July 6th, 2017,

<sup>132</sup> Resolution 14/2018/R/eel of January 18th, 2018,

<sup>133</sup> Resolution 655/2017/R/eel of September 28th, 2017,

attesting the effective subsistence of characterising requirements for energy-intensive companies for year 2016, foreseeing the use of the methods already provided for 2015<sup>134</sup>.

**Table 3.7 Assessment of the subsidies for energy-intensive companies for 2014 and 2015 and contribution of the non-energy intensive companies to the collection of the Ae component for the financing of these subsidies**

	MILLIONS OF EUROS (COMPETENCES)		ENERGY (TWh/YEAR)	
	2014	2015	2014	2015
<b>FACILITIES</b>				
Energy consuming companies MT	-308.2	-324.4	24.2	24.4
Energy consuming companies AT/AAT	-288.9	-292.4	27.8	28.1
<b>TOTAL FACILITIES</b>	<b>-597.1</b>	<b>-616.9</b>	<b>52.1</b>	<b>52.5</b>
<b>Ae CONTRIBUTION (NOT ENERGY CONSUMING)</b>				
Domestic BT	201.5	168.6	58.8	59.9
Non domestic BT	297.4	261.3	63.6	67.9
IP (BT and MT)	26,4	21.8	6.1	6.1
Non energy consuming MT	270,5	223.6	69.5	69.9
Non energy consuming AT	5,7	13.2	5.7	8.5
<b>TOTAL CONTRIBUTIONS</b>	<b>801,5</b>	<b>688.6</b>	<b>203.7</b>	<b>212.3</b>

Source: CSEA/Authority. The data may be party to variations following the on-going monitoring at the CSEA.

Table 3,7 shows the estimation of the amount of the subsidies for energy-intensive companies for 2014 and 2015 and the collected yield of the tariff component Ae that pays for these facilities. The data relative to the facilities for 2016 are currently being verified by the CSEA.

In October 2017, the Fund created an Internet portal to update the list of energy-intensive companies for 2016, as provided by the Authority<sup>135</sup>.

In December 2017, in compliance with what was provided in Article 19, para. 2, of Law 167/17, the Minister of Economic Development adopted the Decree with the “Provisions in matter of rate decreases to cover the general costs of the system for energy consuming companies”. This Decree was created to reorder the system of the facilities for energy consuming companies in order to harmonize it with Community provisions in the matter, effective from 1 January 2018.

The implementation of the new subsidies mechanism for energy-intensive companies was regulated by dedicated provisions defined by the Authority at the end of 2017<sup>136</sup>, consistent with the established tariff structure of the new groupings of the general costs of the electricity system<sup>137</sup>. These provisions contain<sup>138</sup> the indications for CSEA (Equalisation Fund for the Energetic and Environmental Services), valid for the transitory period (the first application period in 2018) and for the regime situation, with reference to the data collection, for the preparation of the lists of companies with high electricity consumption, for the allocation to these companies of the several classes of facilities and the control of the data for the verification of the company requirements. For the allocation of the single withdrawal point to the facility band and in order to make easier the

<sup>134</sup> Resolutions 801/2016/R/eel, 81/2017/R/eel and 134/2017/R/eel

<sup>135</sup> Resolution 655/2017/R/eel

<sup>136</sup> Resolution 921/2017/R/eel

<sup>137</sup> Resolution 481/2017/R/eel, as described in paragraph “costs reform for non domestic clients”.

<sup>138</sup> Annexe A of Resolution 921/2017/R/eel

activities of the distributing companies and the vendors, it has been provided that the relative data of the facility bands be transmitted to the Integrated Information System (SII), that links each VAT number of the high energy consuming companies with the relative consumption points (POD).

Finally, in consideration of the presence of consumption units that can be part of the high energy consuming companies of the Closed Distribution Systems (SDC) and of Other Simple Production and Consumption Systems (ASSPC), the dedicated update has been requested for the Integrated Text of the Closed Distribution Systems (TISDC) and the Integrated Text of Simple Production and Consumption Systems (TISSPC). In particular the calculation criterion of the tariff components to cover the general costs were defined, that must be applied corresponding to the connection points to the public network, taking into account the eventual presence of high energy consumption companies.

### Costs connected to residual nuclear activities (A<sub>2</sub>)

2016 saw the end of the second regulatory period, outlined in 2013<sup>139</sup>, which established the criteria for the recognition of the charges resulting from the decommissioning of divested nuclear power stations, closing the fuel cycle and related and consequent activities. Sogin has requested a delay of 1 year for the preparation of a new program and the application of a transitory regime for 2017.

The Authority has provided<sup>140</sup> an extension of the existing 2016 regulation to 2017 and has estimated the nuclear charges for the same year, hoping "...that this year will be dedicated to laying the foundations for the presentation of a Full-Life Programme that marks a definitive change".

The Authority subsequently recognised<sup>141</sup> the final nuclear costs for 2016 and updated the *milestones* for 2017. The advancing of the *decommissioning* activities of 2016 was lower than the three previous years, interrupting the positive trend recorded in the same years. In relation to the slowing down of the decommissioning activities, as well as the release of the financial resources for the decrease of the tariff component A<sub>2</sub> of Article 5, para. 2, of the Law by Decree 69/13, the Authority had already adjusted a decrease of the tariff component A<sub>2</sub>, to a level (effective from 1 January 2017) equal to approximately one third of what was provided in the first quarter of 2016. This level was maintained unchanged for the whole of 2017.

In November 2017 Sogin transmitted the new whole life program of the nuclear order. This program is now in the analysis phase in the offices of the Authority.

There are no records of significant progress, during 2017, of the process for the realisation of the National Radioactive Waste Repository.

### Exclusion of cross-transfers between sector activities

The obligation of administrative and accounting unbundling for the companies operating in the sectors of electricity and natural gas power has been introduced, among others, to exclude that the companies operating in the electrical and natural gas sectors carry out resource cross-transfers between the different sector activities. During 2017 the Authority concluded a procedure in matters of the obligation of the unbundling of functions and book keeping, with which the violation of the

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<sup>139</sup> Resolution 194/2013/R/eel

<sup>140</sup> Resolution 381/2017/R/eel

<sup>141</sup> Resolution 442/2017/R/eel

relative regulation on behalf of a company operating in the distribution of electricity and natural gas, has been defined and sanctioned<sup>142</sup>.

#### 3.1.4 Cross-border issues

##### Investments in new infrastructures and consistency with the EC development programs

Art. 26 of Law n. 115, of 29 July 2015, *Provisions for the fulfilment of the requirements deriving from Italy belonging to the European Union (European Law 2014)*, has modified the Legislative Decree n. 93, of 1 June 2011, of reception of the Third energy package, reinforcing the powers of the Authority and its independence from the Ministry of Economic Development.

The Manager is required to transmit the Plan to the Ministry of Economic Development and to the Authority annually, in matters of the ten-year electricity network development plan, who submits it to the consultation of effective and potential network users, publicly reporting the results of the consultation itself. To review and survey the execution of the Plan, the Authority also assesses if it contemplates all the requirements in matters of investments, defined during the consultation procedure, and if it is coherent with the ten-year non-binding network development Plan on a European level. The Authority must transmit the outcome of its evaluation to the Ministry at the end of this process.

In December 2017 the Authority supplied and published<sup>143</sup> its own evaluation on the scheme for the ten-year development plan of the national transmission network.

This evaluation follows the consultation procedure, held from the beginning of May to the end of July 2017, which also provided the organization of public debate sessions, held on 17 July 2017 in the Authority offices. The well-consolidated public seminary debate method (preceded by questions by the interested parties, to which Terna gave answers and observations during the seminary) has been integrated, for the first time, with afternoon thematic sessions that concerned two specific aspects:

- integration of the developmental scenes in matters of energy: the activities in progress in Europe and their reflection on the Italian activities;
- focus on the congestions between the South and North of the Country: identification of the expected criticalities and planning of the relative developments.

In its assessment, as well as highlighting the innovative nature of the draft of the Development Plan 2017, especially in relation to the implementation of the new cost-benefit analysis methods (so-called CBA 2.0) and making recommendations for future improvements, the Authority released its nihil obstat to the approval of the draft of the 2017 Development Plan by the Minister for Economic Development, provided that:

- concerning the Sa.Co.I.3 Sardinia - Corsica - Continental Italy , the French contribution, as provided by Terna, be adequately assessed, to reduce the costs for the national electricity system, as well as the possible European contributions that would seem necessary for the

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<sup>142</sup> Resolution 40/2017/R/eel

<sup>143</sup> Resolution 862/2017/R/eel of December 14th, 2017,

positive externalities of the intervention in matters of security of the supply for the insular electricity systems in Corsica and Sardinia and the innovations for the European system;

- the interconnection operation Italy - Tunisia be confirmed “in assessment”, in order to favour the development of a more complete informative framework that will emphasize the benefit for each involved Country in view of a consequential allocation of the related development costs, as well as the evidence of its usefulness not only for the Italian electricity system, but more generally for the entire European system, therefore investing profiles that must be managed in the relative European office;
- the possible installation of diffused storage systems, in addition to the experimental 35 MW approved in the development Plan of 2011, be confirmed “in assessment” as the decision on this intervention cannot be given before the completion of the experimental phase, the verification of the outcomes of these experiments and the appropriate costs-benefits analysis that demonstrates their usefulness for the Italian electricity system;
- the sixteen acquisition proposals of network portions owned by the producers and related insertion in the RTN, be removed from the Plan outline, to be re-proposed in subsequent development Plan outlines, with the provided information.

The Authority has decided that Terna must carry out a cost-benefit analysis of only the second pole of the interconnection between Italy and Montenegro and transmit a publishable document to the Authority, with the hypotheses and results of this cost-benefits analysis, within 30 April 2018.

The Authority has assessed the coherence between the national transmission ten-year network development plan and the development plan of the Community *Ten Year Network Development* (TYNDP) in two circumstances:

- in the formulation of its own contribution to the Opinion of ACER No. No. 08/2017 of 3 April 2017 on the electricity projects of the national development plans and in the TYNDP 2016;
- in the preparatory phase of the above-mentioned assessment of the national transmission network development plan (Resolution 862/2017/R/eel).

The main elements of attention in the comparison between the outline of Plan 2017 and the TYNDP 2016 concerned the estimation of investment costs for the Italian system related to two cross-border plans: the Sa.Co.I.3 Sardinia - Corsica - Continental Italy intervention and the Italy - Tunisia interconnection intervention. These elements contributed to the specific conditions formulated to the Ministry of the Economic Development for the subsequent approval phase of the 2017 Plan outline.

### **Integration of the electricity markets - Implementation of the European Regulations**

#### ***European regulations for the electricity market***

The European regulations for the electricity market, also identified as network codes or guidelines, are regulatory and technical measures that serve to complete the domestic energy market. The (EC) 714/2009 Regulation, for the electric power market of the so called Third Package, has defined its areas of intervention and indicated the development and approval procedures that ended in 2017.

Informally, the network codes and guidelines can be grouped into three main families: market, connection and network management. The complete list is reported in table 3.8.

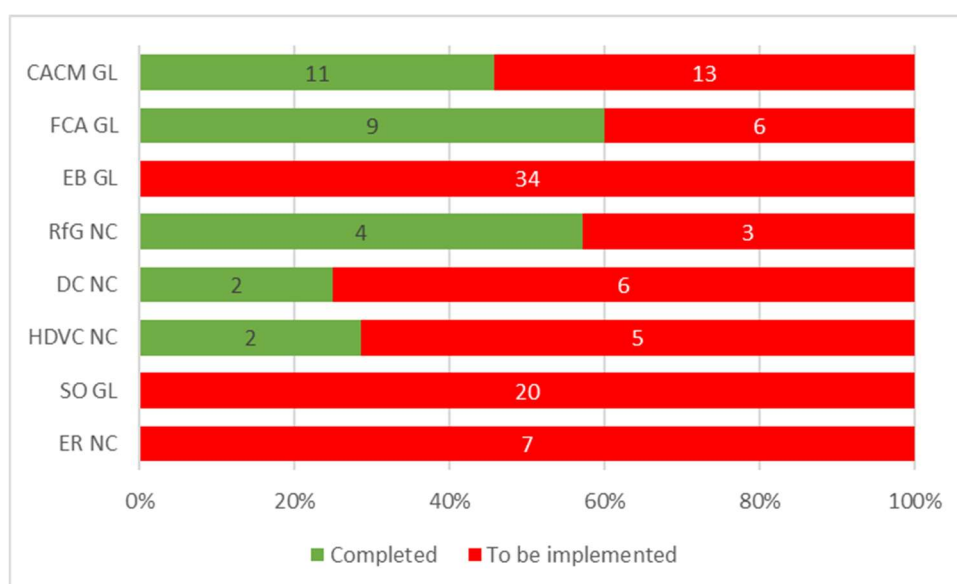
The implementation status of the guidelines and network codes at the end of 2017 is summarised in figure 3.1. where we can notice that, if some activities have been completed (in green), many others will engage the Authority in the years to come. Precisely, the values reported in the histograms quantify the number of different national implementation procedures of the several forecasts contained in the Regulations.

**Table 3.8 Network Codes and guidelines provided by the Regulation (EC) 714/2019**

CODE	REGULATION	ABBREVIATION (ACRONYM)	EFFECTIVE DATE
Market code	(EU) 2015/1222	Capacity allocation and congestion management guideline (CACM GL)	August 15th, 2015
	(EU) 2016/1719	Forward capacity allocation guideline (FCA GL)	October 17th, 2016
	(EU) 2017/2195	Electricity balancing guideline (EB GL)	December 18th, 2017
Connection code	(EU) 2016/631	Requirements for generators network code (RfG NC)	May 17th, 2016
	(EU) 2016/1388	Demand connection network code (DCC)	September 7th, 2017
	(EU) 2016/1447	High voltage direct current network code (HVDC NC)	September 28th, 2016
Network management codes	(EU) 2017/1485	System operation guideline (SO GL)	September 14th, 2017
	(EU) 2017/2196	Emergency and restoration network code (ER NC)	December 18th, 2017

Source: ARERA.

**Figure 3.1 Implementation status of the forecasts of network codes and guidelines in Italy**



Source: ARERA.



In the above reported Regulations directory, the “network code” and “guideline” signal words appear. The substantial difference between these two categories refers to the fact that the network codes identify the directly implementable regulations on a national level while the guidelines provide the subsequent elaboration of a series of implementing provisions, called *Terms and Conditions* (TC) or *Methods* (M). This means that the publication of the Regulations does not comply with the secondary regulation development and publication activities. On the contrary, every Regulation in the form of guidelines, provides the internal elaboration of specific regulations (“methods”) published by TSO and/or NEMO (the energy stock market) that the regulators of each member State are called to assess and approve. The elaboration process of the “methods” began in 2015 with reference to the CACM GL Regulations to then be extended to the other guidelines between 2016 (FCA GL) and 2017 (SO GL, EB GL). For example, in Figure 3.1 one can understand that 6 of the 15 “methods” provided within the framework of the FCA Regulations have yet to be completed.

### **Regional and European decision procedures**

The geographic context of adoption of the methods (approximately one hundred) can be of regional or national Pan-European nature, depending on the cases.

The decisions concerning the methods occur in a context called *Electricity Regulatory Forum* (ERF) to which all the regulators of the European Union participate with ballot right, and inside which the Norwegian regulator and ACER are admitted in quality of observers, but not the European Commission.

Decisions within the ERF must be taken unanimously. This could involve the agreement to approve the proposal, in which case each regulator transposes the method proposal in its own national law. However, unanimity could also mean that all the competent regulators agree to request amendments to the proposals (*Request for Amendments*, RfA), to their respective TSO and/or NEMO. In this case each regulator also receives the decision of the ERF on a national level and consequently instructs TSO and/or NEMO, respectively TERNA and GME in Italy, to review the proposal.

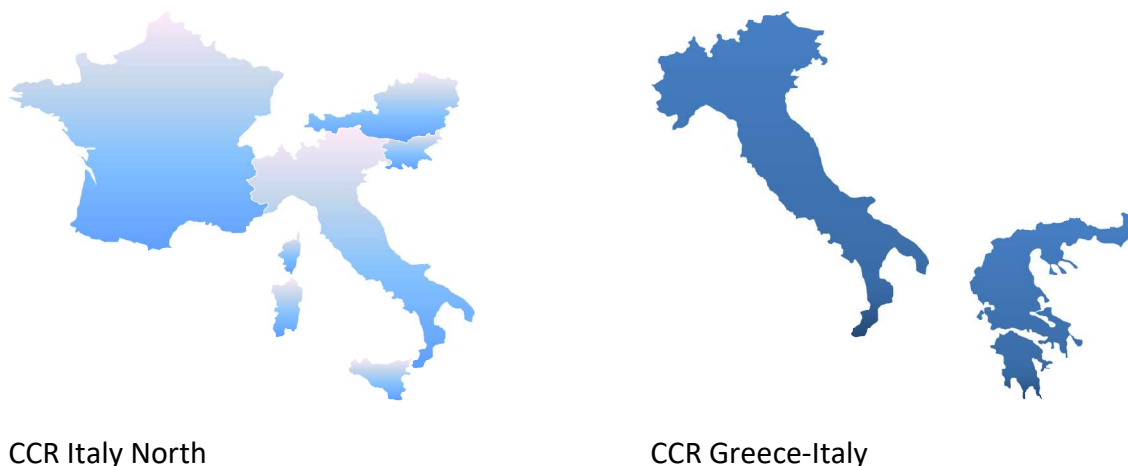
If unanimity is not reached, the TC or M proposal is transferred to ACER which, after having consulted the concerned parties, finalizes the text and submits it to the Board of Regulators (BoR) for approval. The approval is reached, in this case, with the qualified majority of two thirds (one head, one ballot).

In terms of duration, according to the Regulations, this kind of procedure could take up to a maximum of twenty-two months. Even longer procedures have actually occurred in past.

Concerning the regional approval methods, the application of the geographical context changes depending on the specific Regulations.

**For the CACM and FCA regulations, the so-called capacity calculation regions (CCR) have been identified and approved by ACER with the decision 06/2016: Italy is part of the CCR Italy North considering the border with France, Slovenia and Austria and of the CCR Greece-Italy considering the borders with Greece and the borders between the zones inside the national territory (**

Figure 3.2).

**Figure 3.2 Italy North Region**

The SO GL Regulations provide certain methods related to the capacity calculation regions, while other methods must be approved inside each synchronous area, coinciding with the portion of the European network that shares the same frequency.

The EB GL regulations operate with highly variable geometry depending on the involved method: it goes from perimeters that include only the Member States that are meant to use balancing produced data, to perimeters coinciding with the regions for the capacity calculation, to perimeters that consider the agreements for the exchange of specific resources.

### Integration of the electricity markets - Market codes

#### **Forward capacity allocation (FCA)**

The FCA Regulation lays down the requirements that must be met by the long-term transmission rights granted at European level, together with the terms of allocation.

Over the course of 2017, following the decisions taken in ERF, the Authority approved the methods for the exchange of data relating to the generation and the load needed to prepare the European<sup>144</sup> network model and the requirements for the establishment of the single allocation platform and the subdivision of the related costs<sup>145</sup>. The Authority also participated in the process of approval of the harmonised rules for the allocation of long-term transmission rights, which was concluded with Decision 03/2017 adopted by ACER, following the unreached agreement of the regulators in ERF.

At a regional level, the Authority approved the proposals for the types of long-term transmission<sup>146</sup> rights and for the specific allocation rules to be applied on the borders with Austria, Slovenia, France and Greece<sup>147</sup>, with prior unanimous agreement in the corresponding regional forums.

Lastly, always according to the FCA regulations, the Authority adopted certain provisions inherent with the long-term transmission rights related to the borders between the zones inside the national

<sup>144</sup> Resolution 766/2017/R/eel.

<sup>145</sup> Resolution 685/2017/R/eel.

<sup>146</sup> Resolution 701/2017/R/eel and 703/2017/R/eel.

<sup>147</sup> Resolution 699/2017/R/eel and 702/2017/R/eel.

territory<sup>148</sup>.

### **Capacity allocation and congestion management (CACM)**

Within the framework of the implementation of the CACM Regulations, the Authority was mainly involved in the assessment, undertaken jointly with other European regulators, of the different methods that TSO and NEMO are called upon to develop the creation of integrated European markets with a *single day ahead and intraday coupling forecast period*.

In particular all the European regulators have jointly requested changes to the method related to the exchangeable products in the markets<sup>149</sup> and to the backup procedures that NEMO must provide in case of malfunction of the day ahead<sup>150</sup> market.

Approval was granted for the method of the performance of the *Market Coupling Operator*<sup>151</sup>, which represents the backbone of the operation of the future integrated European market and the method relating to the common network model that the TSOs are called upon to create in order to be able to proceed with a joint and harmonised calculation of the different inter-zone capacities to be made available on the market.

In addition to the implementation of the different methods, the CACM Regulations also govern the review methods of the configuration of the supply areas at European, regional (CCR) and national levels. In particular, Article 32 of the aforesaid regulations defines the several phases of the procedure (from the identification of the alternative zone configuration to the current one, to the related assessments governed by the TSO involved in the process), while Article 33 indicates the minimum criteria (security of the exercise, market impact, strength of the zone configuration in time) that must all be considered during the review.

The zone configuration currently in force in Italy dates back to 2012. Initially, its validity was limited to 2014, it was then extended by the Authority many times, at first to avoid overlapping the implementation of the *market coupling* on the borders with France and Austria (2015) and subsequently in order to allow Terna to adapt the review modes of the zone configuration to the provisions introduced with the CACM Regulations (2016, 2017 and 2018). The Authority led a preparatory activity with Terna, in parallel, to acquire information on the alternative zone configurations and on the analysis method that would be used for the next assessments. The work, launched in 2016<sup>152</sup> and continued in 2017<sup>153</sup>, ended in the beginning of 2018, when the Authority formally<sup>154</sup> launched the zone reviews according to Article 32, para. 1, letter d), of the CACM Regulations (launching that was disposed on a national basis and limited to the internal zones with negligible impact on the adjacent country zones).

### **Balancing Regulations (BAL)**

The European Regulation 2195/2017 that established guidelines for the balancing of the electricity system (*Balancing Regulation*) became effective on 18 December 2017, therefore the work flow that leads to the adoption of the methods of implementation of the guidelines at the national level is expected for 2018 and the following years. However, in the course of 2017, the Authority participated continuously in the special *task forces* of the regulators, communicating with the work

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<sup>148</sup> Resolution 333/2017/R/eel, that followed the Consultation document 110/2017/R/eel,

<sup>149</sup> Resolution 599/2017/R/eel.

<sup>150</sup> Resolution 600/2017/R/eel.

<sup>151</sup> Resolution 467/2017/R/eel.

<sup>152</sup> Resolution 461/2016/R/eel.

<sup>153</sup> Resolution 496/2017/R/eel.

<sup>154</sup> Resolution 22/2018/R/eel.

groups of the association of TSOs (ENTSO-E), who have long been involved in implementation projects that will lead to the formal definition of the required methods pursuant to the *Balancing Regulation*. Among these, the Authority coordinates as co-leader, on behalf of the regulators, the activities with the TSOs related with the valuation of the imbalance and the *settlement* between TSOs. The Authority has long been involved in the TERRE project, a pilot project recognised as a reference for the implementation of the European exchange platform of the replacement reserve (*Replacement Reserve*, in the nomenclature of the Balancing Regulations). During 2017 the Authority also participated in the so-called *Implementation Group* of the reference projects for the implementation of the European platforms (fig. 3) and contributed to the drafting of the *opinion papers* in response to the public consultations of the TERRE and MARI projects in particular, along with the other regulators, in which Italy, with its own TSO Terna, participates as a *full member*. The engagement of the Authority on these technical tables is to guarantee a secure consistency between the European integration procedures and the national dispatching regulations, in order to obtain maximum benefit from the harmonisation, without prejudicing the efficiency of its own market model.

### **Integration with Switzerland**

In the context of implementation of the European regulations, the management of the relations with Switzerland is the main point of attention: as we all know, Switzerland is not part of the European Union, however, because of its central geographical position, it plays an important role for the market transactions and regarding the system security. This is why the Swiss regulator participates as an observer to the Northern Italy CCR works on one side, and coordinates with the Authority for the definition of the specific interaction methods between the Swiss and Italian electricity systems on the other. In this context, over the course of 2017, the specific rules of allocation of long-term transmission rights on the border with Switzerland<sup>155</sup> were approved, as well as the rules of allocation of single day and intraday capacity<sup>156</sup>: these rules are also shared, for single day capacity, with the border with Greece for which *market coupling* has not yet been implemented pursuant to CACM Regulations, and for intraday capacity, on the border with Austria and France, pending the implementation of single *intraday coupling* at the European level.

### **International coordination**

Finally, in 2017, the Authority increased its commitment on an international level, reinforcing multilateral and bilateral communication and institutional cooperation and collaboration with European and international institutions to help remove the obstacles that prevent or slow down the sharing of common rules on energy. The Authority has also promoted initiatives to strengthen its role as reference regulator in the Balkans and in the Mediterranean basin, which are geographical areas of primary importance for the Italian energy system due to the increase in new investments in energy infrastructures foreseen for the coming years.

### **Energy market of the Countries of South-Eastern Europe**

Considering the new European movement in favour of the energetic integration of the western Balkans, in 2017 we assisted to the renewed momentum after the Berlin<sup>157</sup> *Balkans Western 6 (WB6)*

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<sup>155</sup> Resolution 764/2017/R/eel.

<sup>156</sup> Resolution 765/2017/R/eel.

<sup>157</sup> Launched with the Western Balkan States Conference on August 28th, 2014 in Berlin, the *Berlin Process* (indicated as the *Western Balkan 6 Process-WB6*) is a diplomatic initiative of inter-governmental cooperation, promoted by the German Chancellor, Angela Merkel, for the future adoption of the Countries of the Balkan region in the European Union.

process, which, among the many objectives, wants to favour the development of *electricity day ahead market coupling* in the six Countries of the western Balkans (Albania, Bosnia and Herzegovina, Macedonia, Kosovo, Montenegro and Serbia).

In particular, the involved Countries have agreed to certain soft measures to be placed in order to favour the development of the regional market, that provide the removal of the legislative and regulatory barriers and the strengthening of the existing institutional structures for the market function, in line with the principles of the *acquis communautaire*.

During 2017 Terna (network operator for the electricity transmission), GME (Energy markets manager) and, subsequently, also the Ministry of Economic Development, subscribed the Memorandum of Understanding (MoU) to which the energy ministers, the regulators, the TSOs and the Power Exchanges of the Countries that are part of the Western Balkans, had already joined in 2016, (the Authority had already joined in 2016). The MoU is not legally binding, but it refers to future binding agreements for the parties; the final objective consists in the integration of the WB6 Countries markets with the markets of the Member States of the European Union that joined the *Multi-Regional Coupling* (MRC) project, in which Italy is included.

In 2017 the *Energy Community Regulatory Board* (ECRB) strengthened its consolidated monitoring activity of the correct implementation of the *acquis communautaire* in the *Contracting Parties*. For this reason, a *report* on the *enforcement* powers of the regulators of the Countries of the *Energy Community* was drafted, to assess their ability to impose sanctions and restrictions in case of violations of requirements and measures provided by the third energy package.

For this reason, the *Permanent High-Level Group* formally adopted some of the main European Network Codes and Guidelines<sup>158</sup>, that will also be implemented by the Contracting Parties, integrating the existing *acquis* in matters of gas and electricity and that will allow the Countries of the Balkans to keep up with the European developments in matters of energy.

Meanwhile the ECRB worked on the review of the balancing models in the electricity sector, on the changes of the gas transport tariffs and the *interoperability* rules and on the localisation of measures to contain system losses. There have been more relevant efforts made to promote actions of support to the development of the consumer's *empowerment* activities, with the strengthening of the *dispute settlement resolutions* and the informative awareness campaigns.

Finally, on 1 July 2017, the *Energy Community* borders were extended to Georgia, whose regulator (GNERC) was elected new President of the ECRB *Board* in the month of December, for the following two years.

The ECRB has continued its collaboration with other international organisations, such as MEDREG, with which it organised the combined work groups on consumers, in Vienna, last 22 February, that dealt with parties related to *complaint handling, dispute settlement and customer awareness*.

Concerning the activity carried out in the context of Electric power Working Group (EWG), the Authority continued its coordination engagement of Task Force 1 - Wholesale Market Opening on the liberalisation of wholesale electric power markets in the Balkan region. In particular, the

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<sup>158</sup> Guideline on Congestion Management Procedures for gas;  
Commission Regulation 2015/703 of 30 April 2015 establishing a Network Code on Interoperability and Data Exchange;  
Commission Regulation 2016/631 establishing a Network Code on requirements for grid connection of generators in the Energy Community;  
Commission Regulation 2016/1447 of 26 August 2016 establishing a network code on requirements for grid connection of high voltage direct current systems and direct current-connected power park modules in the Energy Community;  
Commission Regulation 2016/1338 of 17 August 2016 establishing a Network Code on Demand Connection in the Energy Community.

Authority updated the Balkan regulators, with respect to the execution of the (EU) 1222/2015 Regulations, in matters of allocation of the capacity and congestion management (CACM) and has stimulated the adoption of anticipated implementation measures of this Regulation also between the *Contracting Parties*. In the reunion of 4 October 2017, the regulators meeting in ECRB approved the *Recommendation on Harmonising Cross-Border Transmission Capacity Calculation and the Electricity Balancing Report*. In the subsequent reunion of December 20th, 2017, the ECRB approved the *Monitoring Report on South-East Europe Electricity Market and the Electricity Transparency Report*.

***Know Exchange Programme (KEP) Project “Central European Initiatives (CEI) Support for Strengthening Energy Regulatory Authorities in the Western Balkans”***

In the context of the activities related to the Western Balkans area, the Central European Initiative - InCE<sup>159</sup> project, part of the InCe /BERS Program (European Bank for reconstruction and development) of technical cooperation - *Know-How Exchange Programme (KEP)* in favour of the regulators of Albania, Montenegro and Serbia, was proposed to the Authority by the Ministry of Foreign Affairs and International Cooperation (MAECI) and the international Organization. The Authority proposed to focus the project on the implementation of *market coupling* mechanisms in the Balkans Countries, in order to favour the creation of a regional electricity market and its integration with the unique European market. These actions are part of the *Western Balkans 6 Process* framework.

In the first months of 2017 several bilateral meetings were held in Albania, Serbia and Montenegro, between the representatives of the Authority and the representatives of the Balkan regulators, during which the proposal of the integration project for the wholesale electricity markets was illustrated.

Subsequently, in May 2017 the Authority organised a meeting with the representatives of the regulators, of the Stock Markets, the TSOs of Albania, Italy, Montenegro and Serbia, in Rome, in order to define the project implementation guidelines and to discuss, in a preliminary way, the market coupling mechanisms to be applied at the borders of these four Countries. During this reunion the Stock Markets and the TSOs of the area decided to compose a specific work group (AIMS - Albania, Italy, Montenegro and Serbia), that created a *Term of Reference*, sent to the regulators at the end of 2017, to obtain the support that will allow the integration of the electricity markets in the Balkans.

The Authority approved its own participation in the *KEP Know Exchange Programme - CEI - Central European Initiative Support for Strengthening Energy Regulatory Authority in the Western Balkans* project with the Resolution 547/2017/A of July 27th, 2017, which will be focused on the transfer of knowledge to the regulatory Authorities of Albania, Montenegro and Serbia. The project provides the organization of 4 thematic *workshops*, that will be held in rotation, in the involved Countries.

The Authority will manage the coordination of project activities with the technical Secretariat of InCE, and, in collaboration with GME and TERNA, will implement the *capacity building* activities for the four technical *workshops*.

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<sup>159</sup> L'InCE is an inter-governmental *Forum* of regional cooperation that represents an opportunity to acquire community standards for the adhering non-European Countries that are part of the Balkan area. There are currently 18 members among which ten are part of the European Union and eight are non-European.



The first workshop was held in Rome on 26 January 2018 and it focused on the basic principles for the implementation of the *market coupling* mechanisms in the beneficiary Countries. The second one was held in Tirana on 21 March 2018 and it focused on the *pre-coupling* mechanisms.

All the project activities are geared to develop the appropriate technical capacities related to the integration process and the functioning of the electricity markets, in order to obtain a better valuation of the TSOs and Stock Markets proposals involved in the *coupling* project.

### **Energy market in the Mediterranean Countries**

During 2017, the Authority maintained its own international engagement constant in the context of the Mediterranean basin, in particular through MEDREG (*Mediterranean Energy Regulators*), of which it is founder and promoter.

The 23rd MEDREG General Assembly took place on 24 May 2017 and was hosted by the Greek regulator (*Regulatory Authority for Energy - RAE*). The main technical documents elaborated by the work groups and the new communication strategy aiming at consolidating the reputation and *accountability* of the Association, were approved during this meeting.

In Larnaca, on 29 November 2017, the Cypriot regulator (*Cyprus Energy Regulatory Authority - CERA*) hosted the 24th General Assembly. Account was given concerning the main activities to favour the integration of the electricity markets during this encounter, among which the new version of the *Mediterranean Electricity Market Observatory Report (MEMO)*, which includes the main updates related to the level of integration of the regional and sub-regional markets of the Mediterranean.

For the natural gas sector, the mandate to verify and enable the creation of an Association of *Gas System Operators (GSOs)* of the Mediterranean area was given to the MEDREG Secretariat, following the indications supplied during the General Assembly of Athens, contributing to the up-start of the cooperation among the gas operators of the Mediterranean. The gas transport operators could support the exchange of information, facilitate the integration of the Mediterranean gas systems and favour the security of the supply in the region with this platform. For this reason, the representatives of the transport networks of Defa (Cyprus), Desfa (Greece), Empl-Metragaz (Morocco), Enagas (Spain), GRTgaz (France), Ingi (Israel), Jordanian Egyptian, Fajr (Jordan), Plinacro (Croatia), Plinovodi (Slovenia), REN (Portugal), SNAM (Italy) and The Energy and Water Agency - Government of Malta (Malta), gathered in Milan, on 1 February 2018.

MEDREG organized a *workshop on European rules for interconnections*, in Tunis in December 2017, upon request from the Tunisian Ministry of energy, in order to review the state of the art of the interconnections inside the Mediterranean and the management of the cross-border interconnections, with particular reference to the cases of the European PCIs (*Project of Common Interest*). The representatives of the regulators of (CRE-France and ARERA-Italy) and of the European TSOs (Terna-Italy and REE-Spain), of the MED-TSO (*Mediterranean System Operators*), of financial institutions (*World Bank*) and of the European Commission, participated in the *training*.

A new financing - *Grant Contract* - between the European Commission and MEDREG was subscribed for a period of two years (2018-2019) in December 2017, in view of the expiration of the European Commission *service contract* that financed the association from 1 October 2013 to 31 December 2017.

The Authority also continued to guarantee its own support to the MEDREG Secretariat during 2017, extending the hospitality agreement until 31 December 2019. The following is highlighted:

- the *Electricity Working Group (ELE WG)*, co-chaired by the French (CRE) and Algerian (CREG) regulators, with the Greek regulator (RAE) as vice-president, has seen the participation of the

Authority, during 2017, mainly concerning the work for the relations with the Mediterranean network managers association, MED-TSO. In particular, the regulators and the network managers launched a cooperation activity to define the general principles and the methods for the allocation of risks and costs that are connected to the investment in capacity projects for the cross-border interconnection (*Cross Border Cost Allocation*). The Italian Authority also contributed to the Report of the Observatory on the Mediterranean market of electricity (MEMO) that is in its completion phase.

- The Renewable Sources Working Group (RES WG), co-chaired by the Spanish (CNMC) and Egyptian (EgyptERA) regulators, with the vice-presidency of the Cypriot regulator (CERA), concentrated its work on the elaboration of the new *Benchmarking Report* for 2017, related to the use of renewable energy sources in the Mediterranean Countries and to the activities carried out jointly with the electricity group on the development of smart grids in the Mediterranean.
- The Consumers Working Group (CUS WG), co-chaired by the Jordanian (EMRC) and Maltese (REWS) regulators, with the vice-presidency of the Algerian regulator (CREG), elaborated the study on the Best practices to enhance consumer engagement, that offers qualitative information and concrete examples of consumer involvement, beyond the role of the consumers associations. The MEDREG members selected several case studies and examples, starting from the more relevant and interesting criticalities raised in the Survey on Consumers Associations. The group also worked on the dispute settlement methods applied in the member Countries; a combined work group between ECRB and MEDREG was carried out on February 22nd, 2018 to compare the practices regarding the Mediterranean and Balkans.

The energy platforms activities promoted by the European Commission, continued during 2017, in the MEDREG context, as illustrated below.

- **Electricity platform.** The Authority is an active member of MEDREG, which has continued to collaborate with Med-TSO in the context of the work program that concerns the implementation of the European-Mediterranean platform for the Regional Electricity Market Platform (REM) of the electricity sector. MEDREG completed the Mediterranean Regulatory Outlook, which will contribute to offer a complete view of the regulating frameworks of the MEDREG Countries, while Med-TSO is finalising the study on the state of the art of the interconnection lines in the Mediterranean. Finally, MEDREG is supporting the Med-TSO in the activity to define the criteria for the management of the allocation of the cross-border capacity of the electric interconnections in the Mediterranean, by offering regulatory information. In the context of the activities of the REM platform, the Union for the Mediterranean (UfM) Energy and Climate Business Forum was held in Cairo, on 18 October 2017. This Forum gathered the representatives of the governments, companies and financial sector in order to define the cooperation opportunities and mechanisms for an energetic transition with a special focus on renewable energies. MEDREG informed on the current and main energetic challenges in the Countries of the Mediterranean, during the annual meeting held on 31 January 2018, with particular reference to the investment possibilities in renewable energy sources.
- **Platform for the Renewable Sources and Energy Efficiency.** This platform intends to promote the measures to contrast climate change that are simultaneously able to contribute to the region's social-economic development, creating new jobs and guaranteeing a safe and reliable access to energy resources. Among the initiatives conducted during 2017, we can find an extended program of capacity building, of data sharing and of experiences in the implementation of green economy development programs, of creation of a network of experts and for

investment promotions and incentives. RECREEE (Regional Centre for Renewable Energy and Energy Efficiency) and MEDENER (Mediterranean Association of the National Agencies for Energy Conservation) are the main hosts of the platform. MEDREG has planned a workshop with the latter organization, in Brussels, on 23 November 2017, titled: *Regulators and Agencies for Energy Conservation, to work hand in hand towards regional cooperation and sustainable energy transition*.

### ***Cooperation in the context of the Organization for Cooperation and Economic Development (OCSE): Network of Economic Regulators (NER)***

In 2017, the Authority was nominated member of the *Board of the Network of Economic Regulators (NER)*. One of the main activities to which the NER was dedicated was the review of the *governance* of the regulators. Using the PAFER (Performance Assessment for Economic Regulators) method, developed by the NER, a high level task force, in which the Authority was also represented, in consultation with the OCSE Secretariat, analysed the governance of four regulators under the profile of their role and assigned objectives, the availability of human and financial resources, the internal processes to guarantee an efficient management and quality of regulation and the assessment methods for the performances of the regulator and competence sectors, proposing suggestions and recommendations to overcome some of the criticalities that were found.

Another important debated topic was the update of the regulation indicators (OECD *Product Regulation Market indicators*), with which the regulating processes and certain aspects of the governance of the regulators are measured, for example independence, *accountability*, roles and objectives. A new approach was introduced for consumer protection, to increase customer satisfaction and to implement an efficient dispute settlement mechanism, and a new project on the utilisation of these techniques in order to promote security in the use of energy carriers. The theme of the definition of the principles of correct interface between regulators and stakeholders was then dealt with. Certain criticalities that needed to be reviewed emerged during a public consultation, such as the definition of *stakeholder*, public confrontation as an integrated part of the regulation process, coordinated and systematic interface of the first phases of the regulation development.

Finally, to conclude the work carried out on the independence of the regulators that began last year, the *Creating a Culture of Independence* final report was introduced: *Practical Guidance against Undue Influence*, which offers practical indications to guarantee the true independence of the regulators. The recommendations are proposed in the form of checklists that are divided into five arguments (role clarity, transparency and *accountability*, financial autonomy, *Board* independence and conduct of the resources) related to internal and external *governance*.

The OCSE Secretariat organised two seminars with the Club des Régulateurs, at the Paris Dauphine University, parallel to the NER meetings: one was on regional cooperation between regulators and the other on the relation between independent regulators and administrative judges.

#### **3.1.5 Compliance**

During this last year, no legally binding decision from the Agency or the Commission was adopted, to be implemented by the Authority according to Article 37.1.d) of the 72/2009/CE Directive. Concerning Regulator competences and powers, according to the enforced regulations, please refer to what has been reported in the 2013 Annual Report and the regulatory innovations reported in paragraph 2.

## 3.2 Promoting competition

### 3.2.1 Wholesale markets

Table 3.9 shows the electricity balance sheet in Italy in 2017 compared with that of the previous year (Source: Terna).

The electricity demand has increased after the decline of the previous year. In fact, as compared to 2016, there was an increase of 2.2%, due to climatic effects and economic recovery. Demand was met by national production, which rose by 2%, covering, as in 2016, a share of 89% of the total national demand. Compared to the previous year, there was a decrease in imported electricity (-0.7%) and exported electricity (-16.6%), with a balance of energy traded with foreign countries up by 2.0%. Imports decreased from France, essentially due to the unavailability of the French nuclear power plants that was protracted for the first half of 2017, in the same way as imports from Slovenia, whilst flows from Switzerland increased.

**Table 3.9 Balance of the electricity in Italy in 2016 and 2017, by Terna**

TWh

	2016	2017	VARIATION
Gross production	289.8	295.8	2.1%
Auxiliary services	10,1	10.6	5.2%
<b>Net production</b>	<b>279,7</b>	<b>285.3</b>	<b>2.0%</b>
Received from foreign suppliers	43,2	42.9	-0.7%
Sold to foreign clients	6,2	5.1	-16.6%
Destined to pumping	2,5	2.5	0,4%
<b>Availability for consumption</b>	<b>314,3</b>	<b>320.5</b>	<b>2.2%</b>

Source: ARERA processing on Terna data.

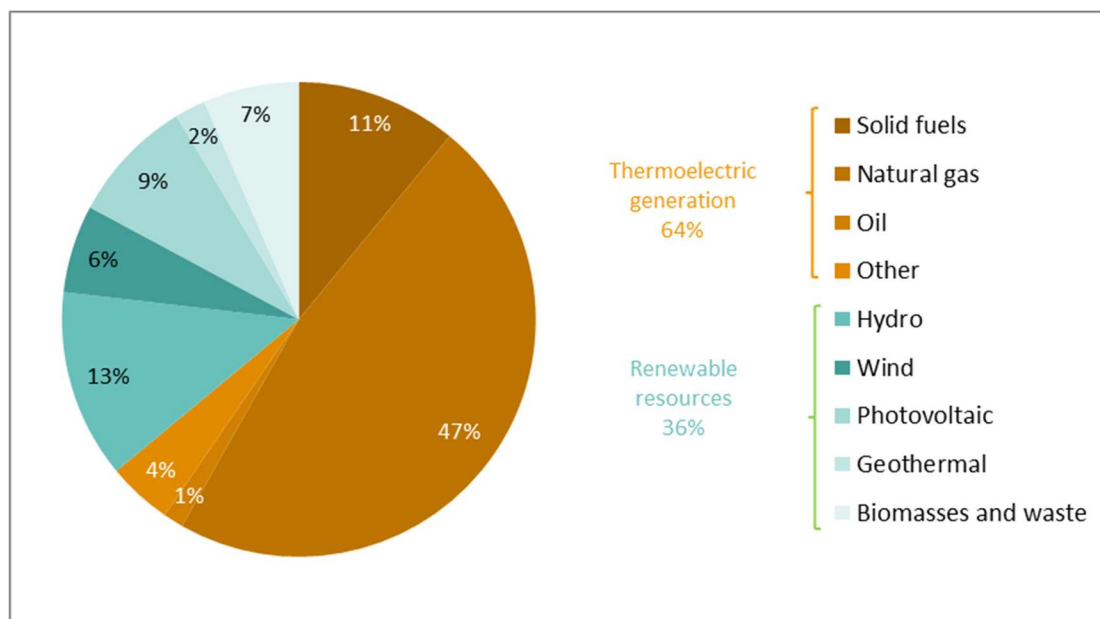
After years of continuous decrease, gross national production grew for the third consecutive year, rising from 289.8 TWh in 2016 to 295.5 TWh in 2017 (+2.1%).

Thermoelectric production was almost entirely responsible for this increase, growing by approximately 5% compared to the previous year. As in 2016, natural gas saw the most marked increase (+10.5%), whilst there was a significant decrease for all the other energy sources, especially in the case of solid fuels (-9%) and other combustibles fuels (-7.4%). The decrease related to oil products was smaller (-1.7%), compared to the use of other sources, and relatively to the previous year, when a decrease of 26.6% was recorded compared to 2015.

Production from renewable energy resources decreased by 3.3%, with a significant drop in hydroelectric production (-14.8%) due to poor water resources. According to studies of the National Research Council, 2017 was the year in which rainfall reached the historical minimum of the last two centuries. The decrease of hydroelectric production was partially compensated by the increase of 14% of photovoltaic production. The wind energy production is substantially stable, whereas the geothermal and the biomass and waste productions are both slightly decreasing.

Because of these dynamics, in 2017 the gas source guaranteed nearly half (47%) of the gross production (Figure 3.3), a share that had not been recorded since 2009, after years of continuous decrease and a previous recovery already recorded in 2016.

Figure 3.3 Gross production by source in 2017



Source: Terna, provisional data.

Table 3.10 Development of the wholesale market

YEAR	REQUEST <sup>(A)</sup> (TWh)	HIGHEST DEMAND (GW)	NET INSTALLED CAPACITY (GW)	CORPORATE GROUPS WITH share>5% IN THE NET GENERATION	share% OF THE FIRST 3 GROUPS OF THE NET GENERATION
2001	304.8	52.0	76.2	4	70.7
2002	310.7	52.6	76.6	3	66.7
2003	320.7	53.4	78.2	4	65.9
2004	325.4	53.6	81.5	5	64.4
2005	330.4	55.0	85.5	5	59.4
2006	337.5	55.6	89.8	5	57.1
2007	339.9	56.8	93.6	5	54.7
2008	339.5	55.3	98.6	5	52.0
2009	320.3	51.9	101.4	5	50.6
2010	326.2	56.4	106.9	5	48.2
2011	332.3	56.5	118.4	4	43.6
2012	325.5	54.1	124.2	3	41.2
2013	316.0	53.9	124.7	3	39.1
2014	308.2	51.6	121.8	3	41.2
2015	315.0	60.5	118.3	3	40.1
2016	311.8	56.1	114.2	4	43.9
2017 <sup>(B)</sup>	318.0	56.6	113.9	5	45.2

(A) Net of the energy destined to the pumping and the network gross losses.

(B) Provisional data.

Source: ARERA processing on Terna data and Annual surveys on regulated sectors.

In terms of share of the total production from renewable energy, between 2016 and 2017 the hydroelectric production recorded a decrease (from 38.6% to 35.7%) in favour of the photovoltaic



(from 20.1% to 23.7%) and of the wind (passing from 16.1% to 16.6%), while the other sources remain substantially constant.

With the exception of Enel and Engie, whose market share decreased slightly (-1.6% and -0.8% respectively), all of the other corporate groups recorded practically stable or increased market shares compared to the previous year. This situation concerns the groups for which the thermo-electric generation share is predominant, (for example the EPH group, increasing from 3.5% to 5.5% of the gross generation, the Eni group, from 9.1% to 9.6%, Tirreno Power, from 2.0% to 2.4% and Sorgenia, from 1.5% to 2.2%) or that have been acquiring on several markets (for example the A2A group, that went from 5.3% to 6.3% of the total gross generation in the two reference years). The Herfindahl-Hirschman Index (HHI) on gross generation, equal to 686, showed a decrease compared to 2016, when it stood at 718. The Czech group Energeticky a Prumislavy Holding (EPH) (Table 3.10) entered the list of corporate groups with at least 5% of net generation in 2017.

As we can see, the electricity requirement recorded an increase of 2%, compared to 2016, going from 314 TWh in 2016, to 320 TWh (Table 3.9). The share of domestic demand covered by the foreign balance remained unchanged at 11.8% like in 2016, because it also grew by 2% compared to the previous year, having risen to 37.8 TWh from the 37 TWh of 2016. The increase of the foreign balance is due to a slight import decrease (-0.7%), that remained at 42,9 TWh in 2017, and was followed by an exportation decrease (-16.6%) of approximately one Terawatt-hour compared to 2016. The exports decreased to 5,1 TWh from the 6.1 TWh recorded in the previous year. More precisely, the imports remained more or less at the same level as 2016, but we imported less electric power from France (-2%), compared to that year, basically because of the closure of the French nuclear power stations that went on until the first half of 2017, and from Slovenia (-8%), while the flows from Switzerland increased by 3%.

In 2017 Switzerland remained the country from which the greater part of our foreign balance (54%) arrived. Another 34% of the net imported electricity came from France, and 15% from Slovenia. Only 3% came from Austria. *Market coupling* has been operative towards these three countries (Slovenia, France and Austria) for a long time.

In 2017 the total net power remained stable at 114 GW (Table 3.10), which is divided in 45% of renewable energy and 55% of thermo-electric, while the net available capacity (for at least 50% of the hours) was equal to 94.3 GW. The summer peak demand occurred in the month of August, when the power requirements reached 56,6 GW (56.1 GW in 2016), while the winter peak was equal to 54 GW (53.2 GW in 2016). The data of the summer and winter peaks in 2017 remained lower than the absolute maximum peak for the Italian electricity system, recorded in the summer of 2015 (equal to 60.5 GW).

With reference to the installed net capacity, there are four groups with a market share higher than 5%: Enel (24.3%), A2A (7.9%), Edison (5.6%) and Eni (5%). The percentage of capacity reached by the first three groups is of 37.8%, in slight decrease, compared to 2016 (38.3%). The HHI index related to the installed net capacity outlines a slight decrease of the market concentration; the value of 2017 is equal to 755, when it was equal to 761 in the previous year.

Concerning the net available capacity (for at least 50% of the hours), in 2017 the operators with a market share higher than 5% were also 4, like in 2016: Enel (28.1%), A2A (8.9%), Edison (6.1%) and Eni (5.7%). On the basis of this data, the percentage of capacity reached by the first three operators is equal to 43%. The HHI index related to the available net capacity with reference to 2017 is equal to 994, having increased compared to 2016 (967).



Concerning the corporate structure of production operators that participated in the survey of 2017<sup>160</sup>, they are mainly held by natural person (69.3%), therefore by different companies (22.3%) and public entities (4.8%). We therefore confirm what was already highlighted in the past years relatively to the further increase of companies held by physical people (51.6% in 2015, 56.5% in 2016), while that of the two other types of partners decreased (from 34.1% in 2015, to 30.6% in 2016 for the different companies and from 5.3% in 2015, to 5.0% in 2016 for the public corporations). Relatively to the origin of the partners who hold shares of the share capital of the same parties we can observe that they are substantially Italian, since a bare 2.3% are from foreign countries, while the same share was 6.6% in 2016.

In Italy there are many promotion mechanisms for energy production systems powered by renewable energy sources. In particular there are: *feed in tariff*<sup>161</sup> type tariff incentives, and *feed in premium*<sup>162</sup> type incentive tools. The incentive tools enabled incentives to be applied to a quantity of electricity that stood at around 65 TWh in 2017, just under 65.6 TWh in 2016, with a cost that decreased by 1.5 billion Euros in 2017 (from 13.6 billion to 12.1 billion Euro).

With the disappearance of the green certificate mechanism, the costs deriving from the incentive of renewable sources is generally covered with the  $A_{SOS}$  tariff component. This component also allows the special trade regime distribution (guaranteed minimum prices and on-site exchange) and the distribution of the incentive tools provided for co-generation according to provision Cip 6/92 and for the co-generation systems combined with the district-heating powered by non-renewable sources (limited to the incentives replacing the green certificates).

### The structure of the electricity market

The Energy Markets Operator (GME) works to manage the energy markets, divided into Spot Energy Market (MPE) – articulated in the Day Ahead Market (MGP), the Intra-day Market (ME) and in the Dispatching Services Market (MSD) – and electricity Forward Electricity Market (MTE) which requires the mandatory physical delivery of the electrical energy.

In February 2015 the *Multi-Regional Coupling* (MRC) was launched on the northern Italian border with France, Austria and Slovenia. The MRC is a market coupling process that introduces implicit auction models to replace the daily explicit auctions, coordinating the allocation of the capacity and the sale of the energy, therefore facilitating the integration of several markets thanks to an excellent exploitation of the interconnection capacity (*Net Transfer Capacity* – NTC) and the cancellation of uneconomical flows<sup>163</sup>. Currently, the explicit auctions remain for the allocation of part of the capacity, on a monthly and annual basis.

Starting on 1 February 2017, two new sessions were created on the MI: the MI6 and the MI7. In fact, until 2016 the MI was composed of five sessions (MI1, MI2, MI3, MI4, MI5), structured for

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<sup>160</sup> Here, as in all the volume, the quotes are calculated without weighting and refer to the direct participation of the single shareholders of the share capital of the producers, without considering any indirect participation.

<sup>161</sup> *Feed in tariff* means that the incentive recognised for the electrical energy input in the network includes the sale of electricity and is no longer available for the producer. The electrical energy input into the network is withdrawn at a price that includes the incentive.

<sup>162</sup> *Feed in premium* means that the incentive recognised for the electrical energy produced doesn't include the sale of electrical energy that is still available for the producer.

<sup>163</sup> Hours in which the flow goes from the more expensive area to the least expensive one, being in the opposite direction to the one that the price differential would suggest.

balanced price auctions where, unlike the MGP, the offers for sale and those for purchase were assessed according to the zone price<sup>164</sup>.

After the integration of the *spot* markets (MGP and MI) in the European coupling projects, the reduction of payment deadlines became necessary, from two months to a week, so that the GME could face the financial requirements needed to repay the cross-border payments, every two days. The Daily products Market (MPEG) was established from 29 September 2016, considering the request made by many operators to continue to negotiate daily products, maintaining the payment to two months following the month of exchange, where all the operators of the electricity market can negotiate daily contracts of different profiles in a continuous mode (*baseload and peak load*). Now the operators can offer volumes with prices expressed only as differentials with respect to the effective average PUN for the delivery date of the product being traded.

The GME also manages the platform for the physical delivery of the financial contracts concluded on the IDEX (platform for the Delivery of energy derivatives – CDE), segment of the derivatives market of the Italian Stock Exchange for the negotiation of financial "futures" contracts on energy and collects the offers on the Dispatching Service Market (MSD) managed by Terna. In fact, in November 2008, the Italian Stock Exchange launched the Italian Electricity Derivatives Market (IDEX), dedicated to the negotiation of financial derivative tools, with the underlying PUN. The GME therefore stipulated an agreement of collaboration with the Italian Stock Exchange, to allow the operators participating in both markets, to regulate the financial contracts concluded on the IDEX, by means of physical delivery.

The operators can sell and buy energy not only through the organized market of GME, but also by stipulating sales/purchase contracts concluded outside the supply system. Starting from May 2007 the PCE was made effective, introducing high flexibility for the operators in the optimization of their own contract portfolio in the medium-long period. The quantities contained in the bilateral term contracts are recorded on the PCE (generally negotiated on brokerage platforms) and the quantities negotiated on the CDE platform, relatively to which operator has requested to exercise the option of physical delivery on the electricity market contained in the contract itself.

### Stock exchange negotiation and bilateral negotiation

**In 2017, the amount of electricity traded in the Italian System increased, in particular in the first half of the year, reaching the highest level of the last five years, equal to 292 TWh (+1.1% compared to 2016)**  
(

Table 3.11). Conflicting dynamics still occur in the single zones: the purchases of the central-northern zones increased (North +2.5%, Centre-North +4.7%) and those of the southern zone decreased (- 9.9%). A replacement of the hydroelectric generation by the combined cycle systems has occurred nearly everywhere, in particular in the North (-12.3%), with a consequential rise of their variable costs. The volumes traded on the Power Exchange reached 211 TWh (+4.3%), the highest level recorded since 2010, supported in sales by national and foreign non-institutional operators (+6.6%) and in purchase by the Single Buyer (+26.6%), which for the first time in recent years met more than 90% of its demand in the Power Exchange. Programmes deriving from the registration of bilateral *over-the-counter* trade on the PCE decreased again (81 TWh, -6.2%), at their historic low (Table 3.12).

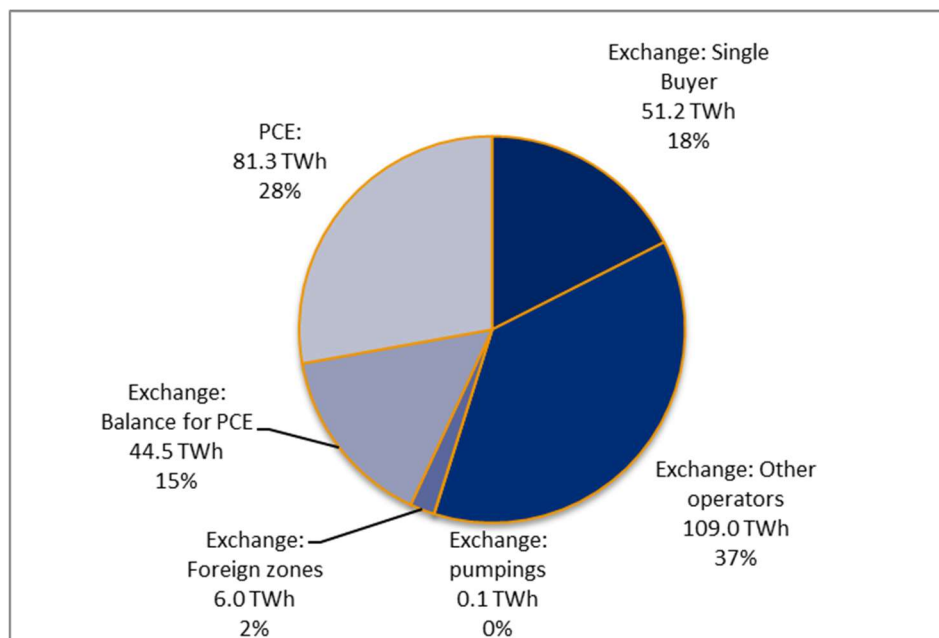
<sup>164</sup> When someone buys he must pay the "non-arbitrage fee", which corresponds to the differential between the zonally price of the MI and the PUN, by paying the PUN downstream from this payment.

**Table 3.11 Electricity market**

TWh

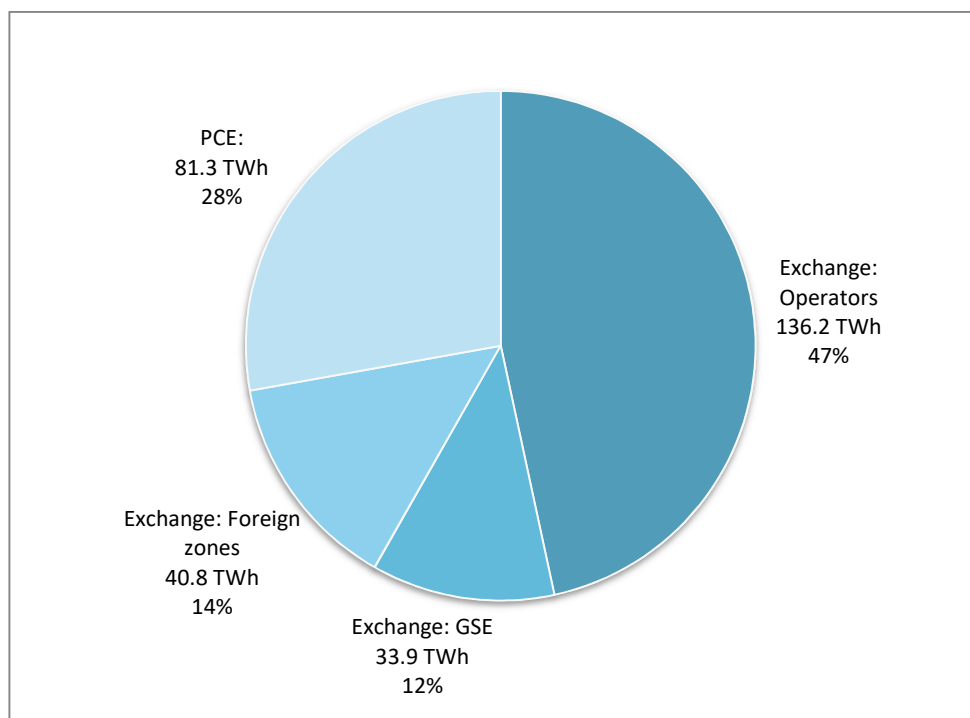
YEAR	NEGOTIATIONS ON THE MGP		
	Total	of which the Power Exchange	Of which bilateral
2004	231.6	67.3	164.3
2005	323.2	203.0	120.2
2006	329.8	196.5	133.3
2007	330.0	221.3	108.7
2008	337.0	232.6	104.3
2009	313.4	213.0	100.4
2010	318.6	199.5	119.1
2011	311.5	180.4	131.1
2012	298.7	178.7	120.0
2013	289.2	206.9	82.3
2014	282.0	185.8	96.1
2015	287.1	194.6	92.5
2016	289.7	202.8	86.9
2017	292.2	210.9	81.3

Source: ARERA processing on GME data.

**Figure 3.4 Composition of the request for electricity in 2017**

Source: ARERA processing on GSE data.

Figure 3.5 Composition of the demand for electricity in 2017



Source: ARERA processing on GSE data.

Table 3.12 Bilateral contracts on the MGP

TWh

CONTRACTS	2011	2012	2013	2014	2015	2016	2017
Bilateral contracts	131.1	120.0	82.3	96.1	92.5	86.9	81.3
National	148.8	146.9	156.8	162.5	143.5	134.9	125.7
Single Buyer	36.8	38.8	43.9	37.9	29.1	17.6	3.7
other operators	112.0	108.1	112.9	124.6	114.4	117.3	122.0
Foreign	+0.4	0.5	0.1	28.5	0.1	0.03	0.07
Final balance for programme PCE <sup>(A)</sup>	+-18.1	-27.4	-74.6	-66.5	-51.0	-48.0	-44.5

(A) In each relevant period it is the difference between the sum of the emission programmes and the sum of the withdrawal programmes, coming from the Conti Energia Platform, registered on MGP. The final balance of the PCE programmes is equal to the algebraic sum of the physical balances of the energy accounts (in emission and withdrawal).

Source: ARERA Processing on GME data.

### Mergers in the electricity generation in 2017

In 2017, several corporate operations were carried out in the context of electricity generation: this sector is particularly dynamic, with many plant divestitures and acquisitions between the operators. The major corporate groups were also particularly active in 2017.

The A2A group, the fourth in Italy for its contribution to the gross generation and the second in the hydroelectric generation, acquired Helios 1, Inthe 1, Inthe 2, TFV 1 and TV2 companies, all specialised in the production of photovoltaic energy, while Amec Foster Wheeler Power, which has only wind power systems, entered the Enel group, assuming the title of Enel Green Power Sannio. Edison group acquired a hydroelectric plant from Idrora, as well as the Frendy Energy and Alfa Idro

companies, who are also specialized in hydroelectric generation, while the Parco Eolico Castelnuovo is no longer part of the group.

In 2017 the Engie group was rearranged, with the Photovoltaic company Sant' Anna who incorporated Sundream PL, while Engie Production incorporated Roselectra and Rosen-Rosignano Energia (which, several months before, in 2017, yielded its thermoelectric production plant to Six Roses after an asymmetric partial divestiture). The three incorporated companies were already part of the Engie group, as was FRAVT (Fonti Rinnovabili Alta Valle Trompia) which, on the other hand, left the group.

Regarding to Erg group, is to be noted the incorporation of Erg Renew in Erg Power Generation, while Axpo group acquired plants by Trentino Innovazioni and Moncada Energy Group, which was already part of this group.

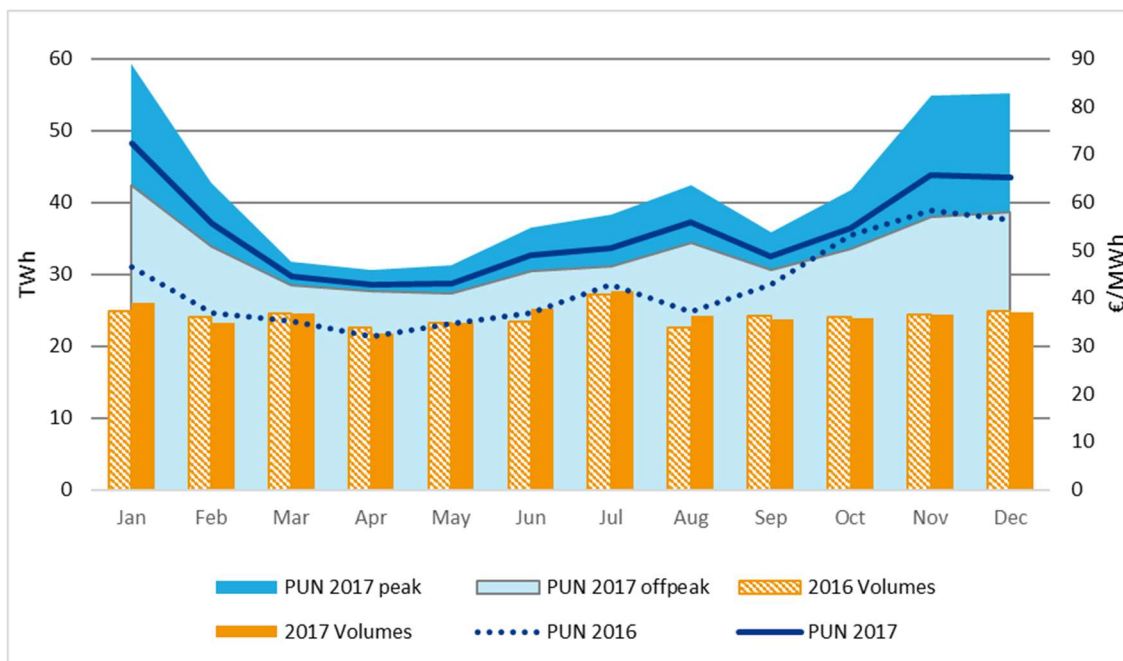
### 3.2.1.1 Monitoring wholesale market prices

#### The day ahead market

In 2017, the average electricity purchase price (PUN) recovered from the lowest levels of 2016, reaching 53.95 €/MWh (+26.1%), encouraged by a rise in fuel costs, a slight increase in purchases, greater use of thermoelectric generation and fewer imports from cheaper nuclear plants in France. These dynamics are reflected in every month of the year and all the groups of hours (Figure 3.6), remaining at 62.34 €/MWh (+28.9%) in the peak hours, at 49.58 €/MWh (+24.4%) in the off peak hours and at 47.47 €/MWh (+23.1%) on holiday hours (Figure 3.6).

**Figure 3.6 Monthly trend of the PUN and the total traded volumes for the Sistema Italia**

Volumes in TWh; PUN (average, peak and off peak) in €/MWh



Source: GME.

We assisted to a recovery of the prices from the historical minimum of 2016, also at the zone level, with rises between 23 and 28%, and values between 49.80 €/MWh in the South, which was confirmed for the ninth consecutive year as the zone with the lowest price, and 60.76 €/MWh in Sicily. The latter returned to record a slight increase of its difference with the Northern zone (6,35 €/MWh against 4.95 €/MWh of the previous year), even with the strengthening of the Sorgente-Rizziconi cable. The daily products Market (MPEG) recorded 2,966 transactions in its first year of full operation, mainly concentrated in the second half of the year, for a total of 3.9 TWh exchanged, mostly with a baseload profile (90%). The institutional operator Single Buyer was the main purchaser with over 3.7 TWh (95%). Positive differences were recorded in the negotiated prices, between +0.1 and +1.0 €/MWh compared to the PUN.

### Forward electricity market

The forward electricity market (MTE) organized by the GME, for the standardised products with physical delivery, recorded a total of 1.4 TWh negotiated in 2017, with an increase of 27% compared to the previous year (Table 3.13). The most relevant share of the negotiated volumes (MW) is of *baseload* profile (87%), in particular for the monthly (53%) and quarterly (28%) duration. An average of 12 couplings were recorded each month, mainly concentrated in March, October and November. For the third consecutive year, no bilateral transaction was recorded for *clearing purpose only*.

**Table 3.13 Volumes exchanged on the Forward market**

MWh

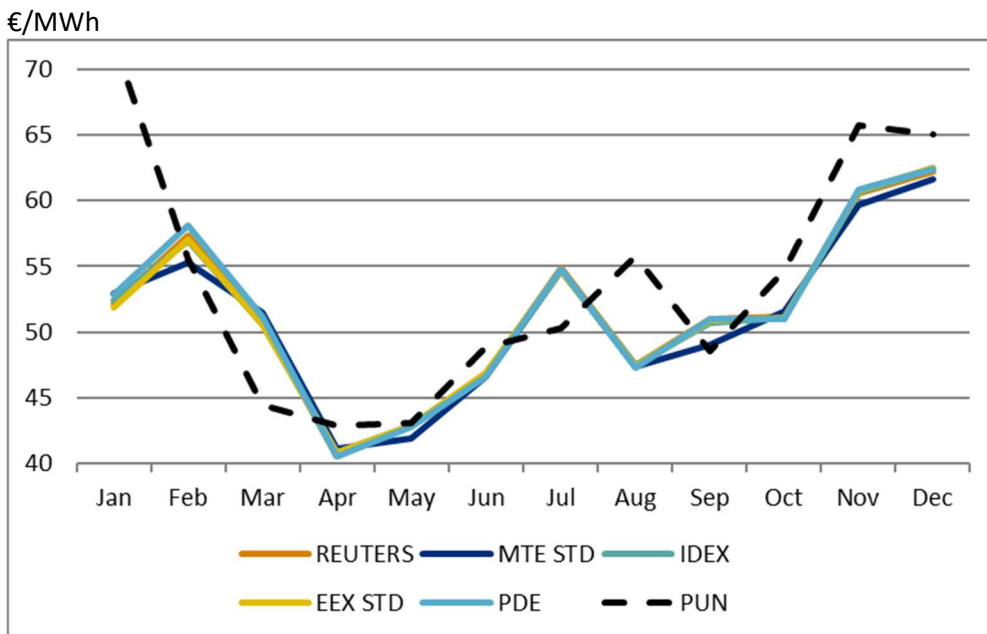
DURATION	2010	2011	2012	2013	2014	2015	2016	2017	VAR. 2016/2017	SHARE
CONTRACTS (MW)	2,366	7,673	8,882	2,171	2,944	1,004	411	518	26%	100%
Baseload	1,146	5,563	8,253	679	2,829	899	323	449	39%	87%
Peakload	1,220	2,110	629	1,492	115	105	88	69	-22%	13%
VOLUMES (GWh)	6,285	31,667	30,358	7,996	18,402	5,087	1,069	1,356	27%	100%
Baseload	5,011	28,007	28,895	3,618	18,356	5,007	1002	1,335	33%	98%
Peakload	1,275	3,660	1,463	4,379	46	79	67	21	-69%	2%

Source: ARERA processing on GME data.

When observing the trend of the quotes of the generally more liquid forward product, the monthly *baseload* that expires in the subsequent month (M+1), the operators indicated prices between 41 and 62 €/MWh, for the months of 2017. This trend is in line with the that recorded during the year by the underlying PUN, with a delay of one month at the maximum, for the convergence of the price level (Figure 3.7).



**Figure 3.7 Average prices of the monthly *baseload* product in 2017, and expiration in the subsequent month on the different negotiation platforms**



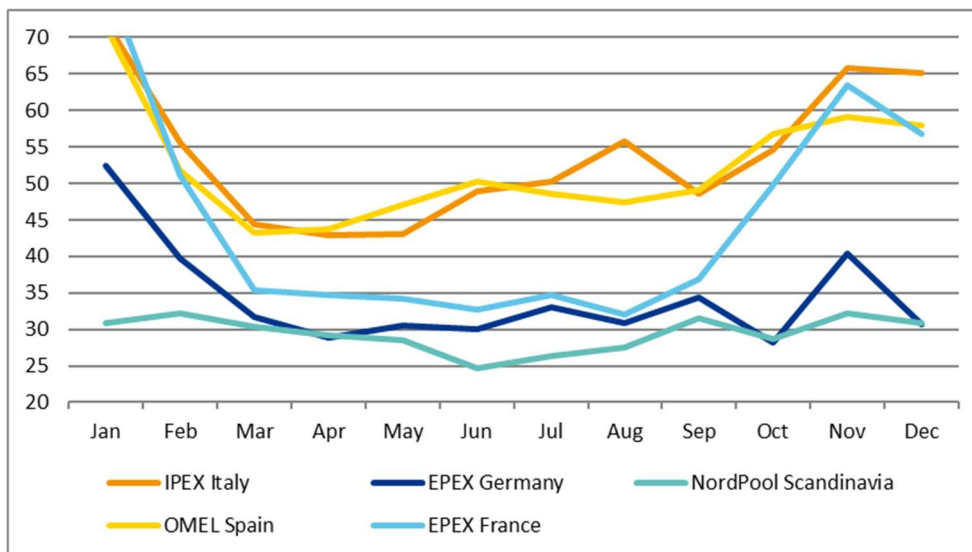
Source: ARERA processing on data from different sources.

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

Coinciding with a general increase of the fuel costs, the price of electricity on the European market has recorded a recovery from the lower levels of 2016 and confirmed a substantial division into two macro-regions (Figure 3.8): the Northern region, composed of Scandinavia and Germany (29/34 €/MWh), and the Southern region, composed of Italy, Spain and Slovenia (49/54 €/MWh).

**Figure 3.8 Average monthly price trend in the main European Stock Exchanges in 2017**

Average values of the *baseload*; €/MWh



Source: ARERA processing on European electricity Stock Exchanges data.

France (45 €/MWh) converges with one or the other block based on seasonal phenomena and on the availability of local nuclear systems that are often replaced by the Italian thermo-electric supply. In particular, the price rising observed in France at the beginning and the end of the year invert the expected price differentials with Italy (usually the importer), allowing many cross-border trade opportunities, effectively realised with the implicit auction mechanism of *market coupling*. The price alignment between Italy and France is decreasing (29%, -6 percentage points), with an average increase of their differential (9 €/MWh, +3 €/MWh). Over the course of the year, *market coupling* allocated a capacity of 2.8 GWh on average every hour in imports (+330MWh) and 1.2 GWh in exports (+101 MWh) on the northern border: the increase was concentrated on the French border for imports (2,185 MWh) and on the Slovenian border for exports (358 MWh).

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

In 2017, the Authority continued the prescriptive procedures launched in June 2016 with the 342/2016/E/eel Resolution, as the outcome of the monitoring activity carried out according to the TIMM and concerning, in particular, the period between January 2015 and July 2016<sup>165</sup>.

At the completion of the preliminary phase, involving over one hundred dispatching users in input and withdrawal, owners of units that were not qualified to supply the dispatching service market (MSD), the Authority has adopted over one hundred prescriptive provisions, which impose the restitution of the amounts unduly obtained through the economic regulation of the effective imbalance and non-arbitrage costs. In particular, the Authority criticised the non-compliance of the diligence, precaution, expertise and welfare principles that should characterise the conduct of the operators in the context of the dispatching service<sup>166</sup>. The amounts, object of the prescriptive intervention, will reduce the *uplift* fee for the general benefit of the consumers<sup>167</sup>.

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<sup>165</sup> As already illustrated in last year's *Annual Report*, the monitoring of the wholesale market, carried out in compliance with the Integrated text of monitoring of the wholesale market of electricity and of the Dispatching service Market (MSD) (TIMM), had highlighted that in the first semester of 2016:

- certain dispatching users, with consumption units or production units powered by non-programmable renewable sources, seemed to have adopted programming strategies that weren't coherent with the diligence, prudence, expertise and foresight principles, that should characterise the behaviour of an operator of the dispatching service;
- certain dispatching users, with production units qualified for the presentation of offers on the MSD (so called "qualified units") and that were usually dispatched at the outcome of the energy market, registered an emission programme equal to zero at the end of MI. This was partly ascribable to the price decrease observed on the energy market that had sent several of these units out of business, and in part, because the relative dispatching users seemed to have adopted a physical holding strategy (absence of offers) or economical (offers with prices that were higher than the market) on the above-mentioned markets. To guarantee the service in the security of the local network, Terna was forced to launch of some of the above-mentioned production offers on the MSD, accepting the minimum offers presented by the relative dispatching users, at very high prices. This brought up the value of the payments for the supply of the resources in the MSD (so called *uplift*). The systematic acceptance of the minimum offers has made the imbalance sign of non-coherent programming strategies, that have amplified the negative effects on the functioning of the electricity markets more expectable, also favouring the adoption of the dispatching by the users with consumption and production units powered by non-programmable renewable sources.

Therefore, on June 24th, 2016, with Resolution 342/2016/E/eel, the Authority launched a procedure for the immediate adoption of prescription measures and the assessment of potential violations concerning certain dispatching users who have enacted the described conditions, geared to promote competition and guarantee good market functions.

<sup>166</sup> According to art. 14, codicil 6, of the Resolution n. 111/06 of June 9th, 2006.

<sup>167</sup> As anticipated in the Resolution 575/2016/R/eel of October 14th, 2016.

A supplement to the preliminary investigation has been guaranteed to the operators with these prescriptive provisions, in order to allow the presentation of further factual elements, useful for the revising of their position with respect to the determinations of the prescriptive measure.

In the period between December 2017 and April 2018, the Authority confirmed 68 prescriptive provisions, revising the application of the prescriptive measure in certain cases, to consider the operational specificities that had affected the programming adopted during the survey period, based on the detailed documentation supplied by the interested parties and the use of appropriate statistical methodologies. In the absence of this additional documentation from the dispatching users, certain procedures were concluded directly with the quantification and invoicing, by Terna, of the balances related to the contested financial items.

The closing of the single prescriptive procedures did not preclude the opening of the same number of sanctioning procedures, due to the violation of the dispatching regulations.

In 21 cases the prescriptive procedures ended with a dismissal, which in 11 cases also excluded any consequential sanctioning measure.

Resolution 342/2016/E/eel also proposed the adoption of asymmetric regulating measures for certain dispatching users, with production units qualified for the presentation of supplies on MSD, that had adopted capacity retention strategies on the MSD itself in the second trimester of 2016, forcing Terna to accept offers of minimum technical level at particularly high prices.

As a result of the notifications of GME and Terna, which had highlighted changes in supplies of other dispatching users, the Authority launched<sup>168</sup> new individual procedures towards these parties.

At the end of the detailed study, the Authority also reported<sup>169</sup> the potential violation of competition regulation by certain dispatching users of MSD qualified production units, to the Antitrust Authority (AGCM), according to national and European regulations. As a result of this notification, the AGCM launched two preliminary investigations on Enel Produzione and Sorigenia in September 2016, in order to ascertain the existence of a possible misuse of a dominant position under the national regulations for competition<sup>170</sup> or the Treaty on the Functioning of the European Union<sup>171</sup>. The aforementioned preliminary investigations ended in May 2017, without the ascertainment of unlawful conducts and with the acceptance, on behalf of the AGCM, of the engagements introduced by Enel produzione, to self-limit the profitability of its own production system in the area of Brindisi. The Authority then accepted<sup>172</sup> the application of the costs re-integration regime related to the Brindisi plant for 2018 from Enel Produzione, in application of the engagement introduced in the AGCM.

The Authority excluded the hypothesis of violation of Art. 5 of the EU 1227/2011 Regulation (so called REMIT) which had formulated at the beginning of the individual proceedings with the first prescriptive provisions in matters of non-diligent imbalances, also in order to provide a sure and clear framework to all the involved operators.

### Remit

In terms of monitoring the wholesale markets it should be also mentioned the activity carried out for the implementation of the REMIT, which entered completely in its implementation phase at

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<sup>168</sup> With the Resolution 459/2016/R/eel of August 4th, 2016,.

<sup>169</sup> With the Resolution 477/2016/R/eel of September 6th, 2016,.

<sup>170</sup> In other words of a violation of art. 3, letter a), of the Law n. 287/90.

<sup>171</sup> In other words of a violation of art. 102, letter a), of the Treaty.

<sup>172</sup> With the Resolution 928/2017/R/eel of December 28th, 2017,.

the European and domestic level. In 2017, the Authority began to access the data collected by the Agency for the cooperation of energy regulators (ACER), according to Article 8 of the REMIT (so called *data sharing*) and to the REMIT case management system (so called *Case Management Tool*) prepared by the agency itself.

It also confirmed its own effective contribution to the work-groups in the context of ACER and CEER, to promote a coordinated approach in the implementation of the REMIT regulations, contributing to:

- the constant update of the **Market Monitoring Handbook**, user manual for the internal use of ACER and the regulators, to promote the cooperation and coordination in the management of REMIT cases;
- the sharing of tools, methods and means for the surveillance of the wholesale market and of the criticalities related to the coordination of the potential violations in the cross-border market;
- the monitoring of the evolution of the financial regulations and the contribution to the training for the CEER-ACER positions in the relevant contexts for the correct functioning of the energy markets.

### 3.2.2 Retail market

According to the data published by Terna, in 2017 the total consumption (net of losses) was of approximately 302 TWh, with an increase of 2.2% compared to that of 2016. Table 3.14 describes its distribution per final sector of use.

**Table 3.14 Distribution of the national electricity consumption per final sector.**

TWh

PRODUCTION SECTOR	2014	2015	2016	2017
Domestic	64.3	66.2	64.3	65.5
Agriculture	5.4	5.7	5.6	6.0
Industry	122.5	122.4	122.7	125.5
Tertiary	98.9	102.9	102.9	104.9
<b>TOTAL</b>	<b>291.1</b>	<b>297.2</b>	<b>295.5</b>	<b>301.9</b>

Source: Terna.

In the context of the Authority operators Registry, 132 parties in the standard offer market, 2 in safeguarded category market and 564 in the free market, declared they had carried out the activity of sales of electricity in 2017 (also for a limited period of the year). In 2016 the vendors were 131 in the standard offer market, 2 in safeguarded category market and 542 in the free market. The number of parties exercising the standard offer seems to have one more unit compared to 2016, but only because Eni yielded the sales of standard offer to its subsidiary, Eni Gas e Luce, on July 1st, 2017. Therefore, for the first six months of the year the management was carried out by Eni, and by Eni Gas e Luce for the rest of the year. The number of electricity vendors grew in 2017 by 22 units on the free market. The trend of expansion in the sales segment has persisted almost without interruption since 2008.

128 parties that carry out the standard offer regime (almost all of them) and 470 companies that sell electricity in the free market (that is 83% of 564) have answered the Authority's annual survey.

Among these, 60 declared they were inactive during the whole year. Consequently, 410 companies that answered the annual survey were active in the free market.

Table 3.15 shows the subdivision of the end sales of electricity (net of the self-consumption and network losses) together with to the total number of customers<sup>173</sup> per market type, determined on the basis of the Authority's annual survey data supplied by the electricity operators: producers, exercising the standard offer services, wholesalers and free market vendors. The sales data collected by the Authority (considered with the self-consumption data) is representative of a population that reflects 93%<sup>174</sup> of the final consumption estimated by Terna, the Electricity Transmission Grid Operator.

**Table 3.15 Final electricity sales market**

Net of the self-consumption and losses

	VOLUMES (GWh)			INPUT POINTS (thousands)		
	2016	2017	VAR. %	2016	2017	VAR. %
Standard offer market	52,693	49,979	-5.2%	23,338	21,455	-8.1%
Domestic	35,058	33,495	-4.5%	19,619	18,083	-7.8%
Non domestic	17,635	16,484	-6.5%	3,718	3,371	-9.3%
Standard offer service	4,224	4,309	2.0%	90	91	1.9%
Free market	197,130	202,140	2.5%	13,968	15,349	9.9%
Domestic	22,073	24,256	9.9%	10,278	11,449	11.4%
Non domestic	175,058	177,884	1.6%	3,690	3,901	5.7%
<b>FINAL MARKET</b>	<b>254,047</b>	<b>256,428</b>	<b>0.9%</b>	<b>37,395</b>	<b>36,895</b>	<b>-1.3%</b>

Source: Annual survey on regulated sectors.

According to the results of the annual survey (to be considered provisional for 2017, as usual) just over 256.5 TWh were sold on the end market to fewer than 37 million customers. Overall energy consumption rose by 0.9% compared to 2016, whilst the number of consumers decreased by 1.3%. As it has been going on for several years now, the standard offer service diminished further, but its decline was more than offset by the growth of the free market and the standard offer services: in fact, both expanded in terms of customers supplied and energy sold. The overall growth was supported more by household consumption than by consumption in the non-domestic sector; vice versa, more customers were lost in the non-domestic sector as compared to those lost in the domestic sector.

Overall, the Italian families bought 57.8 TWh compared to 57.1 TWh of 2016, therefore recording an increase of 1.1%, while the energy bought by the non-domestic sector has recorded an increase, having reached 198.7 TWh compared to 196.9 TWh of 2016. The recovery of the non-domestic consumption seems to have lost its rhythm: the 3.4% points obtained in 2015, in fact, were followed by an increase of 0.1% in 2016 and 0.9% in 2017.

Considering all types of customers (domestic and non-domestic), the regulated market share on the total market decreased in terms of energy and customers, to the advantage of the free market,

<sup>173</sup> Approximated by the number of withdrawal points counted using the *pro die* criteria (counted using the fractions of year for which they were supplied).

<sup>174</sup> To obtain the indicated percentage you must add the data collected during the Survey for self-consumption and group self-consumption, to the end consumption of the Survey shown in Table 3.15, as well as the sales to end customers who aren't connected to distribution networks and are not included in the table.

while the safeguard section remained substantially unaltered. In a final market that expanded overall by 2.4 TWh, the sales volumes of the regulated market fell by 2.7 TWh (-5.2% compared to 2016), while the free market gained 5 TWh compared to the previous year (+2.5%) and sales rose by 0.1 TWh in the safeguard regime.

In 2017, the number of consumers fell by approximately 500.000 units and, for the first time since 2013, it returned below 37 million units (it is necessary to remember that the data of 2017 is provisional and that this decrease could be influenced by the number of companies that didn't answer the annual survey). The decrease in withdrawal points was greater in number among households, falling by 365,000 units, compared to the non-domestic sector, where the points decreased by 135,000 units as compared to 2016. In terms of overall decrease, the movement of the consumers towards the free market continued: against the 1,536,000 domestic withdrawal points lost in the standard offer market compared to 2016, the free market recorded an increase of 1,171,000.

The average consumption per unit of households in the standard offer market is lower than that of households who purchase energy on the free market: 1.852 kWh/year against 2.119 kWh/year, but the difference in 2017 decreased compared to that highlighted in 2016, because of the increase (+65 kWh) of the average unitary consumption of the families served in safeguard and of the simultaneous slight decrease (-29 kWh) of the average unitary consumption of the families in the free market.

In 2017 the standard offer service grew slightly: the energy sales increased by 2% (+0.1 TWh), even if the increase was definitely lower than that of the two previous years (when it increased, respectively, by 10.7% and 17.4%); the number of supplied customers increased by approximately 2.000 units. As can be seen in the dedicated paragraph, the increase recorded in the withdrawal points can be fully attributed to the customers connected in low voltage and among those, in particular, to the public lighting system, while the increase of the acquired volumes occurred for the customers connected in low and medium voltage.

As was said above, there was an increase recorded for electricity supplied on the free market in 2017: with 202 TWh sold, in fact, the level of sales rose by 2.5% compared to 2016. The total number of customers supplied increased by 1.4 million units, more in the domestic sector (+11.4%) than in the non-domestic sector (+5.7%). The average consumption per unit thus decreased by a further 7%. This trend has been going on for many years: from the 25,500 kWh/year of 2011, to the 13.000 kWh/year in 2017. This continuous resizing is mainly due to domestic consumers entering this market, typically characterized by lower average withdrawal values than non-domestic consumers (and getting lower over time).

Thus, the safeguarded category market acquired 19.5% of all the energy sold on the final market in 2017 (compared to 20,7% in 2016), the standard offer services absorbed 1.7% (same as in 2016) and the free market purchased 78.8% (against 77.6% in 2016). In terms of withdrawal points the trend is the opposite: 58.1% of customers are still supplied under the standard offer, while 41.6% went over to the free market.

The classification (temporary, given the preliminary nature of the collected data) of the first twenty groups for total sales to the final market in 2017 (Table 3.16) presents certain innovations compared to last year for the alternation of the vendors in the different positions.

The dominant operator of the entire Italian electricity market remains the Enel Group, whose market share rose back to 37.5% (from 34.8% in 2016) and still way ahead of its closest competitor



group. With an overall market share of 4.5%, Eni Group takes second place, moving up from third place in 2016, overtaking Edison Group, whose share stalled at 4.2%.

The Enel group maintains its position in the total market thanks to its substantial dominance in the so-called *mass market*, composed of the domestic sector and non-domestic customers connected at low voltage: more than half of this market (54.6%) is in fact supplied by Enel, while Eni, who is in second place, holds a share 3.6%. Furthermore, in 2017, Enel also maintained its dominant position in the segments of non-domestic customers with medium and high/very high voltage, which it had lost in 2013 and regained in 2016.

**Table 3.16 First twenty groups for sales on the end market in 2017**

GWh

GROUP	CLIENTS		NON DOMESTIC CLIENTS		TOTAL	POSITION IN 2016
	DOMESTIC	BT	MT	AT/AAT		
Enel	41,699	30,173	16,938	6,924	95,734	1°
Eni	3,247	1,549	5,320	1,379	11,495	3°
Edison	1,051	1,751	5,236	2,555	10,592	2°
Hera	1,186	3,141	5,191	249	9,768	4°
Metaenergia	9	1,012	7,137	282	8,440	10°
A2A	1,653	2,198	2,945	245	7,042	6°
Axpo Group	54	1,552	3,550	1,628	6,784	5°
Iren	1,245	2,119	2,876	363	6,603	12°
E.On	271	1,562	3,178	920	5,931	9°
Acea	1,987	1,555	1,565	532	5,639	7°
Duferco	54	529	2,050	2,927	5,560	16°
Green Network	140	398	2,125	2,638	5,300	17°
CVA	122	1,378	2,968	112	4,579	13°
Eviva	61	1,979	2,012	123	4,175	14°
Dolomiti Energia	598	1,522	1,825	120	4,065	15°
Gala	29	1,212	2,665	144	4,050	8°
Sorgenia	202	1,269	2,207	142	3,819	11°
Repower	0	1,881	1,690	34	3,605	18°
Alperia	250	955	1,671	103	2,979	19°
Egea	48	465	2,328	138	2,979	20°
Other operators	3,845	15,842	22,828	4,774	47,290	-
<b>TOTAL</b>	<b>57,751</b>	<b>74,042</b>	<b>98,304</b>	<b>26,331</b>	<b>256,428</b>	<b>-</b>

Source: Annual surveys on regulated sectors.

In 2017, the level of concentration of the total market has grown: all the measures normally used to measure it actually recorded a worsening compared to 2016. The C3, that is the share of the first three operators (corporate groups) went up to 45.9% of the total sales, while it was at 43.6% in 2016. The HHI index also rose to 1,521 from 1,342 recorded in 2016, exceeding the first attention threshold of 1,500. An HHI value between 1,500 and 2,500 indicates a moderately concentrated market, while a value higher than 2,500 indicates a strongly concentrated one (the maximum index

value is 10,000). In 2017, 16 corporate groups were needed (one less than last year) to exceed 75% of the total sales.

In 2017, 72.2% of the energy consumed by the families was sold by the Enel group (73% in 2016); with a share of 5.6%; the second group is Eni, while Acea has maintained its third position with 3.4%. Altogether, the first five operators (A2A and Iren together with the ones already mentioned) own 86.3% of the domestic sector (86.9% in 2016).

Taking into consideration the sales to non-domestic customers powered in low voltage, the Enel group share, of 40.8%, remains far from the 4.2% share of the second group, Hera (in second position also in 2016). There is A2A with 3%, which was in fifth position in 2016, Iren with 2.9% and Eviva (former Energetic Source) with 2.7%.

In 2017 the Edison group lost a position, that was traditionally close to the *incumbent*, and went from sixth to seventh position in the mass market (the segment formed by the families and non-domestic customers powered in low voltage), Edison has become the fourth group with a share of 10.2% in the sales to non-domestic customers connected in high and very high voltage (it was in third place in 2016), while for the customers in medium voltage, it dropped from second position, obtained in 2016, to fourth position. In the segment of medium voltage, the Metaenergia group share has grown again, passing from 5.4% of 2016 to 7.3%. Then Eni (5.4%) and Hera (5.3%).

The second group is Duferco (in fourth place in 2016), also for the sales to customers in high or very high voltage, behind Enel, with a share of 11.6%, followed by Network (10.5%) and Edison (10.2%).

### Standard offer regime

Families and small companies<sup>175</sup> connected in low voltage that did not stipulate a free market sales and purchase contract use the market with standard conditions (standard offer regime). Service is guaranteed by appropriate sales companies or distribution companies with less than 100.000 customers connected to their own network, on the basis of the financial conditions and commercial quality indicated by the Authority.

The first results of the annual survey show that in 2017 50 TWh were sold in this market to approximately 21,5 million withdrawal points (calculated with the "*pro die*" criterion). In 2016 the consumptions went down to 2,7 TWh (-5.2%), while the supplied withdrawal points decreased by 1,9 million units (-8.1%).

The decrease of withdrawal points confirms a long term trend: this service was born, in a transitory way, at the time of the complete liberalisation of the market in order to support families and small companies that were still not in a position to choose a supplier and will disappear in time, also because of the regulatory provisions in this matter (see the provisions of Law n. 124/2017, described on page 6 of this *Report*). Last year 1,5 million domestic customers left the standard offer regime (7.8%) and so did 0.3 million other use customers (-9.4%). In the context of families, the decrease in residents (1 million, -6.6%) is proportionally lower than the non-residents (0.5 million, -11.8%). The need to find more favourable financial conditions is less strong for the latter, as is their attractiveness for the vendors, since their unit consumption is smaller.

Since the general electricity consumption has slightly risen in 2017, compared to the previous year, the decrease in the amounts sold (- 4.5% for domestic and -6.9% for other uses) have been lower

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<sup>175</sup> According to the decree law of June 18th, 2007, n. 73, modified by Law n.125 of August 3rd, 2007, the end clients are "small companies" different from domestic clients with less than 50 employees and an annual turnover or a balance sheet no higher than 10 million Euro.

than those of the supplied points (- 7.8% domestics, -9.4% other uses). The public lighting system seems to be in countertrend, with a recorded increase of both supplied points (+9.4%) and purchased energy (+9.6%); it is necessary however to consider that it is a fairly unimportant consumption sector. The shares of the different categories of the total consumption remained basically unaltered compared to 2016 (Fig. 2.17). 66.6% of the volumes was purchased by domestic customers (33.5 TWh) that, in terms of numbers (18,1 million withdrawal points), represents 84.3% of the total (decreased to 21.5 million withdrawal points).

**Table 3.17 Domestic customers with standard condition service per type and consumption class in 2017**

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

TYPE OF CLIENT AND CLASS OF ANNUAL CONSUMPTION	VOLUMES	SHARE	POINTS OF WITHDRAWAL	SHARE	AVERAGE CONSUMPTION
0-1.000 kWh	2.350	7.0%	5.521	30.5%	426
1,000-1.800 kWh	6,059	18.1%	4,304	23.8%	1,408
1,800-2.500 kWh	7,376	22.0%	3,451	19.1%	2,137
2,500-3.500 kWh	8,568	25.6%	2,918	16.1%	2,936
3,500-5.000 kWh	5,699	17.0%	1,400	7.7%	4,070
5,000-15.000 kWh	3,101	9.3%	476	2.6%	6,520
> 15.000 kWh	342	1.0%	13	0.1%	25,531
<b>TOTAL DOMESTIC</b>	<b>33,495</b>	<b>100.0%</b>	<b>18,083</b>	<b>100.0%</b>	<b>1,852</b>
OF WHICH:					
Domestic residents up to 3kW	25.679	76.7%	12,986	71.8%	1,977
Domestic residents beyond 3 kW	4,081	12.2%	1,066	5.9%	3,830
Domestic non-residents	3,735	11,2%	4,031	22,3%	926

Source: Annual surveys on regulated sectors.

The most prevalent contract conditions in the standard offer regime are, as usual, the mandatory two-tier tariff and time-of-use tariff that concern 97.1% of the withdrawal points. Nearly all domestic customers (97%) pay the mandatory two-tier tariff, an economic condition that varies at hourly bands during the day and that, since July 1st, 2010, is automatically applied to the customers equipped with a re-programmed smart meter; only 1.8% of the customers pays the time-of-use tariff voluntary, that is the one explicitly requested by the customers even before July 1st, 2010; the old non time-of-use tariffs is applied to the remaining 1.2% of the domestic withdrawal points. The portion of customers with mandatory two-tier tariff has increased by 0.8% compared to last year, the customers with voluntary two-tier tariffs basically unaffected, while the customers with non-time-of-use tariff decreased by 0.6%. The latter remained stable at 2.3% for the non-domestics, after the strong decrease of the previous years due to the substitution of the traditional meters with smart meters (in 2010 the share of the non-domestic other non-time-of-use tariff uses was still of 65.9%).

In the context of domestic customers, the residents represent 77.7% of the withdrawal points and 88.8% of the consumption (Table 3.17). 92.4% of the residents have a contract with power up to 3 kW. In 2017 the average unitary consumption of the domestic customer rose to 1,852 kWh/year from 1,787 kWh recorded in 2016, returning to the levels of 2015 (1,869 kWh).

Considering that most (71.8%) of the resident domestic customers in standard offer has a contract with power up to 3 kW, the average consumption of the Italian families is of 1,977 kWh/year, a value that is 55 kWh higher than the one recorded in 2016. The average consumption of the residents with a power that is higher than 3 kW, was of 3,703 kWh last year and is now of 3,830 kWh, and still increasing; the average consumption of the non-residents is also increasing, as in 2017 it passed to 926 kWh from the 918 kWh of the previous year.

We can also see that 90.6 of the 100 residential withdrawal points with power up to 3 kW, which, as we just said, represents the most important part (71.8%) of the domestic customers supplied with standard conditions, belong to the first four consumption classes: meaning that they purchase a maximum of 3,500 kWh/year. 70.7% of the resident consumers with a power higher than 3 kW belong to the highest consumption classes (from 2,500 to 15,000 kWh/year); but these four classes represent 4.2% of all the domestic customers supplied in standard offer market. Concerning the non-resident withdrawal points (mostly second houses), 71.6% falls in the first class (consumption below 1,000 kWh/year) and the consumption of 85.7% of these customers does not exceed 1,800 kWh/year.

**Table 3.18 Non-Domestic customers with standard offer market by type and consumption class in 2017**

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

TYPE OF CLIENT AND CLASS OF ANNUAL CONSUMPTION	VOLUMES	SHARE	POINTS OF WITHDRAWAL	SHARE	AVERAGE CONSUMPTION
0-5 MWh	3,159	19,2%	2,711	80,4%	1,165
5 – 10 MWh	2,088	12,7%	298	8,9%	6,999
10 - 15 MWh	1,421	8,6%	116	3,5%	12,213
15 - 20 MWh	1,142	6,9%	66	2,0%	17,307
20 - 50 MWh	3,999	24,3%	131	3,9%	30,572
50 - 100 MWh	2,452	14,9%	36	1,1%	68,080
100 - 500 MWh	2,086	12,7%	13	0,4%	160,506
500 – 2,000 MWh	120	0,7%	0	0,0%	721,969
2,000 – 20,000 MWh	17	0,1%	0	0,0%	4,061,961
20,000 – 50,000 MWh	0.5	0,0%	0	0,0%	30,303,588
<b>TOTAL NON DOMESTIC</b>	<b>16,484</b>	<b>100,0%</b>	<b>3.371</b>	<b>100,0%</b>	<b>4,890</b>
OF WHICH					
Non domestic up to 16,5 kW	8,418	51,1%	3,118	92,5%	2,700
Non domestic beyond 16,5 kW	7,663	46,5%	234	6,9%	32,737
Public lighting	403	2,4%	20	0,6%	20,488

Source: Annual surveys on regulated sectors.

Table 3.18 proposes the distribution of the volumes (16.5 TWh) and withdrawal points (3.4 million) related to non-domestic uses with standard conditions per consumption class. Like in 2016, approximately one fifth (19.2%) of the energy destined to other uses was sold to customers of the first consumption class (<5 MWh/year) that composes 80.4% of the entire range of non-domestic consumers. The second class, of the customers with an annual consumption that varies between 5 MWh and 10 MWh, includes 8.9% of the withdrawal points and uses 12.7% of the electricity sales.

Therefore 89.3% of the non-domestic customers who purchase electricity for other uses have annual consumptions that do not exceed 10 MWh.

The withdrawal points with power lower than 16,5 kW represent 92.5% of the non-domestic consumers supplied in standard offer and 51.1% of the consumption. The withdrawal points with power higher than 16,5 kW are only 6.9% of the consumers, but they purchase 46.5% of the volumes. These customers are obviously characterized by more elevated annual consumptions: nearly half of the relative of withdrawal points falls into the classes with consumption between 20 and 500 MWh.

### Safeguarded category market

The safeguarded category market is composed of the non-domestic customers who, have no sales and purchase contract in the free market, even only temporarily, but who are not qualified to access the standard offer market. These consumers are admitted to the safeguard service when they remain in a non-payment of bills condition.

Since 2008 this service has been issued by sales companies selected by auction<sup>176</sup>, obtaining the right to provide the service for two consecutive years. At the end of November 2016, the safeguarded category market for 2017-2018 was awarded to the same companies who handled it from 2014 to 2016: Enel Energia and Hera Comm. The new adjudication involved several changes, Enel Energia obtained the territories of nine regions (it had eight) while Hera Comm obtained the supply for the remaining eleven regions.

According to the data received from the supply of last resort operators in 2017, this service has increased with approximately 1,700 more withdrawal points than in 2016. More precisely, 91,345 withdrawal points were supplied in this regime last year (calculated with the "pro die" criterion, meaning they were counted for the fractions of year for which they were supplied), compared to the 89,676 of 2016. Altogether, a total of approximately 4.3 TWh were supplied. This market increased by approximately 2% in terms of withdrawal points and in terms of consumed energy, compared to 2016.

**Table 3.19 Safeguard service by customer type in 2016 and 2017**

Volumes in GWh; withdrawal points in thousands

TYPE OF CLIENT	VOLUMES			WITHDRAWAL POINTS		
	2016	2017	VARIATION	2016	2017	VARIATION
Public lighting	509	543	6.8%	19.8	23.6	19.1%
Other uses	972	977	0.5%	63.0	61.4	-2.5%
<b>TOTAL BT</b>	<b>1,481</b>	<b>1,520</b>	<b>2.6%</b>	<b>82.8</b>	<b>85.0</b>	<b>2.7%</b>
Public lighting	23	21	-10.0%	0.1	0.1	15.3%
Other uses	2,464	2,599	5.5%	6.8	6.2	-8.3%
<b>TOTAL MT</b>	<b>2,487</b>	<b>2,619</b>	<b>5.3%</b>	<b>6.9</b>	<b>6.3</b>	<b>-8.0%</b>
Other uses	257	169	-34.1%	0.0	0.0	-5.9%
<b>TOTAL AT</b>	<b>257</b>	<b>169</b>	<b>-34.1%</b>	<b>0.0</b>	<b>0.0</b>	<b>-5.9%</b>
<b>TOTAL SAFEGUARD</b>	<b>4,224</b>	<b>4,309</b>	<b>2.0%</b>	<b>89.7</b>	<b>91.3</b>	<b>1.9%</b>

Source: Annual surveys on regulated sectors.

<sup>176</sup> As established by decree of the Economic development Ministry of November 23rd, 2007.

The increase recorded in the withdrawal points can be fully attributed to the customers connected in low voltage and among those, in particular, to the public lighting system, while the increase of the acquired volumes occurred for the customers connected in low and medium voltage, like last year. The average consumption of the customers connected in low voltage remained substantially unaltered at 17.9 MWh, and that of the customers connected in medium voltage went from 360 to 413 MWh and the average volumes supplied to the customers in high voltage fell from 11.4 to 7.9 GWh.

Enel Energia's share in this market decreased further, going down to 45% from 49% in 2016. What's more, unlike 2016, in 2017 the difference between the two undertakings became larger because of the increase recorded by the Hera Comm sales (+8.9%), while those of Enel Energia decreased by 5.3%.

### Free market

As seen in the previous pages, according to the (provisional) data collected in the annual surveys on the regulated sectors, 202.1 TWh were sold in 2017, 2.5% more than in 2016, to 15.3 million customers, with an increase of 9.9% compared to 2016. The free market is in constant expansion of number of customers, while the increase in energy sold halted occasionally in the last few years.

Regardless of the quantities sold, there has been a constant growth in the number of active companies for years, even though at decreasing rates. From this point of view, 2017 represents a slight exception: the number of active suppliers rose only by 4 units (+1%), according to the answers obtained in the annual survey on regulated sectors, which represents the lowest growth in the last years. The concurrent market expansion has therefore encouraged the average unit sale volume of the companies that operate in this market with a very slight recovery, after an uninterrupted series of decreases. In 2017 the average unit sale volume of the companies that operate in the free market was of 491 GWh, therefore not lower than the 486 GWh recorded in 2016, which remains the lowest historical value recorded until now (equivalent to 36% observed in 2007, year of the complete opening of the market).

Compared to 2016, the number of large size suppliers (with sales over 10 TWh) decreased by one unit, but this decrease is only due to the fact that on 1 July 2017, Eni Gas e Luce acquired part of Eni's sales activity. Eni's sales therefore went below the threshold value of 10 TWh. Adding the sales of Eni to those of Eni Gas e Luce, we obtain a sales value over 11 TWh which puts the company back among the large size suppliers.

The market portion supplied by small or very small vendors (with sales up to 1 TWh) in 2017, is of 15.6%, when it was of 15.4% in 2016. In 2017, like in 2016, there was a minimal erosion of the market shares by the smaller size suppliers, to the disadvantage of the larger suppliers. The companies with sales over 1 TWh (31 companies, corresponding to 7.6% of the active suppliers) covered 84.4% of the total sales of 2017; the same figures, calculated in 2016, were of 7.9% and 84.6%, respectively.

Of the 410 active companies, 34.4% sell energy in 1 to 5 regions; 88 companies, or 21.5%, sell electricity all over Italy; the remaining 181 companies operate in 6 to 19 regions. In 2016, 16.7% of the 402 active suppliers sold all over Italy and 39.1% had a sales area limited to 5 regions.

The corporate breakdown of the share capital of electricity vendors on 31 December 2017, limited to the direct first level participation, displayed poor foreign presence: only 16 companies (of around 397 that provided this data) have a non-Italian majority shareholder. The most of direct foreign



shareholders are Swiss, Luxembourg or Spanish companies, but there are also majority shareholders from other countries (Germany, Austria, Slovenia, United Kingdom and USA).

The details of the customers per type and voltage (Table 3.20) shows an increase of nearly 1.4 million supplied points. This result is almost only due to the domestic customers, even if a slight increase occurred also in the withdrawal points of the other uses in low voltage (+7.5%). The families supplied in the free market increased by 1,381,000 units, by 11.4% compared to 2016; 249.000 new withdrawal points purchased electricity for other uses in low voltage.

**Table 3.20 Free market by type of client**

TYPE OF CLIENT	VOLUMES (GWh)			INPUT POINTS (thousands)		
	2016	2017	VARIATION	2016	2017	VARIATION
<b>BT</b>	77,617	80,294	3.4%	13,867	15,249	10.0%
Domestic	22,073	24,256	9.9%	10,278	11,449	11.4%
Public lighting	5,087	4,226	-16.9%	262	224	-14.5%
Other uses	50,457	51,811	2.7%	3,327	3,576	7.5%
<b>MT</b>	91,937	95,685	4.1%	100	99	-0.2%
Public lighting	355	321	-9.7%	0.93	0.90	-4.0%
Other uses	91,582	95,364	4.1%	99	98	-0.2%
<b>AT and AAT</b>	27,576	26,162	-5.1%	1.04	0.96	-7.7%
Other uses	27,576	26,162	-5.1%	1.04	0.96	-7.7%
<b>TOTAL</b>	197,130	202,140	2.5%	13,968	15,349	9.9%

Source: Annual surveys on regulated sectors.

The medium voltage customers have slightly decreased in number (-0.2%) and among these a new decrease was noticed in the public lighting system points (down to approximately 900 units). Even the high/very high voltage withdrawal points have decreased and are now fewer than 1,000 units.

With the exception of the other medium voltage uses, for which, considering a slight decrease in customers, there was more than positive increase (4.1%) of the energy purchased compared to 2016, for all the other types of customers the variations in purchased energy followed the sign of those observed in the entity of the customers.

We can therefore observe a positive increase (+9.9%) in electricity sold to families, an increment of 2.7% of energy purchased for other uses in low voltage and an important decrease in the volumes acquired by the public lighting system (-16.9% in low voltage and -9.7% in medium voltage) and from the other uses in high or very high voltage (-5.1%). Basically, the purchase of low voltage electricity (3.4%) and medium voltage has grown (4.1%), while the energy sold in high voltage diminished. It is important to emphasize that a new important decrease, that follows the equally meaningful decrease of last year, has emerged for the public lighting system that has altogether bought 895 GWh less than 2016 (-16.5%) in the free market, while it acquired 32 GWh more (6%) in the standard offer service (see above).

As always, among the **domestic customers**, the most important class in terms of withdrawal points is the one with consumptions included between 1,000 and 1,800 kWh, that gathers 24.6% of the consumers. However, the neighbouring classes also have a similar weight. If we consider the purchase volumes, the most important class is the one with consumptions included between 2,500 and 3,500 kWh/year, in which 26.7% of all the energy acquired by the domestic sector in the free market is sold. In fact, 86.7% of the withdrawal points have a consumption level that doesn't exceed

3,500 kWh/year. The average consumptions that emerge from the data relative to the free market is very similar to that of the domestic customers supplied in standard offer, except in the case of the customers who consume up to 1,000 kWh/year for whom the average consumption in the free market (494 kWh) is 16% higher than the clients with standard offer, equal to 426 kWh.

14.6% of the domestic customers, approximately 1.7 million, subscribed to a dual fuel contract in 2017. The number of domestic customers with this type of contract<sup>177</sup> has grown, last year they were 1.6 million, but their share has slightly decreased compared to 2016 (that was 15.7%). The total consumption of these customers is of 3.5 TWh, 14.3% of all the energy sold to domestic customers on the free market. The portion of domestic customers that acquires dual fuel contracts, maintains a constant share trend of approximately 15%. In this case the average consumptions are also similar to the general consumptions.

In contrast with what happens on the market with standard conditions, where the two-tier tariffs are predominant as they became compulsory from a certain date onwards, the unbundling of the customers per applied rate in the free market shows a substantial preference for the single-hourly contract mode, that has been chosen by 63.2% of the entire clientele (representing 63.1% of the volumes) and is increasing in time (it was 48% in 2013, year from which it began increasing). 29.3% of the customers chose the dual-hourly modality and only 7.5% the multi-hourly modality. The simplicity of calculation and control in the bill of the hourly rate is probably the element that makes it preferable in the eyes of the customers.

Concerning **non-domestic** customers, the sales in terms of volumes are concentrated in the consumption classes that go from 100 to 20,000 MWh/year, that together include 59.7% of the energy acquired by the non-domestic sector altogether. However, 59.5% of the customers belong to the first class, meaning that they consume less than 5 MWh per year.

The dual fuel contracts have not spread widely among the non-domestic customers: the withdrawal points that preferred this type of supply are less than 80.000 on the nearly 3.9 million total and almost all connected in low voltage; the acquired energy is just below 2.2 TWh on the total 177.9.

### Available offers in the free market

This year, for the second time, the *Annual Survey of Regulated Sectors* asked electricity and natural gas vendors certain questions to assess the quantity, types and the methods of supply that companies offer customers who have chosen the free market. The questions were slightly different, based on the experience acquired in the 2017 edition, to try to capture the complex and varied truth of commercial offers. The objective was to refine definitions and categories to render them as appropriate as possible to classify the many offers found on the market, even if they didn't quite represent the truth. Like last year, the results published in these pages must be received with necessary caution. What's more, since the supply of the non-domestic customers traditionally introduces more complex and varied necessities compared to the families, this year's distribution of the collected results is also practically only concentrated on the latter<sup>178</sup>.

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<sup>177</sup> *dual fuel* clients are the ones who receive one invoice for both electricity and natural gas supplies; the clients who have a contract with the same supplier for electricity and natural gas services, but receive two invoices for the supplies, are excluded from this enumeration.

<sup>178</sup> The only result shown for the non-domestic clientele concerns the number of available offers because the specific question in the vendor's questionnaire obtained a good response rate.

The average number of commercial offers that sales companies can make to their potential customers was 14.5 for the domestic customers and 60.5 for non-domestic customers. The latter obviously has more choice, generally being the most important customer in terms of consumed volumes and with more varied requirements (multisite, more varied consumption profiles, etc.) compared to those of a domestic customer. The vendor is surely ready to offer more personalized services and individual contracts to this type of client. However, 31% of the vendors, offer a single contract mode, more than a quarter of them (27%) offer up to 3 and the remaining 42% of the vendors propose a range that offers 4 and more contract types to their customers.

Of the 14.5 offers that are available for domestic clients, 4.4 can only be bought *on-line*, or only through Internet, which by now constitutes a very important sales channel through which the company can illustrate its own offer with all the necessary details and save on management costs. However, 21.3% of the vendors don't make on-line offers. The number of *on-line* offers is equal to the number of offers that are altogether proposed to the customers in 20% of the cases, the number of *on-line* offers is lower than the total offers in the remaining 80%.

The on-line offers still don't seem to have found much interest on behalf of the families, and it turns out that only 3.8% of the customers (corresponding to 9.4% of the electricity acquired in the free market) has subscribed to a contract offered through this channel.

Concerning the preferred type of price, 84% of households has subscribed to a fixed price contract on the free market (i.e. with the price that does not change for at least one year from the time of the subscription), while only 16% chose a variable price contract, i.e. with the price that changes according to the times and methods established by the contract itself. 5% of the customers subscribed to a contract that provides a clause of minimal contractual duration, i.e. the client can't change supplier for a minimum time duration established by the contract, in order to apply the established price. The percentage is higher with variable price contracts where the minimal contractual duration is applied to 12% of the customers, while it is of 4% in the event of blocked price contracts.

There are different types of indexing modes for variable price contracts. 37% of the customers who subscribed to a variable price contract signed a contract that provides a fixed discount on one of the components established by the Authority for the standard offer regime; 30% of the customers chose a contract that provides the indexing to Brent and 29% of the customers have chosen one indexed with PUN. Only 4% of the customers chose a contract that provides a form of indexing that is different from the ones mentioned above.

26% of the domestic customers subscribed to a contract that provides an abatement or a discount of one or more free periods or of a fixed sum in money or volume, that can be una tantum or permanent, and eventually provided when a certain condition is established (i.e. a discount for contracts subscribed by friends of the customer, discount for direct automatic bank payments, etc.). More in detail, it turns out that the discount is applied to an average of 20% of the customers who chose a fixed price contract and to 61% of the customers who chose the variable price contract.

Finally, for the domestic customers who chose a fixed price contract, concerning the presence of additional services in subscribed contracts, one can find a clear preference for the guarantee to purchase electricity produced by renewable sources (46% of the customers subscribed to a contract that provides it), and for the participation to a points programme, through their electric power contract, that can be from the sales operator as well as from other parties (i.e. that can be used for payments in a supermarket): 45% of the customers chose a contract that offers this additional service. Even customers who have subscribed to a variable price contract have a strong interest in the guarantee to purchase electricity produced by renewable sources (48.9% of the cases), the

second preference goes to the possibility to obtain a gift (23.1% of the cases) and the third is to obtain additional energy services (16.1%).

### Concentration in the electricity sales market

When analysing the market shares in the sector of the sale to consumers, it appears that the concentration in the **standard conditions service** has grown little, compared to 2016. The share of the main operator, Enel Servizio Elettrico, has gone up by two tenths of a point percentage, from 86.3% for 2016 to 86.5% for 2017; then Acea Energia (4.9%, in 2016 it was 4.7%), A2A Energia (3.1%, in 2016 it was 3.2%) and Iren Mercato (1.1%, like in 2016). The other operators have shares below 1%, like last year.

The Enel group, that dominates the protected segment of the end electricity market, is decidedly less important in the free market, even though it also maintains the first position here, with a share of 25%, that has increased compared to 20.7% of 2016. The Eni group is in second position, with sales that have exceeded Edison's - traditionally in second position - by nearly one terawatt-hour. This last group has lost 1.2 TWh of sales compared to 2016 (-10%), while those of Eni group have risen by 0.8 TWh (+7%) during the same period.

The sales share of Enel group was 19.3 points higher than the Eni group in 2017. But this distance has become constantly larger during the last few years, in 2014 it was seven points. This is because Enel's sales are increasing every year, but also because the sales of the pursuing group have diminished. In fact, in 2016 Edison was in second position with sales of 11,793 GWh, while in 2017 Eni was in second position with sales of 11,465 GWh.

The degree of national concentration in the free market is low, but it is increasing. The share of the first three groups has gone up to 35.9% after remaining stable around 33% for several years; the share of the first ten groups has gone up to 58.4% from 55% in 2016. In the same way, since the share of the first operator has grown and since the distance between the first and second group has increased, in 2017 the HHI index jumped from 623 to 806, although it remains still far from the threshold of 1,500, when the market can be judged as moderately concentrated.

Considering the data of the energy sold in the **whole retail market**, the dominant operator of the entire Italian electricity market remains the Enel Group, whose market share rose once again, to 37.5% (from 34.8% in 2016) still way ahead of its closest competitor group. Second place was taken by Eni Group with an overall market share of 4.5%, moving up from third place in 2016, overtaking Edison Group, whose share stalled at 4.2%.

The Enel group maintains its position in the total market thanks to its substantial dominance in the so-called *mass market*, composed of the domestic sector and non-domestic customers connected in low voltage: more than half of this market (54.6%) is in fact supplied by Enel, while Eni, who is in second place, holds a share 3.6%. Furthermore, in 2017, Enel also maintained its dominant position in the segments of non-domestic customers with medium and high/very high voltage, which it had lost in 2013 and regained in 2016.

In 2017 Enel group was the only one to reach a market share higher than 5%, like in 2016, while in 2015 there were 2 (Enel and Edison). The Eni group follows from afar, with a market share of 4.5%, and then Edison with 4.1%. The first ten operators (social groups) cover 65.5% of the total sales (compared to 63.8% of the previous year).

Table 3.21 highlights the detail of the concentration measures for the voltage levels.

**Table 3.21 Concentration measures on the retail market**

VOLTAGE LEVEL	2016			2017		
	GROUPS	C3	HHI	GROUPS	C3	HHI
	WITH SHARE >5%			WITH SHARE >5%		
<b>MEASURES CALCULATED BASED ON THE CUSTOMERS SUPPLIED BY THE CORPORATE GROUPS</b>						
Low voltage (domestic)	1	83.5%	5,680	2	82.0%	5,465
Low voltage (non-domestic)	1	68.8%	4,032	1	67.9%	3,913
Medium voltage	2	40.1%	1,028	2	42.4%	1,111
High and very high voltage	4	34.0%	597	3	40.3%	856
<b>TOTAL MARKET</b>	<b>1</b>	<b>80.3%</b>	<b>5,309</b>	<b>1</b>	<b>78.8%</b>	<b>5,117</b>
<b>MEASURES CALCULATED BASED ON THE ENERGY SOLD BY THE CORPORATE GROUPS</b>						
Low voltage (domestic)	2	82.1%	5,397	2	81.3%	5,280
Low voltage (non-domestic)	1	46.8%	1,668	1	48.0%	1,761
Medium voltage	3	25.0%	423	5	29.9%	544
High and very high voltage	5	40.0%	770	6	47.4%	1,124
<b>TOTAL MARKET</b>	<b>1</b>	<b>43.6%</b>	<b>1,342</b>	<b>1</b>	<b>45.9%</b>	<b>1,521</b>

Source: Annual surveys on regulated sectors.

In the first part of the table the measures are calculated based on the number of customers (withdrawal points) supplied by the corporate groups in the retail market, in the second part they are calculated based on the volumes sold by the corporate groups. Using the measures calculated with the withdrawal points, one can see that in the segment of the families and in the non-domestic connected in low voltage, the C3 and HHI indicators have diminished, while in the segments concerning the customers in average and high voltage, the measures indicate an increase of concentration compared to 2016.

Using the measures calculated on the kWh sold the values naturally go down, especially those related to the non-domestic customers. Apart from that, one can notice that except for the family segment, where C3 and HHI indicators diminish, in the segments relative to the non-domestic customers the concentration measures have increased compared to 2016, although there is an increase in the number of groups with a share higher than 5%, at least in the average and high voltage.

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

#### Monitoring of the retail market price level

The Authority collected two sets of data for the sales prices in the retail electricity market:

- one carried out according to the Resolution of 20 November 2008, ARG/elt 167/08, in which the monthly data relative to the charges invoiced<sup>179</sup> by the vendors to the domestic and non-

<sup>179</sup> More precisely, these are average unit costs obtained from the relation between the payments received and the quantity of energy invoiced in the reference quarter period.

domestic customers is recorded with quarterly intervals, divided into consumption classes and market types;

- the other carried out within the context of the Annual Survey on the regulated sectors, in which the data of competence for the previous year is recorded and divided according to several retail categories (type of market, sector and consumption classes, type of contract).

At the end of 2011 the Authority approved<sup>180</sup> the *Integrated monitoring text of the retail sales markets of the electric power and natural gas* (TIMR), which provides the obligation for the operators carrying out the activities of end sales of electric power (with a number of withdrawal points higher than 50,000) to communicate the data concerning the average monthly prices of the electric power practised on the end market, as well as a number of other indicators (see the following paragraph). In fact, since January 2012 and limitedly to the vendors obligated by the TIMR, the average prices collected by the Authority according to the Resolution ARG/elt 167/08 converge in the *retail* monitoring. Based on an institutional agreement, however, all the data collected according to the Resolution ARG/elt 167/08 are sent semi-annually to the Ministry of Economic Development, who sends them to Eurostat, in order to fulfil the obligation on statistics of the end prices of electric power and natural gas. As the latter were modified in 2016, with the adoption of *Regulations (EU) 2016/1952 relative to European statistics on the prices of natural gas and electric power and that repeals Directive 2008/92/CE*, the Authority renewed<sup>181</sup> its own survey systems of the prices practised by the vendors of electric power and natural gas to the consumers in order to adapt them to the requirements of the new European Regulations.

The data of the *Annual Survey* is used for a statistical analysis carried out by the Authority, especially those exposed in the annual reports to the national and European Authority.

Within the *Annual survey on the regulated sectors*, the sales operators have been requested to transmit the data relative to the end price practised to their customers, net of taxes, for the part connected to the single supply costs (that are obtained from the sum of the components relative to the energy, the dispatching, the network losses, the imbalance and the marketing costs of the sale).

The analysis of the prices transmitted by the operators has shown an extreme variability of the unit expense for the customers. This result can be found in all consumption classes, with certain differences.

As we can see in table 3.22, that shows the averages of the prices practised to the domestic customers divided by consumption classes, the values are included between a minimum of 165.1 €/MWh, for the larger customers (beyond 15,000 kWh/year) and the maximum of 539.1 €/MWh, relative to the smaller class (0-1,000 kWh). The price falls as the size of the customer increases up to the third class (1,800-2,500 kWh/year), then rises from this class to the next (2,500-3,500 kWh/year) and decreases again and definitively in the three top classes (5,000 kWh/year upwards). Therefore, there is no longer the characteristic U-shaped trend that emerged in recent years. This is due to the implementation of the first two stages of the network tariff reform and system costs<sup>182</sup>, aimed at gradually phasing out the previous progressive structure of tariffs. The supply costs, as can be expected, goes down with the increase of the supply.

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<sup>180</sup> With the Resolution ARG/com 151/11 of November 3rd, 2011.

<sup>181</sup> With the Resolution 168/2018/R/com dated March 29th, 2018, that has also repealed Resolution ARG/elt 167/08.

<sup>182</sup> Resolution 582/2015/R/eel of December 2nd, 2015. In particular on January 1st, 2017 the full application of the non-progressive tariffs for network services occurred, and the first intervention on the system costs was carried out, in order to diminish the progressive effect and limit the number of annual consumption steps to two.



**Table 3.22 Final average prices net of the taxes for the domestic customers in 2017**

€/MWh; temporary data

CONSUMPTION CLASS (kWh/year)	QUANTITY OF ENERGY (GWh)	WITHDRAWAL POINTS (thousands)	PRICE NET OF TAXES	OF WHICH SUPPLY COSTS
> 1.000 kWh	3,579	8,008,527	539.1	164.7
1,000-1.800 kWh	10,038	7,121,975	222.9	109.1
1,800-2.500 kWh	12,545	5,867,433	171.7	101.9
2,500-3.500 kWh	15,036	5,120,101	181.9	98.7
3,500-5.000 kWh	10,244	2,516,646	176.7	96.0
5,000-15.000 kWh	5,704	873,161	174.4	92.7
> 15.000 kWh	606	23,956	165.1	84.7
<b>TOTAL DOMESTIC CUSTOMERS</b>	<b>57,751</b>	<b>29,531,799</b>	<b>211.4</b>	<b>104.1</b>

Source: Annual surveys on regulated sectors.

As new evidence of the high variability of the prices practised by the vendors, the data shown in table 3.23 can be observed, where, for each consumption class of the domestic customers, the supply costs found in the free market and the corresponding share of electricity sold are divided per price band (expressed in €/MWh). The maximum difference in the values is found in the second class of customers (consumptions between 1,000 and 1,800 kWh/year), in which all the defined price bands show significant quotes, even if the one between 100 and 125 €/kWh has more weight than the others. A smaller difference can be found in the two intermediate classes (consumptions between 1,800 and 3,500 kWh/year), in which the supply costs are higher in the interval from 75 to 125 €/MWh. The class of the smaller customers is less dispersed (less than 1,000 kWh/year), in which values above 150 €/MWh are predominant. The concentration is highest in the three larger classes (consumptions beyond 3,500 kWh/year), in which the supply costs are focused in the 75 to 100 €/MWh band.

**Table 3.23 Percentage of prices applied to the domestic customers per price band in 2017**

minimum and maximum prices in €/MWh

CONSUMPTION CLASS (kWh/year)	PRICE BAND					MINIMUM PRICE	MAXIMUM PRICE
	0-75	75-100	100-125	125-150	>150		
> 1.000 kWh	11%	8%	7%	18%	56%	20.2	475.0
1,000-1.800 kWh	13%	18%	42%	17%	10%	21.0	339.2
1,800-2.500 kWh	12%	36%	40%	8%	5%	26.5	265.2
2,500-3.500 kWh	13%	47%	32%	5%	4%	23.0	274.8
3,500-5.000 kWh	14%	55%	25%	3%	3%	20.5	255.3
5,000-15.000 kWh	17%	65%	14%	2%	3%	23.2	218.0
> 15.000 kWh	26%	62%	8%	1%	2%	22.1	292.6
<b>TOTAL DOMESTIC CUSTOMERS</b>	<b>15%</b>	<b>40%</b>	<b>25%</b>	<b>8%</b>	<b>12%</b>	<b>20.2</b>	<b>475.0</b>

Source: Annual surveys on regulated sectors.

**Table 3.24 Final average prices net of taxes for non-domestic customers in 2017**

€/MWh; temporary data; excluding the safeguarded category market

VOLTAGE LEVEL	QUANTITY OF ENERGY (GWh)	INPUT POINTS (thousands)	PRICE NET OF TAXES	WITH SUPPLY COSTS
Low voltage	74,042	7,257	195.2	88.5
Medium voltage	98,304	106	130.7	62.7
High and very high voltage	26,331	1	101.4	57.3
<b>TOTAL NON-DOMESTIC CUSTOMERS</b>	<b>198,677</b>	<b>7,363</b>	<b>150.8</b>	<b>71.6</b>

Source: Annual surveys on regulated sectors.

As already highlighted in the paragraph relative to the free market, the offers available for the consumers increased during the years. Some of these offers include blocked price supplies for a predefined period (one or two years), in which the updating mechanisms of the costs are not therefore influenced by market dynamics of the prices for the energy, but mainly depend on the date of subscription of the contracts and in particular on the expectations of the existing price trend of the energy at that moment, as well as the duration of these contracts (the longer it is, the more the negotiated price must take the risks of market changes into account). Other offers have variable prices. Some of these provide discounts on the raw material component, others offer advantages for the purchase of other goods or services (like discounts at the supermarket, or on fuel, or telephone services, maintenance and insurance services, etc.) Other offers are bound to the respect of defined consumption thresholds, and when they are exceeded, the additional price components are applied.

Table 3.25 shows the value of the prices net of taxes, dividing the electricity customers per type of hour tariff (excluding the safeguard market), while the subsequent tables show the prices of the electric power paid by the customers of the free market who have subscribed to a *dual fuel* contract, that are invariably less convenient compared to the purchase of electricity with a specific contract. The tables however allow us to notice the reduced consistency of the number of these customers and the energy they acquired.

**Table 3.25 Final average prices net of taxes per type of hour tariff in 2017**

€/MWh; excluding the safeguarded category market; temporary data.

HOUR TARIFF	QUANTITY OF ENERGY (GWh)	INPUT POINTS (thousands)	PRICE NET OF TAXES	WITH SUPPLY COSTS
Mono-hourly	43,137	8,428	174.95	87.18
Dual-hourly	96,037	22,214	172.94	85.90
Multi-hourly	112,946	6,162	157.34	73.28
<b>TOTAL CUSTOMERS</b>	<b>252,119</b>	<b>36,804</b>	<b>166.30</b>	<b>80.47</b>

Source: Annual surveys on regulated sectors.

**Table 3.26 Final average prices (net of the taxes) for the purchase of electricity in the free market practised for the domestic customers with *dual fuel* contracts in 2017**

€/MWh; temporary data.

CONSUMPTION CLASS (kWh/year)	QUANTITY OF ENERGY (GWh)	INPUT POINTS (thousands)	PRICE NET OF TAXES	WITH SUPPLY COSTS
> 1.000 kWh	170	336	572.10	175.46
1,000-1.800 kWh	627	443	263.85	116.36
1,800-2.500 kWh	806	378	222.71	107.89
2,500-3.500 kWh	951	324	207.22	103.72
3,500-5.000 kWh	599	148	196.32	99.92
5,000-15.000 kWh	293	46	191.90	97.90
> 15.000 kWh	30	1	195.71	94.48
<b>TOTAL DOMESTIC CUSTOMERS</b>	<b>3,475</b>	<b>1,676</b>	<b>235.56</b>	<b>109.24</b>

Source: Annual surveys on regulated sectors.

**Table 3.27 Final average prices (net of taxes) for the purchase of electricity in the free market practised for the non-domestic customers with *dual fuel* contracts in 2017**

€/MWh; temporary data.

VOLTAGE LEVEL	QUANTITY OF ENERGY (GWh)	INPUT POINTS (thousands)	PRICE NET OF TAXES	WITH SUPPLY COSTS
Low voltage	1,413	78.88	196.55	86.79
Medium voltage	774	0.89	134.41	66.07
High and very high voltage	10	0.01	98.66	53.27
<b>TOTAL NON DOMESTIC CUSTOMERS</b>	<b>2,198</b>	<b>79.78</b>	<b>174.21</b>	<b>79.33</b>

Source: Annual surveys on regulated sectors.

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

The **monitoring system of the retail markets** allows the Authority to accomplish the regular and systematic observation of the sale conditions, including the liberalisation degree, market competitiveness and transparency, and the level of participation of the consumers and their degree of satisfaction.

Legislative Decree n. 93, of 1 June 2011, in the implementation of the 2009/72/CE and 2009/73/CE Directives, has established that the Authority must carry out the monitoring of the retail markets, with reference to the electricity and natural gas sectors. This activity was launched, for both mass customers market sectors, with the integrated Text of the electricity and natural gas retail sales markets monitoring system (TIMR). With reference to 2016, the 801/2017/I/com Report illustrates the main outcomes of the monitoring activity, describing, when possible, the evolution of the relevant phenomena in the first five years of the monitoring (2012-2016). Coherently with the previous Reports, the Report of 2016 analyses the data collected in matters of:

- structure of the offer and competitive dynamics in the sector of mass customers sale;
- the frequency with which the customers change their supplier (switching) or renegotiate their contract with their current supplier;
- indexes on the functioning of the sales market (related to the quality of the sales services and telephone services, complaints, incidence of contested contracts, etc.);
- the arrears, as estimated by the analysis of the requests of supplies suspension and on financial type indicators, such as invoices and un-paid amounts.

The monitoring results confirm the absence of relevant problems for other uses MT customers, for 2016, even though there are signs of lower activity. The need for specific regulatory actions is not highlighted in the Report, but only the opportunity to limit the actions of the Authority to a careful monitoring of the phenomena. Differently from what has been found in the past years, for other uses BT customers the competitive dynamics and the structure of the sales market has shown encouraging positive signs. These signs deserve particular attention to find confirmation with other findings, also in the future. On the other hand, the results emerged for the domestic customers in the electricity sector, and the domestic customers and domestic use residences in the natural gas sector, suggest that greater attention is needed in the regulatory accompaniment process for the overcoming of the standard offer. In the report, attention is paid first to the fact that the levels of concentration recorded for the domestic customers are not improving, although there is a constant income of new small suppliers in the electricity and gas sales.

A certain fragmentation on the side of the offer can therefore be highlighted concerning the small vendors. On the other hand, the necessity to take into account the insufficient participation of the demand for both sectors, is highlighted in the Report. The latter, associated to the competitive advantage (that almost shows an increase in the electricity sector) of the standard offer regime and the historical vendors, can arouse criticalities in a context in which the departures of the smaller size customers from the standard offer services are increasing, when they were less active previously. These elements must be weighted in the light of the *retail* market evolution, to support customers using this occasion to benefit from all the opportunities offered from the free market, in the next step of overcoming the standard offer.

In 2017, the Authority also carried out<sup>183</sup> the update of the *retail* monitoring system, in order to:

- take more advantage of the potentialities of the SII<sup>184</sup> in collecting the data, object of the monitoring, and to diminish the informative costs for the operators;
- include certain phenomena inside the *retail* monitoring perimeter, which are already object of data collection in relation to other disciplines.

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<sup>183</sup> With the Resolution 495/2017/R/com of June 28th, 2017.

<sup>184</sup> The Integrated Informative System (SII), established with the Single Buyer with the Law n. 129/10, of August 13th, 2010, with the goal of managing the informative flows between the subjects that participate in the electricity and natural gas markets, according to the rules and procedures established by the Authority. It is based on a data bank that contains the whole list of the national withdrawal points and the fundamental data needed to manage the processes treated in the Central Official Registry or RCU, used by all the concerned subjects. For example, in the electricity sector, the data is distributed to Terna, the distribution companies, and the dispatching users with a consumption unit and the vendors.

### Switching

The annual survey, carried out with the electricity distributors, includes questions about *switching*, meaning the number of customers that changed supplier in the solar year of 2017<sup>185</sup>.

In 2017, according to the data obtained from the distributors, customer switching in the electricity market was greater than in the previous year. Overall, almost 3.8 million customers (83,000 more points than in 2016), or 10.3%, changed supplier at least once during the year. In terms of volume, this corresponds to 33% of the total energy distributed.

**Table 3.28 Final client switching rate**

TYPE OF CLIENT	2016		2017	
	VOLUMES	WITHDRAWAL POINTS	VOLUMES	WITHDRAWAL POINTS
Domestic	10.5%	8.7%	11.6%	7.9%
Non-domestic	28.0%	15.6%	38.4%	19.9%
<i>of which:</i>				
- low voltage	26.8%	15.5%	34.1%	19.7%
- medium voltage	33.5%	27.4%	46.9%	38.1%
- high and very high voltage	17.0%	17.6%	26.2%	22.2%
<b>TOTAL</b>	<b>24.2%</b>	<b>10.1%</b>	<b>32.6%</b>	<b>10.3%</b>

Source: Annual surveys on regulated sectors.

In 2017, more precisely, 7.9% of the families changed supplier (that is 326,000 withdrawal points), corresponding to an energy share of 11.6% and 19.7% (slightly over 1.4 million) of the non-domestic customers connected in low voltage, corresponding to an energy share of 34.1%. The number of households that changed supplier at least once in the course of the year decreased slightly compared to 2016 (when approximately 2.5 million domestic customers switched supplier), but the switching rate has grown in terms of volume.

In 2017, contrary to events in recent years, *switching* increased among non-domestic customers with medium and high voltage, in terms of the withdrawal points and energy.

38.1% of the customers in medium voltage changed supplier, 11,500 points more than 2016, corresponding to 46.9% of the volumes. Slightly less high, but however very significant, are the rates of supplier changes for customers in high or very high voltage: 22.2% in terms of withdrawal points and 26.2% in terms of energy (Table 3.28).

### Complaints and notifications

The Authority must ensure the effective treatment of complaints and consumers dispute settlement procedures towards natural gas and electricity suppliers and distributors, with the Single Buyer, and to ensure the application of the principles in matters of consumer protection, mentioned in the Annex 1 of the European Parliament and Council 2009/72/CE and 2009/73/CE Directives, according to what is provided by Art. 44, para. 4, of the Legislative Decree n. 93/11.

<sup>185</sup> The questions were asked in such a way as to observe the phenomenon according to the definition provided by the European Commission. The questionnaire of the previous years was used. Please see the previous Annual Reports for the details.

The **Energy and Environment Help Desk** is the tool with which the Authority guarantees (since the end of 2009) the effective treatment of complaints, including those of *prosumers* (consumers-producers), requesting the necessary information to the operators and supplying the customers, representative associations and operators, with the necessary information to resolve the notified criticalities. The Help Desk only transmits fully instructed complaints to the Authority, which must then be assessed by the Authority itself. The new Help Desk regulations (described in the *Annual Report* of last year) became effective on 1 January 2017.

362,151 calls were handled during service hours and another 59,855 out of service hours, in the *call centres* of the Energy and Environment Help Desk, for a total of 422,036 calls, from 1 January 2017 to 31 December 2017. 40,199 customers hung up without waiting for the operator to answer (20% more, compared to 2016), while the average conversation time was attested in 191 seconds, slightly less than 2016 when 200 seconds were recorded. The average waiting time also decreased, going from 147 seconds to 134 seconds.

The criticalities dealt with in the phone calls received by the Help Desk concerned, in particular, the gas and electricity bonus, which were the subject of 50% of the calls, with a slight increase compared to 2016, and the dispute settlement resolution methods (18%). 58% of the calls that regarded the bonus were about the different subjects related to the state of advancement of the application of the bonus and mainly concerned the time gone by since the presentation of the bonus request in the Municipality or the Centre for fiscal assistance (CAF) and the moment in which it was effectively allocated in the bill (an average of 120 days). Still with reference to the bonus, what affected the increase, for the share related to general information (17%), was also the necessity for the consumers to receive information concerning the changes introduced in matters of bonus by the Decree of the Minister for Economic Development of 29 December 2016, described in chapter 5.

**Table 3.29 Main subjects of the calls managed by the call centre of the Help Desk in 2017**

PARTY	NUMBER OF CALLS	SHARE
Gas bonus	89,455	25%
Electricity bonus	90,782	25%
Dispute settlement resolution method	66,736	18%
Rights and regulations	49,511	14%
Help desk applications	38,090	11%
Similar protection	27,578	8%
<b>TOTAL</b>	<b>362,152</b>	<b>100%</b>

Source: ARERA processing of data from the Help desk for the energy consumer.

As already mentioned, the item “dispute settlement resolution mode” (Table 3.29) reduces the necessity of clarifications for the consumers, according to the new protection system, and the item “Help desk applications”, which are requests concerning the development of previous applications, is still relevant.

In 2017, the Help-desk *contact centre* received 4,583 written requests of information, of which 45.6% were classified complex because they were connected to potential disputes; it also received 7,524 second-level complaints to which it replied with a standard letter informing customers that disputes must be resolved by activating a conciliatory procedure using the Conciliation Service or other bodies for the out-of-court settlement of disputes.



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

#### Investigation and inspections

The *enforcement* of the provisions provided by the Authority is performed through the operators' behaviour control, defined one by one on the basis of programming documents prepared annually or following notices or proofs held by the Offices. For this reason, the Authority performs surveys, inspections and document verification of plants, processes and services related to the Authority's interest sectors.

The following were carried out during 2017:

- surveys, related to the parties considered as priorities by the *Strategic framework of the Authority for the four-year term of 2015-2018*, in particular, in the reference period, the survey continued in matters of investments declared by the companies;
- *on-site* inspections, related to a wide range of topics, with particular attention to priority topics such as consumer protection, service quality, correct operation of the markets and control of the distributed incentives and the costs items recognized in the tariff;
- document surveys, mainly related to the correct application of the brand unbundling obligation and the communication policies of the electricity and gas distribution companies, and to the correct contribution, by the regulated companies, of the Authority's operational costs, and to the information supplied in the context of the Registry of the Authority operators.

Provisions have been adopted, at the outcome of the inspections in case of non-compliance with the regulations, with consequential sanctions and/or prescriptions for the operators.

Already in 2014, the Authority had launched a **multi-year survey on the investments of the regulated companies**. Within this survey, the Authority further developed the document verifications on the declared investment costs for the definition of the tariffs paid by the consumers. The verifications were carried out in collaboration with the Guardia di Finanza (Tax Police). In particular, in the first six months of 2017, after the examination of the documentation transmitted by Italgas, the preliminary investigations of the costs of the Company were terminated, that were sustained for the deposits related to a local tax of the Municipality of Rome in 2009 and 2010, and the preliminary investigation referring the same costs for 2011, 2012 and 2013 was launched. The Company has produced further documents for these investigations that are currently being assessed.

The context of the multi-year survey for which the above-mentioned Resolution was further extended, concerning the tariff corrections requested by the Napoletana Gas Company, incorporated in Italgas reti and effective since 1 October 2017. The term for the ending of the preliminary investigation was settled at 30 June 2018.

124 **inspections** were carried out in 2017. 8 of these were for consumer protection, 5 for tariff control and compliance with *unbundling* provisions, and 5 were related to behaviours on the wholesale and *retail* markets.

#### Measures for the effective promotion of competition

As already illustrated in the paragraph dedicated to the main innovations in the context of national

legislation (see chapter 2), the **competition law** was approved in 2017 (Law n. 124 of 4 August 2017), that introduced regulations related to the electricity and natural gas *retail* market in particular for (i) the termination of the transitory price regulation defined by Law n. 125, of 3 August 2007, starting on 1 July 1st, 2019, and (ii) the introduction of actions to support the further development of the *retail* markets.

According to what is established in Law 124/2017, the Authority has approved and transmitted the *Report related to the monitoring of electricity and gas retail markets* to the Minister for Economic Development. The following is described in this Report:

- the operability of the web portal provided by the competition law and already launched by the Authority;
- the completion of the normative and regulatory framework and the efficiency of the tools needed to guarantee the compliance with the *switching* timing according to what is provided by the 2009/72/CE and 2009/73/CE Directives of the European Parliament and Council;
- the completion of the normative and regulatory framework and the efficiency of the tools needed to guarantee the compliance with the invoicing and balancing timing according to what is provided by the aforesaid Directives;
- the operability of the Integrated computer system (SII);
- the completion of the normative and regulatory framework and the compliance with the provisions of the Authority in matters of implementation of the *brand unbundling*, according to what is provided in the aforesaid Directives.

### Measures for the effective promotion of competition: regulation of standard conditions prices

As already pointed out in the Annual Report, Law n. 125, of 3 August 2007, completed the liberalisation of the *retail* market in the electricity sector, and established the standard offer regime simultaneously, regulated by the Authority and destined to domestic customers and small companies that did not choose a vendor in the free market. The standard offer regime fulfils two purposes: to guarantee the continuity of the electric power service (function of universal service) on one side, and on the other, a specific contract quality at reasonable prices (function of price control). This second purpose will be removed on 1 July 2019, by the above-mentioned Law 124/2017, which, as we said above, entrusted the Authority with the task of establishing provisions in order to guarantee, in the same date, the safeguard service to domestic customers and small companies without an electricity supplier through tender procedures for territorial areas and at conditions that stimulate the passage to the free market. This service will therefore have the task of guaranteeing service continuity (function of universal service) in residual cases in which the customer is not supplied in the free market.

Until the date of termination of the standard conditions service, or the transitory price regulation, the regulation of this service by the Authority occurs in compliance with the principles of temporariness regarding the market liberalisation and proportionality process, defined by the European Court of Justice<sup>186</sup>. The Authority programmed<sup>187</sup> the review of the standard offer regime distribution conditions for this reason, on 1 January 2017, with the objective of rendering this

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<sup>186</sup> Sentence of the European Court of Justice – Large Section, April 20th, 2010, proceeding C-265/08.

<sup>187</sup> With the Resolution 633/2016/R/eel of November 4th, 2016, effective since January 1st, 2017.

service's characteristics more consistent with those of the universal service. In particular, the modes for the determination of the amounts to cover the electricity supply fees have been modified, establishing that the cost for the purchase of electricity (PE element of the PED amount) is determined with exclusive reference to the price in the spot wholesale markets for electricity. The methods for the determination of the commercialization costs have also been changed.

### Tutela SIMILE

With the objective of favouring the gradual absorption of the price regulation mechanisms, but also to allow the ripening of a mass *retail* market and, therefore, the voluntary and aware departure of the consumers from the actual standard offer services towards the free market, the Authority has also introduced<sup>188</sup> a new free market contract, called Tutela SIMILE.

Starting on 1 July 2017 and until 30 June 2018, the consumers supplied in standard offer market can therefore subscribe to this new contract, choosing among a group of qualified suppliers with specific requirements. This contract provides standard conditions, defined by the Authority, and has the only objective to supply electricity; the possibility to supply additional services is therefore excluded. In this contract the financial conditions are the same as the standard offer regime, net of a discount, that can be defined by each vendor, to be included in the first invoice ("*bonus una tantum*").

The customer can subscribe a Tutela SIMILE contract only once, in the sense that the contract has a duration of one year starting from the *switching* date and is not renewable; at the end of the Tutela SIMILE period, the customer can choose to continue to be supplied in the free market by the qualified supplier or choose another vendor, or go back to the standard offer market; if no choice is expressed, the customer will continue to be supplied by the Tutela *SIMILE* supplier, who will apply the conditions provided by the so called "*PLACET offer*" (described below).

The suppliers admitted to the Tutela SIMILE are 27 important sale Companies that operate on a national level; the *una tantum bonus* offered<sup>189</sup> is different for domestic and non-domestic customers, and they go from a minimum of 10 euro to a maximum of 200 euro.

On 1 April 2018, 3,779 customers, nearly all domestic (95.7%), were supplied in Tutela SIMILE after switching.

Regarding the supplier of Tutela SIMILE chosen by the customers, we have noticed that in 12% of the cases it is the same party that distributed the standard offer regime to the end customer previously, and in 40% of the cases the party is the supplier that already supplies the customer with natural gas.

Considering transfers and activations, the total customers supplied in Tutela SIMILE after switching, activation or transfer, are 9,003.

### PLACET offers

The advance in the understanding of commercial offers by the consumers is a fundamental prerequisite for their active participation in the market. This participation is essential in order to reach a set-up where the free market constitutes the normal method of electricity and gas purchase also for smaller customers, above all, in view of the end of the standard conditions services that, as often mentioned, will occur on 1 July 2019, as established by Law 124/2017. The Authority has

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<sup>188</sup> With the Resolution 369/2016/R/eel of July 7th, 2016.

<sup>189</sup> The *una tantum* bonus is fixed for the whole period of the *SIMILE protection* from January 1st, 2017 to June 30th, 2018.

therefore introduced<sup>190</sup> the PLACET offers (free price offers under uniform contractual conditions), for both electricity and natural gas.

PLACET offers have the purpose of increasing the ability of evaluation of the commercial offers found on the free market. This objective is reached by means of the definition of comprehensible offer structures, comparable between vendors (only differentiated in the price level) and separated from all the additional service proposals of the same vendor. The PLACET offers are applied to small identified customers supplied in the free market, with all the customers (domestic and non-domestic) connected to the low voltage network for the electricity sector, and with the consumers (domestic, buildings domestic use and other uses) owners of points with annual consumption lower than 200,000 S (m<sup>3</sup>) for the natural gas sector. Each seller of the free market is therefore forced to insert two formulas of PLACET offers - one at a fixed price and one with a variable price - into their list of commercial offers, characterized by general supply conditions defined by the Authority, except for the economic conditions, whose levels are freely defined by the vendor (in agreement with a predefined payment structure). In both cases, the price of energy is divided in a fixed share expressed in €/customer/year and an energy share expressed in €/kWh or €/S (m<sup>3</sup>) and therefore proportioned to the consumed volumes.

More precisely, the PLACET variable price electricity offers provide, every month, a price indexed with the PUN (National Unique Price) expressed in €/kWh, as determined by the GME. The price is divided into hour bands with a remote-managed meter. In particular, for the remotely managed domestic customers, the price is divided into F1 and F23 hour bands, and for the remotely-managed non-domestic customers, it is divided into F1, F2 and F3 hour bands<sup>191</sup>. For the domestic and non-domestic customers, who aren't remotely managed with a meter, the price is the same at all hours.

The PLACET natural gas offers at variable prices provide a price indexed with the TTF determined every quarter as the arithmetic average of the OTC *forward* quarterly quotes of the related quarter, in the TTF *hub*, found by ICIS-Heren with reference to the solar month preceding the concerned quarter.

At the end of 2017 the Authority defined<sup>192</sup> the tool for the comparison of PLACET offers, among other things, in the Portal for collection and publication in *open data* mode, of all the offers for the sale of electricity and gas in the retail market. This portal will be realised and managed by the Manager of SII<sup>193</sup>.

The Authority also approved<sup>194</sup> for the PLACET offers, (with the contribution of the participants at an appropriate permanent Work Table representing the interests of the demand and offer), a module of the general supply conditions, that can be used by vendors on a voluntary basis, which constitutes the *benchmark* for contract drafting. The vendors that adopt this module cannot modify and/or integrate the relative clauses, while those who do not adopt it must however comply with the PLACET offers regulations when establishing the general supply conditions of the relative

<sup>190</sup> With the Resolution 555/2017/R/com of July 27th, 2017.

<sup>191</sup> More precisely, the hour bands are defined as follows:

- F1 (peak hour): from 8:00 am to 7:00 pm from Monday to Friday, excluding national holidays.
- F2 (intermediate hours): from 7:00 am 8:00 am, and from 7:00 pm to 11:00 pm from Monday to Friday, and 7:00 am to 11:00 pm on Saturday, excluding national holidays.
- F3 (non-peak hours): from 12.00 am to 7.00 am and from 11.00 pm to 12.00 am from Monday to Saturday, Sunday and all day on holidays.
- F23: from 7:00 pm to 8:00 am every day, including Sunday and holidays. This band includes the hours of the F2 and F3 bands.

<sup>192</sup> With the Resolution 848/2017/R/com of December 5th, 2017.

<sup>193</sup> With the Resolution 51/2018/R/com of February 1st, 2018, described in detail in the consumer protection chapter of this Report.

<sup>194</sup> Also with the Resolution 89/2018/R/com of February 15th, 2018.

contracts. The regulations of the PLACET offers and the Portal for the collection and publication of the offers found on the free market, are the tools provided by the Authority in order to guarantee comparability and transparency of electricity and gas supply offers, required by the Law 124/2017.

While waiting for the realization of this Portal, it is necessary to remember that **Trova Offerte** (Offer Finder) remains operative, a gas and electricity research system for the commercial offers of sales companies, for domestic customers, that the Authority organised many years ago, and in which the publication of the offers by the suppliers is voluntary.

### 3.3 Security of supply

#### 3.3.1 Monitoring balance of electricity supply and demand

The monitoring balance of electricity supply and demand is not part of the Authority's competences: according to Art. 1 of the legislative Decree n. 93/11 this competence was attributed to the Ministry for Economic Development (MSE).

#### 3.3.2 Monitoring investment in generation capacities in relation to security of supply

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

- network operating security (Art. 7 of Directive 89/2005/CE);
- investments in the interconnection capacity in the next 5 years or more (Art. 7 of Directive 89/2005/CE);
- expected demand and supply for the next 5 years and 1-15 years (Art. 7 of Directive 89/2005/CE).

### Capacity market

The process for the up-start of the capacity Market has requested the parallel management in the last few years of:

- the relation with the European Commission, for the notification and decision on the compatibility of the measure with the EC regulations on State aid;
- the completion process of the regulation framework necessary for the up-start of capacity auctions.

In August 2017, on the European front, following a complex pre-notification process, the Ministry for Economic Development formally notified the measure to the Commission. In February 2018 the Commission approved the Italian Capacity Market, according to the Community regulations on State aid, concluding that the measure conceived by Italy will contribute to guarantee the security of the supply, while protecting the competition in the single market. The Commission also reasserted how the Italian Capacity Market possesses specific elements to guarantee its effectiveness, differently from other examined and approved capacity mechanisms.

During 2017, on the national front, the review process of the capacity Market regulations went ahead, which was launched during the previous year. This process became necessary to obtain the decision of compatibility regarding the Community regulations on State aid from the Commission, on one side, and on the other, to proceed with the proposal of the Authority to anticipate the entry into operation of the capacity Market with the definition of a first mechanism activation phase. The Authority expressed<sup>195</sup> its own guidelines on the relevant aspects for the development of the first

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<sup>195</sup> Document for consultation 592/2017/R/eel of August 3rd, 2017.



Capacity Market auctions, among which the strike price, the active participation of the demand, the financial parameters for the definition of the demand curve, the adequacy standard, the relation between this standard and the Market's main financial parameters and the management of the risk of exercise of the market power.

Concerning the strike price, the Authority placed the relevant technical parameters values for the determination of the above (fuel component, emissions component, disposal component and other burdens and risks component) in consultation and made some changes and integrations to the price calculation method explained in the Terna regulation scheme. The Authority also described the reasons to support the hypothesis to consider natural gas as the reference fuel for the calculation of the strike price. The Authority also defined the criteria for the modification of the aforesaid method to limit the risks for the operators, for example by specifying that the variations will be subject to the principle of non-retroactivity.

The Authority believes the following, concerning the participation to the demand of the capacity Market:

- the demand, unlike the production, cannot adequately supply the additional demand, but it can eventually decide to provide autonomously to its own adequacy;
- the demand that intends to participate actively to the Capacity Market should not be penalized by the level at which the strike price is set, because of the double role covered by the demand in case it assumes capacity engagements (adequacy consumer and supplier of the same).

The demand that is engaged in the Capacity Market (engaged/subscribed *DSR*) that has offered a premium on the market not above the balancing premium, in relation to its own capacity, is a capacity demand that implicitly asks Terna not to provide production capacity for its adequacy, since it is able to provide it autonomously, and that Terna should not include it among the parties that bear the net Market costs. The above-described implicit requests of the engaged *DSR* imply that the financial resources, from/to the Market system to/from the above mentioned *DSR* must be able to neutralise its position in the system itself. To guarantee the perfect neutralisation of the engaged *DSR* position in the Market system, the Authority must ensure that the *DSR* does not pay or receive any premium and variable amount to/from Terna with reference to the Market and, simultaneously, that it complies with the selective detachability requirement. In other words, to face the obligation of making its own charge reduction available, the right of not bearing the Market fees would be recognized to the engaged *DSR*. These considerations highlight how:

- the Capacity Market intrinsically remains a tool for the supply of production capacity for the demand, with enough advance to allow the realization of new production capacity when the existing one is no longer sufficient;
- if one part of the demand is engaged *DSR*, meaning that one part of the demand does not use the coverage service offered by the Capacity Market, this market aims only to provide production capacity for the capacity demand that is different from the engaged *DSR*;
- the strike price remains a parameter that represents the variable production cost and not the marginal cost of the demand.

Concerning the capacity request curves, the Authority has expressed its own guidelines for the financial parameters of the curves elaborated according to the method consulted by Terna in the month of January 2017. This method provides that the demand curves be defined for each area, as

the linear interpolation of four points. On the abscissa axis, Terna must define the capacity corresponding to determined adequacy levels defined ahead of time and measured in terms of Loss of Load Expectation (LOLE), for each area, which is the expected number of hours per year in which the available manufacturing capacity is not in a position to structurally satisfy the totality of the consumption and the margins of power reserves needed to comply with prefixed standards of service security and quality. The will to pay of the electricity system and the premium (in euro/MW/year) to be allocated to the selected resources, with a tender, corresponding to the previous adequacy levels, should be represented on the axis of the ordinates. The centre point of each curve should show an abscissa equal to the amount of capacity that corresponds to the adequacy objective and an ordinate equal to the fixed cost that must be supported in order to make the realisation of a new peak capacity possible.

In the consultation document, the Authority illustrated the relation between the adequacy target expressed in terms of LOLE, the fixed cost of the new peak generation capacity (CONE) and the value for the consumer of the non-supplied energy for the adequacy target (VOLL). This relation is important for the precautionary choice of the target value of LOLE, among other things, since it highlights the need to select a value that is compatibly balanced with the VOLL, given the CONE corresponding to the adequacy target and the variable cost of the peak production technology.

The Authority has also consulted specific management measures for the market power exercise risk, in order to consider the fact that, based on the analyses elaborated by Terna, the phase of excess of the capacity offer for the adequacy may have been exceeded. This circumstance could have a relevant impact on the degree of competitiveness expected in the first Capacity Market auctions, to the point of allowing possible outcomes characterised by the exercise of market power by the holders of existing capacity, because of the absence of sufficient competitive pressure exercised by the new realisation capacity. In these conditions, the conduction of the tender procedures of the first performance phase could also have critical results because of the concrete risk that the fees connected to the acknowledgement of the premiums becomes particularly high, even with a substantially unaltered generation peak (for the limited expected contribution of the new capacity).

According to what is explained in the consultation document, it would be necessary, for the implementation of the first activation phase, to adopt measures that could prevent the effects of the exercise of market power by the holders of the existing capacity, to protect the end consumer. It would be important to proceed with caution, for the same reason, also with the launching of the full activation phase, considering the difficulties in the assessment of the competitive pressure that the new capacity will be able to exercise. This pressure depends on many variables, some of which are external to the Capacity Market system, for example the level of the administrative barriers represented by the authorization processes. Where the potential competition depends on Capacity Market system parameters, like the duration of the planning and delivery periods and the maximum value of the premium for the new capacity, the real effectiveness of the choices made for the parameters regarding the activation of investments in new capacity, can only be estimated after the first auctions. The Authority thinks that it is important, considering all of this, to differentiate the maximum value of the premium of the existing capacity from the maximum value of the premium on the new capacity, at least in the first auctions, by adopting specific measures that consider the gradual increment of the planning period. The Authority discussed the approach to determine the maximum value of the premium of the new capacity based on the fixed cost of the new peak capacity and the maximum value of the premium of the existing capacity, in line with annual fixed operative costs for MW (excluding amortization) of the programmable production technology prevailing in the existing generation park (combined cycle).

**3.3.3 Measures to cover peak demand or shortfalls of suppliers**

The measures needed to cover the electricity peak demand and shortfalls of suppliers are not part of the Authority's competences: according to Art. 1 of the Legislative Decree n. 93/11 this competence was attributed to the Ministry for Economic Development (MSE).

## 4 THE GAS MARKET

### 4.1 Network Regulation

#### 4.1.1 Unbundling

##### Unbundling regulations

The regulation of functional and compatible *unbundling* is common to the sectors of electricity and natural gas. Therefore, for this part please refer to what is illustrated for the electricity sector, in paragraph 3.1.1.

##### Certification of the transmission system manager

In April 2017, the Authority ordered<sup>196</sup> the preliminary re-certification for Società Gasdotti Italia S.p.a. as the manager of natural gas transport under ownership unbundling, according to Art. 10 and 11 of the Directive 2009/73/CE. The re-certification of the company, already certified as a transport operator according to the model of ownership unbundling, became necessary due to the change of the company's control structure (on 15 September 2016, Società Gasdotti Italia was acquired by the Luxembourg company Sole Holdings Sarl, previously owned by Macquarie European Infrastructure Fund 4 and Swiss Life GIO II EUR Holding) and was designed to ascertain the continuity of the basic conditions of the first adopted certification and compliance with the requirements provided by the ownership unbundling model found in Art. 9, paragraph 1, letters b), c) and d) of Directive 2009/73/EC, as well as to verify that the acquisition of control of the transport system manager by third country parties does not put the security of the energy supply of the Member State and Community at risk, as provided by Art. 11 of the Directive 2009/73/CE. After the opinion emitted by the European Commission according to Articles 10, par. 6, and 11, par. 6, of the Directive 2009/73/CE and Article 3 of CE 715/2009 regulations, the Authority has therefore adopted<sup>197</sup> the final certification for Società Gasdotti Italia S.P.A., as natural gas transport manager in ownership unbundling, according to the above-mentioned articles 10 and 11, of the Directive 2009/73/CE.

#### 4.1.2 Technical functioning

##### Balancing of the financial value of natural gas

2017 was the first year of operation of the new balancing regime, in compliance with the model defined in June 2016<sup>198</sup> that fully transposes Regulation (EU) 312/2014 of 26 March 2014. Although the transition from the old<sup>199</sup> to the new scheme occurred on 1 October 2016 without the introduction of transitional and progressiveness measures that the European Regulation would have allowed, there were no particular criticalities recorded in the first year of operation.

In the "Report on the first six months of operation", published by the Authority in May 2017 on its own website, it was discovered that the new market had introduced itself with continuity in the pre-

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<sup>196</sup> Resolution 219/2017/R/gas of April 6th, 2017.

<sup>197</sup> Resolution 577/2017/R/gas of August 3rd, 2017.

<sup>198</sup> Resolution 312/2016/R/gas of June 16th, 2016.

<sup>199</sup> The old balance regime had been introduced on April 14th, 2011, with Resolution ARG/gas 45/11.

existing markets without any relevant effects on the previous recorded trends, except for the physiological volatility of the intra-day products. The first qualitative and quantitative analyses have shown a generally satisfactory course of the new balancing. The mechanism works well even if winter did not submit the system to moments of tension, except for certain days characterised by particularly high consumption. What's more, compared to the pre-existing regime in which the so-called *locational* market session was activated in the event of a gas shortage, the recorded price peaks did not reach the values of the previous period and seem more proportionate compared to the true system requirements.

The balancing actions of the Authority were therefore concentrated on the precise definition of the calibration of Snam Rete Gas incentives, introduced in 2016<sup>200</sup> and reviewed in 2017<sup>201</sup>. Observing that the original incentive scheme was effective in the pursuit of the efficiency objectives of the balancing actions, the Authority has re-formulated the parameters based on the acquired experience. This re-modulation did not modify the objectives that Snam Rete Gas must pursue in order to draw maximum profit from these incentives.

In May 2017, measures were defined<sup>202</sup>, in line with the forecasts of the Integrated Text on Balancing, to ensure the neutrality of the manager of the balancing system with regard to the financial items deriving from the management of the *line-pack*, for non-accounted gas (CNG), self-consumption gas and network loss.

Italy, compared with other European countries, thus appears to be in a forward position of implementation of EU Regulation 312/2014.

### Reform of the *settlement* regulation

In August 2017 the Authority formulated<sup>203</sup> its own guidelines concerning the simplification of the modes of accomplishment of the balancing and regulation sessions provided by the enforced regulation of gas *settlement*, also facing the problems that emerged during its period of application in relation to the determination of the financial items after the completion of the regulation session, and to the possible presence of barriers to the access and contestability of the *retail* market, due to the existence of a difference between the amounts input into the distribution system and those withdrawn by the consumers supplied by it, difference that - as it turns out from the data collected in the past years - is characterised by important time and territory variations.

For the management of the regulation sessions for the past years, from 2013 to the launching of the new regulation, the Authority has provided<sup>204</sup>:

- the application of a procedure divided in two processes, for the determination of the regulation items:
  - the first is functional for the calculation of the balance of the economic items attributed to the balancing user (UdB) at the time of the final balance, by re-applying the algorithm already used in the balancing session, currently effective, and recalculating the imbalance of each UdB;

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<sup>200</sup> Resolution 554/2016/R/gas of October 6th, 2016.

<sup>201</sup> Resolution 661/2017/R/gas of September 28th, 2017.

<sup>202</sup> Resolution 349/2017/R/gas of May 18th, 2017.

<sup>203</sup> Document for consultation 590/2017/R/gas of August 3rd, 2017.

<sup>204</sup> Resolution 670/2017/R/gas of October 5th, 2017.

- the second is used to evaluate the amount of competence of each UdB, object of compensation, of the difference between input and withdrawal at the redelivery point of the transport network interconnected with the distribution network (*city gate*), sharing the annual share recognised with this difference in proportion to the withdrawals allocated during the year to the UdB at the same *city gate*;
- the accomplishment of the unique multi-year regulation session already provided for May 2018, according to the enforced regulation, with reference to the years 2013 - 2016, without anticipating the one relative to 2013 to December 2017;
- that the publication of the outcomes of the multi-year regulation session occurs on 11 June 2018, considering the requirement to foresee adequate verification timing for the data provided by the distribution companies.

Subsequently<sup>205</sup>, the regulatory reference framework for the determination of the items relating to the regulation sessions was completed, concerning the past and until the complete effectiveness of the new regulation, and the decision was taken to gather a collection of functional data for the preparation of the corrective intervention of the offset of the payments, applied due to a material error committed by the distribution company or because of a metering error.

In February 2018, the Authority therefore launched<sup>206</sup> the reform of the gas *settlement* regulation, that will start on 1 January 2020, by approving the "integrated Text of the provisions for the regulation of the physical and financial items (TISG) for the balancing service of natural gas" attached to the same Resolution. This measure (achieved following three consultations) provides substantial amendments to the existing gas *settlement* regulations, in view of its comprehensive reform.

The new regulation aims to guarantee the efficient distribution of the natural gas balancing and transport services, concerning the competences of the energy withdrawn by each balancing user. It provides, among other things, to confirm the accomplishment of monthly balancing sessions and subsequent adjustment sessions (one for annual balance and one for multi-year balance), to determine the physical and financial items of the gas withdrawn by the transport system each gas day, for each balancing user, detailed per distribution user; a simplification of the procedures; to give SII the responsibility to provide the daily withdrawal data of the consumers to the balancing manager, for the determination of the regulating and balancing items.

The decision has been taken for the regime to start on 1 January 2020 to allow the necessary implementations on behalf of SII and the balancing manager.

The provision of February 2018 also establishes new provisions, for the completion of the reform.

### Gas distribution service quality

At the end of 2013, *the Regulation of the quality of gas distribution and metering services for the regulation period of 2014-2019 - Part I of the Unified text of the regulation of the quality and tariffs of the gas distribution and metering services for the period of regulation 2014-2019 (RQDG)*, was approved<sup>207</sup>. The RQDG regulates certain relevant activities for the security of the gas distribution service. Among these we can mention the emergency services, the inspection of the distribution

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<sup>205</sup> Resolution 782/2017/R/gas of November 23rd, 2017.

<sup>206</sup> With the Resolution 72/2017/R/gas of February 9th, 2018.

<sup>207</sup> With the Resolution 574/2017/R/gas of December 12th, 2013.

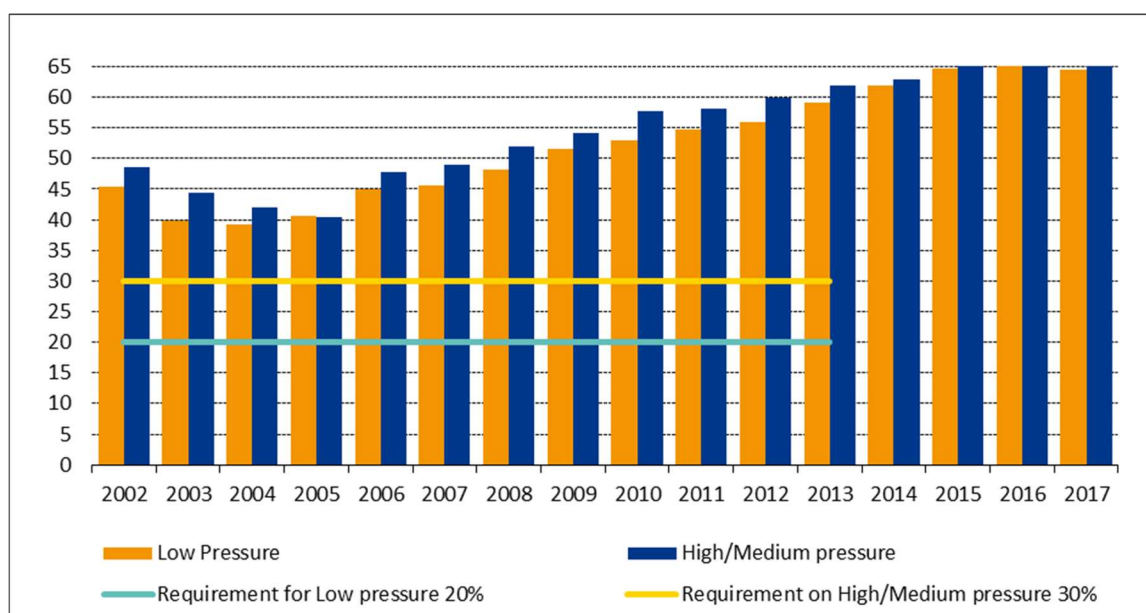


network, the activity of localisation of the dispersions after inspection or notification by third parties and gas odorization. The regulation of these matters has the objective to minimise the risk of explosions and fires caused by distributed gas and, therefore, its true purpose is the protection of persons and things from damages resulting from accidents caused by distributed gas.

The following diagrams and tables illustrate the development of the security of the gas sector in the last fifteen years.

Figure 4,1 shows the number of networks inspected in the period between 2002 and 2016. The regulation provided a minimum annual obligation until 2013, then, in 2014, it introduced an inspection obligation equal to 100% of the network in the three years (high/medium pressure network, AP/MP) or in the mobile four-year term (low pressure network, BP). 2017 registered a decrease compared to 2016, although the percentage of inspected network was higher than the levels recorded before 2014. Network inspections have the general objective of intercepting the phenomenon of dispersions for greater security of the citizens.

**Figure 4.1 Percentage of inspected network since 2002**

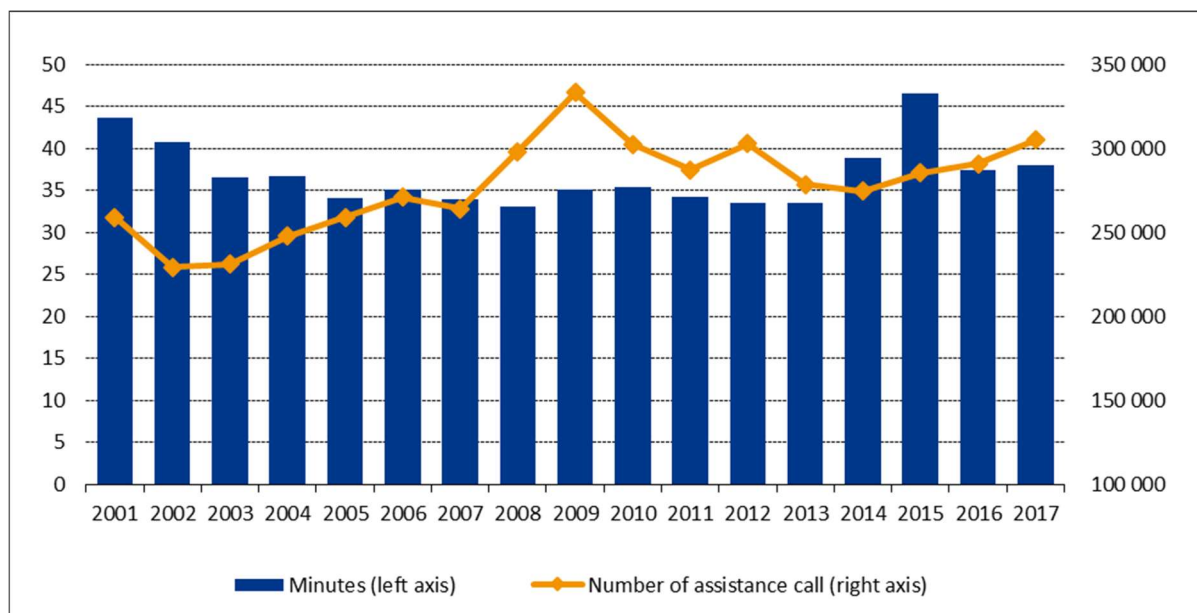


Source: Declarations of the ARERA distribution companies.

Concerning the requirements in matters of emergency services, figure 4.2 shows the arrival time on site after a phone call, for which an average national value of 38 minutes was recorded, slightly higher than in 2016. The obligation provides an annual minimum percentage of calls with time of arrival on the call site for emergency services within the maximum time of 60 minutes, equal to 90%. The obligation of recording the calls, introduced on 1 July 2009, followed by the customary control campaign on gas emergency services of the companies and accomplished with the help of the Guardia di Finanza, induces the companies to record the data precisely. We must also add that the companies obliged to participate to the premium-penalty regulation related to the security recovery has gradually increased and the compliance with the emergency regulation is an essential requirement for the acknowledgement of the premiums.

**Figure 4.2 Emergency services on the distribution system in the years 2001-2017**

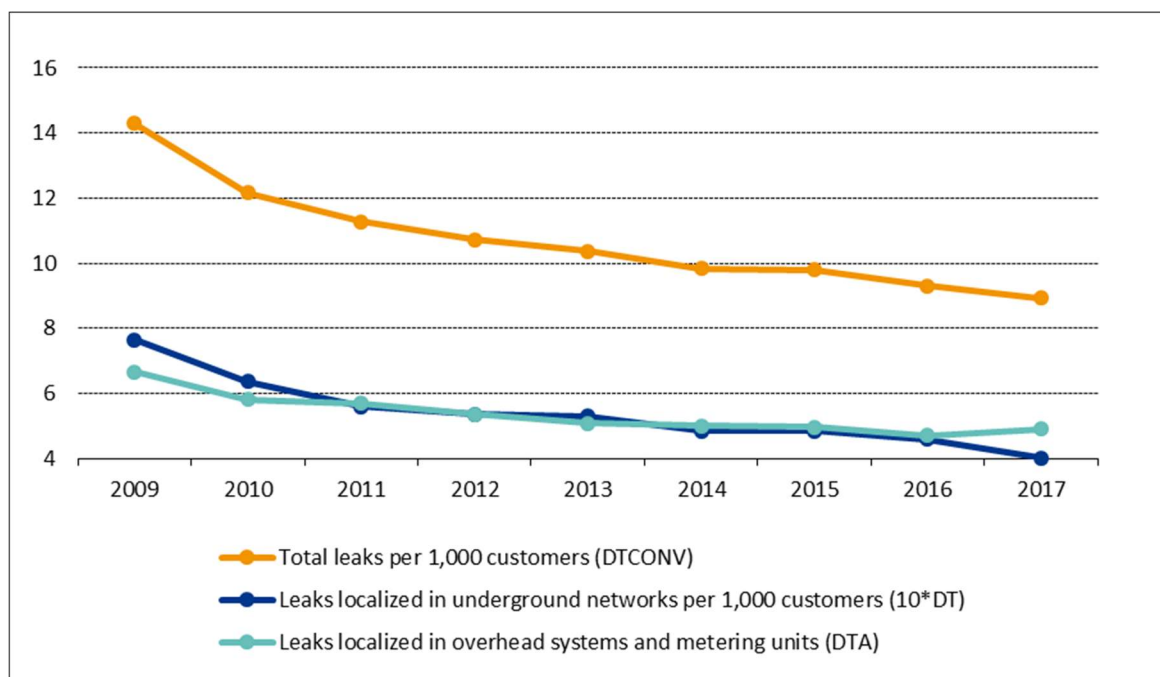
Number of calls and time of arrival on-site (in minutes)



Source: Declarations of the ARERA distribution companies.

**Figure 4.3 Number of localized dispersions following third party notifications every 1,000 customers**

Systems subject to incentive regulation - Period 2009-2017



Source: Declarations of the ARERA distribution companies.

Figure 4.3 shows the number of localized dispersions following third party notifications per thousand customers for the distribution systems subject to the premium-penalty regulation: a significant decrease trend was found for the underground network (10\*DT), while an increase was revealed in the last year for the air network (DTA); in 2017 the parameters, 10\*DT and DTA, settled on values respectively equal to 4 and slightly less than 5 dispersions per thousand consumers .

### Gas metering service quality

In July 2017 the Authority modified<sup>208</sup> the regulation of the metering service for the redelivery points connected to the natural gas distribution networks, in order to improve the performance of the service and, in particular, to induce the distribution companies to the effective recognition of the data.

More in detail, at the outcome of the consultation launched in September 2016<sup>209</sup>, the text "Regulation of the Quality of the gas distribution and metering services for the regulation period 2014-2019" (RQDG) was modified<sup>210</sup>, providing:

- for the accessible meters, the changes of the standard related to the successful attempts of metering collection, with the forecast of a standard geared to collecting the effectively acquired readings and not the viable attempts, and the introduction of a specific indicator to monitor the percentage of the meters with effective readings, differentiated according to the annual consumption classes;
- for partially accessible meters, to assimilate them, for metering performances, to non-accessible meters, by applying the same provisions;
- for non-accessible meters, to define the obligation of replacement of the traditional meters with electronic meters (smart) in the cases in which the distribution company did not even manage to acquire one effective reading last year, providing that these requirements be added to those already provided by the current regulation in the matter<sup>211</sup> and to establish an annual unit penalty on the distribution company equal to € 4 for each meter in case of non-compliance with the replacement obligation.

The new provisions, applied on 1 January 2018, concern the following:

- all the natural gas distribution companies, concerning the active redelivery points with a traditional accessible meter or "smart" type meter;
- the natural gas distribution companies with over 50.000 consumers on 31 December 2016, concerning the active redelivery points with partially accessible or non-accessible traditional meters.

### Connection times for the transmission and distribution networks

The data related to the connections is divided into connections to natural gas pipelines or connections to distribution pipelines. In each type of system, the data related to the number of accomplished connections and the average time passed in order to obtain them are highlighted, net of the time needed to acquire eventual administrative authorizations or implementations needed by the end customer who requested the connection. The average time is indicated in number of working days used for the realisation of the redelivery point and eventual other works needed to make the transport capacity available, according to what is provided in the stipulated contract.

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<sup>208</sup> Resolution 522/2017/R/gas of July 13th, 2017.

<sup>209</sup> Document for consultation 518/2016/R/gas of September 22nd, 2016.

<sup>210</sup> Annex A of the Resolution 574/2013/R/gas of December 12th, 2013.

<sup>211</sup> Resolution 631/2013/R/gas of December 27th, 2013.

In 2017, 66 connections were realised on the National Transmission Network (RTN), of which 54 in high pressure and 12 in medium pressure (Table 4.1). On average, it took 52 working days (76.9 days for high pressure and 35.6 days for average pressure). Last year the same number of connections was realised as in 2016: three more in the high-pressure network and three less in the medium pressure networks. The average time for the connections increased substantially compared to the previous year in both cases: nearly twenty days more for high pressure networks and more than double the time in the medium pressure networks (this data tends to be affected by the different composition of the companies that answer to the questionnaire each year).

For the distribution network an increment in the number of realised connections can be observed (Table 4.2): in 2017 it was of 124,114 against the 122,109 of 2016. As usual, most of the connections were accomplished in low pressure (97%) and the remaining in medium pressure. Unlike the transport, a shortening of the connection delay was recorded, going from an average of 16.3 work days (excluding the single connection in high pressure carried out in 2016) to 14.4 work days.

**Table 4.1 Connections to transport networks and average connection time**

Number and average time in work days

PRESSURE	2016		2017	
	NUMBER	AVERAGE DELAY <sup>(A)</sup>	NUMBER	AVERAGE DELAY <sup>(A)</sup>
High pressure	57	58.8	54	76.9
Medium pressure	9	10.9	12	35.6
<b>TOTAL</b>	<b>66</b>	<b>30.0</b>	<b>66</b>	<b>52.1</b>

(A) Excluding the time passed to obtain eventual authorisations.

Source: Annual surveys on regulated sectors.

**Table 4.2 Connections to distribution networks and average connection time**

Number and average time in work days

PRESSURE	2016		2017	
	NUMBER	AVERAGE DELAY <sup>(A)</sup>	NUMBER	AVERAGE DELAY <sup>(A)</sup>
Low pressure	1	746.0	0	-
High pressure	4,136	24.9	3,602	21.2
Medium pressure	117,972	7.8	120,512	7.7
<b>TOTAL</b>	<b>122,109</b>	<b>259.6</b>	<b>124,114</b>	<b>14.4</b>

(A) Does not include the time needed to obtain the eventual authorisations and the time needed for eventual implementations on behalf of the end client.

Source: Annual surveys on regulated sectors.

### Transport service access

In April 2017, the Authority launched<sup>212</sup> a process for the integration and amendment of existing regulations on the allocation of existing capacity and incremental capacity at input points interconnected with foreign countries, in implementation of EU Regulation 459/2017 (so-called new CAM regulation). The new CAM regulations have a wider capacity compared to the previous 984/2013 regulations, implemented by the Authority in 2014<sup>213</sup>, since, as well as substantially

<sup>212</sup> Resolution 242/2017/R/gas of April 13th, 2017.

<sup>213</sup> Resolution 137/2014/R/gas of March 27th, 2014.

confirming the previous provisions in matters of allocation of the existing capacity, it also regulates the procedure for the realisation and allocation of incremental capacity.

In June 2017 the current regulation in matters of penalties for capacity offset at the points of redelivery of the gas transport network that supply gas distribution transport systems was modified<sup>214</sup>, accomplishing what is provided in the matter in the legislative Decree n. 257 of 16 December 2016. This Decree provided<sup>215</sup> that the Authority would adopt *“measures to eliminate the penalties for exceeding the daily capacity at the redelivery points of the transport and distribution networks directly connected to the natural gas distribution systems by transport, for withdrawals higher than up to 50% of the redelivery point capacity, for a total period, even not continuous, that doesn't go beyond ninety days per year”*.

In July 2017 the Authority completed<sup>216</sup> the pilot project<sup>217</sup> for the allocation of the capacity at the redelivery points of the gas transportation network supplying electricity generator plants, introducing, since 1 October 2017, the product of monthly capacity, in addition to the products of annual and daily capacity.

In September 2017, provisions<sup>218</sup> were introduced to allow holders of long-term transport capacity at the points of interconnection with foreign countries to re-modulate their rights of transport over time.

In December 2017 the Authority modified<sup>219</sup> the enforced provisions in the matter<sup>220</sup> to extend the assignment methods of the capacity for the continuous transport service foreseen for the interconnection points with the European Union and Switzerland, to every point of interconnection with a foreign country, and to adapt the methods to define the offset amounts coherently.

#### Access to the storage service

In the thermal year 2017-2018, as it has been since 2013, the assignment of the storage capacity occurred with tender procedures (auctions). Once again, the market situation in Italy and Europe is characterised by low seasonal price differences so that the acquisition of storage capacity became an opportunity for the operators, and not a necessity, at least in the first part of the summer semester of 2017. This is due to the availability of winter gas at prices that are only slightly higher than summer gas.

This situation, that lowers the possibility to achieve returns for the storage companies, has made it necessary, again in 2017, to define<sup>221</sup> a sterilisation mechanism (with credit or debit balances) of the financial impact on the storage companies selected in the tender process. In 2017, the mechanism was renewed, in favour of the storage companies, in which the Fund for the Energy and Environmental Services pays the monthly difference between the revenues that would have been perceived with the application of pre-existing tariffs and what was effectively invoiced on the basis

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<sup>214</sup> Resolution 487/2017/R/gas of June 28th, 2017.

<sup>215</sup> Article 18, codicil 18.8.

<sup>216</sup> Resolution 512/2017/R/gas of July 6th, 2017 issued from the Consultation 373/2017/R/gas of May 25th, 2017.

<sup>217</sup> Pilot project launched with Resolution 336/2016/R/gas of June 24th, 2016.

<sup>218</sup> Resolution 666/2017/R/gas of September 28th, 2017 issued from the Consultation 576/2017/R/gas of August 3rd, 2017.

<sup>219</sup> Resolution 914/2017/R/gas of December 27th, 2017.

<sup>220</sup> Resolution 137/02 of July 17th, 2002.

<sup>221</sup> Resolution 589/2017/R/gas of August 3rd, 2017.

of the outcomes of the auctions. This mechanism, that refers to the period going from 1 April 2017 to 30 March 2018, is substantially similar to the one activated the previous year<sup>222</sup>.

In August 2017, the Authority concluded<sup>223</sup> the preliminary investigation whose outcome is contained in the “Report of the Preliminary investigation on the state of the performance of the storage fields in concession to the Stogit S.p.a. Company”. This report offers the analysis of storage field *performances*, with particular reference to the maximum theoretical technical performance in distribution that, based on the data and information supplied by Stogit during the preliminary investigation, turned out to be lower than what had previously been defined. This decrease of the distribution performances has been substantially re-conducted by Stogit to wear and damage to the pools due to an intense use of the storage system and to the review of the assessment criteria of the maximum theoretical technical performances. Considering what emerged from the preliminary investigation and the importance that the storage service endorses in the establishment of the prices in the Italian natural gas market, the introduction of incentive systems that stimulate the storage companies to maximize the availability and the flexibility of the performance of the storage fields, is provided in the report, in respect of their integrity.

### Access and distribution of the regasification service

With the objective of increasing and diversifying the supply sources in Italy, the Decree of the Minister of Economic Development of 6 December 2016 confirmed the possibility of allocating regasification capacity through tender procedures, for 2017, with a reserve price set by the Authority. The Authority has therefore regulated<sup>224</sup> the tender procedure methods for the allocation of the regasification capacity (and storage capacity for the integrated service); criteria was defined subsequently<sup>225</sup> to calculate the reserve prices of the tender for the allocation of the capacities for the integrated service. These reserve prices have not been disclosed to the system.

The Authority approved<sup>226</sup> a proposal from the Terminale GNL Adriatico company which redefines the methods to define the fees for the services of flexibility coherently with the dynamics of the balancing prices and of the natural gas, recognized after the start of the new balancing regime<sup>227</sup>. In particular, the replacement of the PB-gas price is provided, no longer available as price reference, to determine the fees of redelivery for flexibility (CRF) *ex ante*, with the *System Average Price*, referred to in Article 1, para. 2, letter m) of the Integrated Balancing Text (TIB), increased by the *small adjustment*. Subsequently, a proposal from the Terminale GNL Adriatico company related to the fees for the flexibility services was approved<sup>228</sup>, as provided by the integrated text in matters of free access to the service of regasification of liquefied natural gas (TIRG).

Then, in September 2017, the Authority defined<sup>229</sup> new regulations on the matter, to replace those issued in 2015<sup>230</sup>. The new regulations (TIRG) introduce market criteria, based on tender procedures, for the allocation of both the long and short-term regasification capacity, in line with

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<sup>222</sup> Resolution 323/2016/R/gas of June 16th, 2016.

<sup>223</sup> Resolution 589/2017/R/gas, that closes the procedure launched the previous year with Resolution 323/2016/R/gas.

<sup>224</sup> Resolution 6/2017/R/gas of January 12th, 2017.

<sup>225</sup> Resolution 64/2017/R/gas of February 16th, 2017.

<sup>226</sup> Resolution 226/2017/R/gas of April 6th, 2017.

<sup>227</sup> Resolution 312/2016/R/gas of June 16th, 2016.

<sup>228</sup> Resolution 671/2017/R/gas of October 5th, 2017.

<sup>229</sup> Resolution 660/2017/R/gas of September 28th, 2017.

<sup>230</sup> Resolution 118/2015/R/gas of March 19th, 2015.



the Directives considered during the consultation phase<sup>231</sup>. The TIRG also provides that the regasification companies can access the services offered by the Energy Markets Operator (GME), for the management of the procedures of allocation of the capacity.

### Access to the gas networks for bio-methane production systems

In April 2017 the Authority launched<sup>232</sup> a procedure to update the Directives for the connection of bio-methane production systems to the natural gas<sup>233</sup> networks after the reception of a national version of the European regulation EN 16723-1, approved by the European Committee for Standardisation (CEN) in September 2016. In detail, in December 2016, the UNI published the UNI EN 16723-1 Regulation, that constitutes the Italian technical regulation with the quality specifications for bio-methane to be inserted into the natural gas networks.

The guidelines of the Authority in matter of quality specifications were illustrated<sup>234</sup> in June 2017. In particular, after the recognition of the regulation related to the insertion into the network, the Authority has modified the existing provisions<sup>235</sup>, introducing new regulations for the managers, considering the quality specifications of bio-methane:

- the ministerial Decree of 19 February 2007, concerning the components common to natural gas;
- the UNI EN 16723-1 regulation, for the specific components of bio-methane;
- the Decree of 5 December 2013, for the restrictions related to the use of certain protocols related to public health requirements, waiting for the consolidation of the European and national regulation.

Ideas were also introduced during the consultation, for the update of the references for the operational methods related to the measuring procedures for the amount and quality of the bio-methane input into the network, with reference to the UNI EN 16723-1 regulation and to the technical report UNI/TR 11537 ed. 2016.

In relation to the need to manage the differences in the quality specifications of the bio-methane existing between the input into the network and the transport (the transport specifications are more restrictive than those for the input into the network), the Authority assumed that the most reasonable solution, since it is not possible to preview restrictions to the input into the network on the basis of the transport specifications, seems to be the installation of purification equipment at the service stations downstream from the redelivery point<sup>236</sup>.

### Vigilance on the gas system safeguard measures

Articles 4 and 8 of the Legislative Decree n. 93/11 define the safeguard measures and plans that the Ministry for Economic Development must accomplish in case of an unexpected crisis on the energy market and when the physical integrity or the security of the persons is threatened, as provided by Art. 46 of the 2009/73/CE Directive. Art. 43.3, letter c) of this Decree attributes the vigilance on the

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<sup>231</sup> Document for consultation 714/2016/R/gas of December 1st, 2016.

<sup>232</sup> Resolution 239/2017/R/gas of April 13th, 2017.

<sup>233</sup> As defined in Annex A of the Resolution 46/2015/R/gas of February 12th, 2015.

<sup>234</sup> Document for consultation 484/2017/R/gas of June 28th, 2017.

<sup>235</sup> Article 3, comma 2, of Annexe A of Resolution 46/2015/R/gas.

<sup>236</sup> In consideration of the above, we report that the regulation UNI EN 16723-2 "Gas naturale e biometano per l'utilizzo nei trasporti e per l'immissione nelle reti di gas naturale – Parte 2(Natural gas and bio-methane for its use in transportation and input in the natural gas networks - Part 2) was published in the month of December 2017: Specifications for fuel transportation"

application of these measures by the operators, to the Italian regulator, in compliance with what is provided by Art. 41.1, lett. t) of the 2009/73/CE Directive.

In matters of safeguard of the gas system, the Authority has implemented<sup>237</sup> the provisions of the Decree of the Minister for Economic Development of 18 October 2013, related to the management and supply of the quantities of LNG to be kept in storage by the regasification terminals, and to be made available in the context of the so called “*peak shaving service*”. This measure allows the system to face eventual emergency situations, determining the base auction prices due to the cost-opportunity for a user to supply gas to be immobilised in the regasification tanks and to be used in the event of a system crisis.

### 4.1.3 Network and LNG tariffs for connection and access

#### Transport

In February 2017, the Authority initiated<sup>238</sup> a process to define the provisions on tariffs and quality of service of natural gas transport and dispatching for the fifth adjustment period (5PRT). As part of this process, the Authority published<sup>239</sup> the guidelines on the regulatory criteria in June 2017, as well as the criteria to be applied in the transitional period preceding 5PRT.

In August 2017 the Authority approved<sup>240</sup> the tariff regulation criteria for the natural gas transport service for the years 2018 and 2019 (RTTG 2018-2019), extending those that were effective during the period of 2014-2017<sup>241</sup>, with the exception of certain refinements, such as the acknowledgement of the preliminary investments for the year preceding the tariff year and the adoption of a division of the national network revenues between input and withdrawal points equal to 40/60. In November 2017 the Authority updated<sup>242</sup> the RTTG 2018-2019 to receive the regulations in matters of publication requirements with reference to Chapter VIII of the (EU) Regulation n. 460/2017.

In November 2017 the Authority approved<sup>243</sup> the tariff proposals related to the reference revenues for the year 2018, after the verification of the tariff proposals introduced by the transport companies according to the RTTG 2018-2019. The Authority approved<sup>244</sup> the transport and natural gas dispatching fees and the transitory fees for the transport metering service for 2018, in the same month.

#### Regasification

Similarly, in March 2017, the Authority launched<sup>245</sup> a procedure to define the provisions for tariffs for the use of LNG terminals for the fifth period of regulation (5PR LNG), also to define the initial regulation of the conditions, including the economic ones, of access and provision of the services

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<sup>237</sup> With Resolution 585/2016/R/gas of October 20th, 2016,.

<sup>238</sup> Resolution 82/2017/R/gas of February 23rd, 2017,.

<sup>239</sup> Document for consultation 413/2017/R/gas of June 8th, 2017.

<sup>240</sup> Resolution of August 3rd, 2017, with Resolution 575/2017/R/gas

<sup>241</sup> Resolution 514/2013/R/gas.

<sup>242</sup> Resolution 794/2017/R/gas of November 30th, 2017,.

<sup>243</sup> Resolution 757/2017/R/gas of November 16th, 2017.

<sup>244</sup> Resolution 795/2017/R/gas of November 30th, 2017.

<sup>245</sup> Resolution 141/2017/R/gas of March 16th, 2017.

that can be supplied via the LNG storage infrastructure, which are related to or serve the connection and creation of the national natural gas transport network, and a procedure to define the provisions on the requirements of accounting unbundling to transpose the provisions of the legislative Decree 257/16 on accounting unbundling for activities classified as *Small-Scale LNG* services provided by LNG terminals.

In this procedure, the Authority:

- published<sup>246</sup> the guidelines on the regulatory criteria for the 5PR LNG in June 2017, as well as the criteria to be applied in the transitional period preceding the 5PR LNG.
- organised a thematic encounter, in September 2017, to study the perimeter and the activities of the *Small Scale* LNG services and to acquire and study the main information needed to define a first regulation of the technical and economic conditions of access and distribution of the services supplied by the LNG systems and storage infrastructures pursuant to Article 9 of the Legislative Decree 257/2016.

In September 2017, the Authority approved<sup>247</sup> the tariff regulation criteria for the service of regasification of the liquefied natural gas, for the transitory period of 2018-2019 (RTRG 2018-2019), extending the effective regulations of the fourth regulation period<sup>248</sup>, except for certain precisions, such as the acknowledgement of the preliminary investments for the year preceding this tariff year and a review of the calculation criteria for the revenue covering factor, also in order to consider the effective revenues deriving from the allocation of the capacity with tender procedures.

After the verification of the tariff proposals introduced for 2018 from the regasification companies on 21 December 2017, the Authority:

- defined the tariffs for the LNG regasification service for Terminale GNL Adriatico S.r.l.<sup>249</sup> and LNG Italia S.p.a.<sup>250</sup>;
- temporarily defined the tariffs for the LNG regasification service of Olt Offshore Lng Toscana S.p.a.<sup>251</sup>, while waiting for the definition of the criteria for the acknowledgement of the costs incurred for the supply of the LNG used to produce the electricity needed for the operation of the terminal<sup>252</sup>.

## Storage

In October 2014 the Authority defined<sup>253</sup> the criteria for the regulation of the tariffs for the natural gas storage service for the period of 2015-2018. In February 2015 the criteria for the calculation of the tariff amounts were completed, providing, among other things, the removal of the variable amounts with the application of capacity amounts (space, distribution and injection)<sup>254</sup>.

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<sup>246</sup> Document for consultation 484/2017/R/gas of June 28th, 2017.

<sup>247</sup> Resolution 653/2017/R/gas of September 28th, 2017.

<sup>248</sup> Resolution 438/2013/R/gas.

<sup>249</sup> Resolution 877/2017/R/gas.

<sup>250</sup> Resolution 878/2017/R/gas.

<sup>251</sup> Resolution 879/2017/R/gas.

<sup>252</sup> Point 2 of the Resolution 548/2017/R/gas of July 27th, 2017, concerning the compliance with the judgements of the State Council n. 3356/2016 and n. 3552/2016 in matters of the definition of the regasification tariffs of OLT Offshore LNG Toscana S.p.A..

<sup>253</sup> Resolution 531/2014/R/gas of October 30th, 2014.

<sup>254</sup> Resolution 49/2015/R/gas of February 12th, 2015.

In the end of 2017 the Authority temporarily determined<sup>255</sup> the company revenues for the storage service related to year 2018. It is necessary to highlight that the tariffs now have a residual application, since they only concern the operating balancing services of mineral storage and transport companies, which, all together, absorb a share lower than 5% of the total storage capacity.

The strategic storage, which absorbs approximately one quarter of the capacity, is remunerated through the C<sup>ST</sup> variable amount, applied to the imported and national production gas<sup>256</sup>. This parameter is defined by the main storage company, based on the service cost<sup>257</sup>.

As indicated in the section related to the access, the allotment of part of the storage capacity occurs during tender procedures. The fees for the services related to this capacity are determined by the market at the outcome of the auctions. The tender procedures are open to the participation of all the natural gas market operators and they currently regard the allocation of approximately 70% of the total storage capacity. The fees are determined with the marginal price method for the first auction for the seasonal peak service and by *pay-as-bid* for all the others.

### Distribution

In December 2016, the *Regulation of the tariffs of gas distribution and metering services* (RTDG) was approved<sup>258</sup> for the three-year period 2017-2019, which introduced new provisions on recognised operational costs, the determination of the tariff component to cover the costs of the meteorological verifications, recognition of the costs of remote metering/remote management systems and concentrators and definition of the *standard* costs of electronic metering units.

In December 2017, the compulsory tariffs for natural gas distribution and metering services were approved<sup>259</sup> for 2018, according to Article 40 of the RTDG. With the objective of increasing the stability of the fees, the gas volumes, that are used to determine the variable share of the compulsory tariffs to cover the service costs, have been determined as a moving average of the gas distributed in the last available four-year term.

In May 2017 a procedure was launched<sup>260</sup>, in matters of isolated networks of Liquefied Natural Gas (LNG), for the activation of the provisions of article 14 of the Legislative Decree n. 257 of 16 December 2016, containing the “Implementing regulation of the 2014/94/UE guidelines of the European Parliament and the Council, dated 22 October 2014, concerning the realisation of an infrastructure for alternative fuels”.

In particular, the Authority proposed that, in order to define the tariff regime to apply to isolated LNG networks, to be intended as natural gas distribution networks not directly or indirectly connected with the national transport network or the regional natural gas transport networks, similarly to what is provided in relation to the gas distribution service, for gas other than natural gas, by means of channelled networks, the fees related to the distribution and metering services cover the costs of network infrastructures, maintenance and operation of the channelled networks and the cryogenic storage deposits and of the local regasification facilities directly connected to the same channelled distribution networks. It has also been provided that the fees related to the

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<sup>255</sup> Resolution 855/2017/R/gas of December 14th, 2017.

<sup>256</sup> Article 11 of the Resolution 49/2015/R/gas.

<sup>257</sup> Article 8 of the Resolution 121/2018/R/gas of March 1st, 2018.

<sup>258</sup> Resolution 775/2016/R/gas of December 22nd, 2016,

<sup>259</sup> Resolution 859/2017/R/gas of December 14th, 2017.

<sup>260</sup> Resolution 324/2017/R/gas of May 12th, 2017.

distribution and metering services be applied in each context created by the group of localities supplied with isolated networks supplied with LNG that belong to the same Region and supplied by the same distribution company, distinguished by the different gas context.

In December 2017 the application of the price list<sup>261</sup> and the relative reference method for the acknowledgement of the costs related to the investments in the natural gas distribution networks was postponed<sup>262</sup> to 2019, because of the need of further in-depth studies in the context of the work table between distribution companies, also through their category associations, and the Authority Offices.

#### Installation of electronic meters on gas distribution networks

In August 2017, a procedure was launched<sup>263</sup> to define the *standard* costs, including the costs of installation and commissioning, to be applied to electronic meters on the gas distribution networks, for 2018 and 2019. In the following month of November, the Authority presented<sup>264</sup> its guidelines on the subject, and the relative provisions were approved<sup>265</sup> in December.

The following aspects were regulated:

- method of acknowledgement of the costs related to the remote-reading/remote-management systems and of the concentrator costs, for the tariff years of 2018 and 2019;
- criteria for the definition of the standard costs including the costs of installation and commissioning, to be applied to electronic meters on the gas distribution networks, for 2018 and 2019.
- review of the acknowledgement methods for the costs related to the metrological verification, for the tariff years 2018 and 2019.

With reference to the methods of recognition of costs relating to the remote metering/remote management systems and the costs of concentrators, the decision to adopt parametric logic was deferred to the fifth period of regulation, which will start in 2020, requiring that the recognition of costs for 2018-2019 be undertaken with substantial continuity of criteria with what was done previously, on the basis of the final balance data within the maximum level, for the companies that adopted "*make*" solutions and for those who adopted "*buy*" solutions. In order to define the maximum level, the requests of gradualness that emerged in the consultation phase were accepted, providing a progressive decrease of the fixed limit level for 2017 (of 5.74 Euros per redelivery point equipped with *smart meter*), with the objective to recover, within six years, the existing gap with the cost levels that are considered effective, defined in 2.74 Euros per redelivery point equipped with *smart meter*. A maximum limit of 5.24 Euros per redelivery point equipped with *smart meter* was defined for 2018, and of 4.74 Euro per redelivery point equipped with *smart meter* for 2019.

The guidelines defined during the consultation phase were confirmed, according to the criteria for the definition of the *standard* costs of the gas metering groups for 2018-2019, providing, in particular:

- the confirmation of the value of the standard costs defined for 2017 for G4 and G6 classes, classes above G40 and *add on* devices;

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<sup>261</sup> Resolution 704/2016/R/gas.

<sup>262</sup> Resolution 904/2017/R/gas.

<sup>263</sup> Resolution 574/2017/R/gas of August 3rd, 2017.

<sup>264</sup> Document for consultation 759/2017/R/gas of November 16th, 2017.

<sup>265</sup> With the Resolution 904/2017/R/gas of December 27th, 2017.

- the definition of a lower standard cost compared to 2017, for classes from G10 to G25;
- the definition of a higher standard cost compared to 2017, for class G40;
- the fixing to 40% of the sharing percentage between actual costs and standard costs for the metering groups.

Concerning the review of the methods of acknowledgement of the costs related to metrological verifications, the Authority has provided<sup>266</sup>:

- the adoption of final acknowledgement logics, due to the complicated differentiation of the delays provided in the Decree n. 93 of 21 April 2017, of the Ministry for Economic Development, and of the need for a rapid assessment of the effects of the transitory provisions introduced by the Decree;
- that the acknowledgement of the costs is subordinated to the compliance with the requirements provided by Decree 93/17 and to the transmission of suitable documentation related to the accomplishment of the verification and the related costs;
- that a recognition be carried out with the companies during 2018, in order to assess the conditions for the introduction of exceptions in relation to verification delays;
- the definitive confirmation of the value of the component to cover the costs related to  $\Delta$ CVERunit,t metrological verifications, for 2017 (last year of application of an acknowledgement based on parameters) equal to 50 Euros per redelivery point.

#### Provisions related to the tenders for the management of the gas distribution service

In matters of tenders for the concession of the gas distribution service, for the definition of the 177 managers of the Territorial Areas (ATEM) in which the Italian territory was subdivided, the Authority carries out an assessment, according to the Legislative Decree 164/00 and Ministerial Decree 226/11:

- of the offset between the distribution systems refund value (VIR) and the related *Regulatory Asset Based* (RAB);
- of the tender documents transmitted by the Contracting Stations of the ATEM.

The procedure for the assessment of the VIR-RAB deviations, provides the analysis of the documentation transmitted to the Authority by the contracting Authority using an appropriate IT platform and the exchanges with the Authority themselves. This procedure precedes the verification of the Invitation to tender, referring to Article 9, para. 2, of the 226/11 Decree.

The Authority expressed<sup>267</sup> its own observations inherent to the refund values with deviations higher than 10% compared to the RAB relative to the towns with five ATEM, according to what is provided in Article 15, para. 5, of the Legislative Decree 164/00. Considering the analysis of the

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<sup>266</sup> Resolution 904/2017/R/gas.

<sup>267</sup> Resolutions: 142/2017/R/gas of March 16th, 2017; 628/2017/R/gas of September 14th, 2017; 880/2017/R/gas of December 21st, 2017,; 69/2018/R/gas of February 8th, 2018,.



tender documents, the Authority expressed observations<sup>268</sup> on what is provided by two ATEM, according to the provisions of Article 9, para. 2, of the Decree 226/11. The Authority introduced<sup>269</sup> a simplification of the analysis procedure<sup>270</sup> of the VIR-RAB offsets for the cases in which the towns confirm the complete application of the Guidelines of 7 April 2014, provided by the Ministry for Economic Development.

Furthermore, the Authority launched a procedure<sup>271</sup> for the implementation of the measures provided by Law n.124 dated 4 August 2017 (annual law for the market and competition) concerning invitations to tender to allocate the natural gas distribution service. In this context the Authority has illustrated<sup>272</sup> its own guidelines in matters of simplification of the procedures for the assessment of refund values (VIR) and the procedures of assessment of the invitation to tender to allocate the natural gas distribution service. In December 2017, the Authority approved<sup>273</sup> the following at the end of the procedure:

- the integrated Text of the provisions of the Authority in matters of determination and verification of the refund value of the natural gas distribution networks for the specific tender purposes<sup>274</sup>;
- the integrated Text of the provisions of the Authority in matters of tenders for the natural gas distribution services for the specific tender purposes<sup>275</sup>;

In the months of April and May 2017 the data of the *asset* value (RAB data), resulting from the distribution tariffs determination procedures, was provided to the ATEM Contracting Stations.

### Exclusion of cross-subsidies between activities in the supply chain

The obligation of administrative and accounting unbundling for the companies operating in the sectors of the electric and natural gas power has been introduced, among others, to exclude that the companies operating in the electrical and natural gas sectors carry out resource cross-transfers between the different sector activities. During 2017 the Authority concluded a procedure in matters of the obligation of the unbundling of functions and book keeping, with which the violation of the relative regulation on behalf of a company operating in the distribution of electric power and natural gas, has been defined and sanctioned<sup>276</sup>.

#### 4.1.4 Cross-border issues

##### Investments in new network infrastructure and consistency with EC development programs

Art. 26 of Law of 29 July 2015, n. 115, *Provisions for the implementation of the requirements deriving from Italy's membership in the European Union (European Law 2014)*, has modified the legislative Decree n. 93 of 1 June 2011, for the acceptance of the Third energy package, providing, among other

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<sup>268</sup> Resolutions 906/2017/R/gas of December 27th, 2017, and 30/2018/R/gas of January 25th, 2018.

<sup>269</sup> Resolution 344/2017/R/gas of May 18th, 2017.

<sup>270</sup> Procedure regulated by the Authority's Resolution 310/2014/R/gas of June 26th, 2014.

<sup>271</sup> Resolution 613/2017/R/com dated September 7th, 2017.

<sup>272</sup> Document for consultation 734/2017/R/gas of November 2nd, 2017.

<sup>273</sup> Resolution 905/2017/R/gas of December 27th, 2017.

<sup>274</sup> Annex A of the Resolution 905/2017/R/gas.

<sup>275</sup> Annex B of the Resolution 905/2017/R/gas.

<sup>276</sup> Resolution 40/2017/S/com

things, that the TSO must transmit the ten-year network development Plan annually to the Ministry for Economic Development and to the Authority that submits it to the consultation of the effective and potential network users, rendering the results of the consultation public.

Relatively to the ten-year natural gas transport network development Plans referring to 2016, after launching the public consultation (December 2016) the Authority organised a public session of presentation of the ten-year Plans, in January 2017, to the advantage of the concerned parties representing the natural gas system, such as operators and consumers and their associations. The consultation of the Plans for 2016 ended in February 2017, and the observations introduced by the stakeholders, as well as the counter-deductions elaborated by the competent network manager, were published by the Authority on its Internet website. In October 2017, the Authority expressed<sup>277</sup> its own assessments on the ten-year transport network development Plans for 2014, 2015 and 2016, according to article 16 of the Legislative Decree n. 93 of 1 June 2011, highlighting possible Plan improvements, under the editorial profile, for transparency and thoroughness of the informative content of the plan, and under the methodological profile, concerning the systematic application of a cost-benefits analysis (ACB), to equip the ten-year Plan with a useful tool to estimate the natural gas transport network development initiatives, according to the criteria of greater selectivity. The Authority also provided the launching of a technical round table of discussion between the Authority departments and the transport network operators on the ACB method, as well as the continued involvement of all stakeholders in plan consultations, including the ACB technique, with the objective of creating a method that ensures the collection of the information necessary to assess the usefulness of the measures for the system and their affordability and efficiency.

In March 2017, the Authority deferred<sup>278</sup> the deadlines for the presentation of the ten-year plans related to 2017, in order to allow the operators to have the time to write these plans and in October 2017 the deadlines for the presentation of the ten-year plans related to 2018 were also deferred<sup>279</sup>, to allow the operators to consider the evaluations on the ten-year plans of 2016. The ten-year plans for 2017 were submitted by the operators within the deadline of 30 November 2017, and subject to consultation by the Authority in February 2018.

### Energy market of the Countries of South-Eastern Europe

Again in 2017, the Authority contributed to the implementation work of the Treaty that establishes the South-Eastern European Energy Community (EnCT).

Concerning the natural gas sector in particular, the gas work group (ECRB GWG), presided by the Moldavian regulator (National Energy Regulatory Agency - ANRE), is mainly concentrated on the activities of its three *Task Forces*: *Task Force 1 - Gas transmission Tariff*, *Task Force 2 - Regulatory treatment of network losses* and *Task Force 3 – Transparency*. Concerning the TF1, ARERA and E-Control (Austrian regulator) introduced the results of the questionnaire written in collaboration with ACER GRI SSE (*Gas Regional Initiative South-South East*) first to ECRB GWG and then to the GAS Forum of September 2017. The Secretariat prepared the first *draft of the Report Gas Transmission Tariffs in South and Central East Europe*, that was close to completion at the time of the drafting of this *Annual Report*. Concerning the TF2, the Croatian regulator (HERA) introduced the measures related to network losses of the gas distribution network; while, concerning the TF3 (ANRE), the

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<sup>277</sup> Resolution 689/2017/R/gas of October 19th, 2017.

<sup>278</sup> Resolution 189/2017/R/gas of March 24th, 2017.

<sup>279</sup> Resolution 689/2017/R/gas.

questionnaire and the answers from the Countries (EnC) were presented during 2017. The final document was accepted by ECRB in the reunion of December 2017.

### Energy market in the Mediterranean area Countries

In 2017, the Authority maintained its own international engagement constant in the context of the Mediterranean basin, in particular through MEDREG (*Mediterranean Energy Regulators, described in chapter 3*), of which it is founder and promoter.

Concerning the activity carried out in the gas sector, the natural Gas Working Group (GAS WG), co-chaired by the Turkish (EMRA) and Portuguese regulator (ERSE), with the vice-presidency of the Albanian regulator (ERE), worked on the method for the application of *Guidelines of Good Practice on Capacity Allocation-Work Methodology* in the member Countries. The Authority, in collaboration with the Greek regulator (RAE), managed the development of the *deliverables* realizing the questionnaire created to verify the methods implemented in the member Countries. The group organised a parallel session, after the meeting that was held in Madrid on 18 October 2017, in which the GIE representatives (Gas Infrastructure Europe) participated, main European association of the GSOs, in order to activate the first contacts to promote the constitution of the Mediterranean GSO association. The group produced the *Report Assessment of competition indicators and market prices within MEDREG countries*, that also includes a part related to the *best practices* for the definition of tariff methods. In March 2017 a *workshop* was organized in Cairo, to support the constitution of the new regulating authority for the gas sector in Egypt (EGAS). The group also worked to define the mapping of the gas infrastructure in the Mediterranean, to provide a clear overview, including the interconnection points, transmission pipelines, transmission and storage capacity and future investment plans of the MEDREG members.

The energy platform activities, promoted by the European Commission, continued during 2017. The Gas platform, to which MEDREG offers the necessary support from the point of view of the regulation, is needed for the creation of structured communication for the gradual development of the European-Mediterranean gas market, that can guarantee the security of the supplies and correct balancing of the interests of the producing countries and consumption centres. In this view, a series of meetings were organized by the OME (Mediterranean Observatory for the energy) that covers the role of technical secretariat, in the context of the platform. The activities of the platform work groups will concentrate on *An advisory assessment of the existing and future of the gas supply-demand balance in the Euro-Mediterranean region* and on *The role of LNG in European-Mediterranean gas supply security*. MEDREG will collaborate on the latter with Gas Infrastructure Europe (GIE).

#### 4.1.5 Compliance

During this last year, no legally binding decision from the Agency or the Commission was adopted, that the Authority had to implement according to the article 41.1.d) of the 73/2009/CE Directive.

#### Compliance of the tasks entrusted to the Regulatory Authority according to the Gas Directive

For an illustration of the main competences and powers bestowed on the Authority by the current regulations please refer to the Annual Report of 2013 and to the normative innovations reported in Chapter 2 of this Report.

## 4.2 Promoting competition

### 4.2.1 Wholesale markets

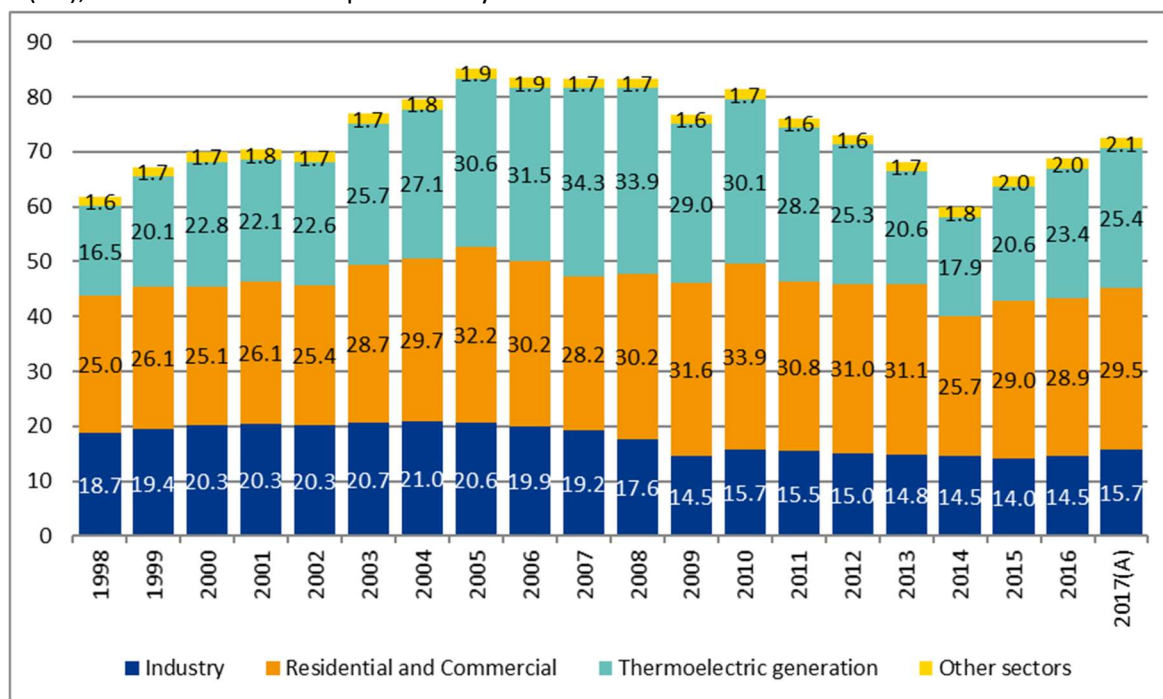
In 2017 the Italian economy recorded a strong recovery: the PIL at market prices reached 1,716,238 million Euros at current value, with an increase of 2.1% compared to the previous year. This growth, measured in volume, was equal to 1.5% compared to 2016, with a rate that is therefore comparable to the pre-crisis years. This growth was driven by the performance of the industrial sector (2%) (the value added of the industry has grown by 2%), the activities of services (1.5%) and construction (0.8%). The index of industrial production increased by 3% compared to 2016. Even the gas intensive sectors recorded excellent results: metallurgy went well (3.7%), an increment of 2.9% was obtained with the production of chemical products, plastic and non-metallic mineral working increased by 1.8%, and the wood, paper and prints productions only increased by 0.2%.

What's more, in 2017 the winter months were colder and the summer months warmer. In 2017 in particular, the summer was the second warmest Italian summer since 1800, after 2003 (with an average temperature nearly 3 degrees higher than the average climate of the 1971-2000 period, according to the CNR).

On the basis of the preliminary results broadcast by the Ministry of Economic Development, in 2017, the net consumption of natural gas rose by 5.5 billion cubic meters, reaching 72.6 G(m<sup>3</sup>) from 68.9 G(m<sup>3</sup>) in 2016. Consumption increased by 5.5% for the third consecutive year.

**Figure 4.4 Natural gas consumption by sector**

G(m<sup>3</sup>); values net of consumption and system losses



(A) Temporary data.

Source: Ministry for Economic Development, national energy balance, several years.

Following the economic developments outlined above, in 2017, the industrial consumption recorded a marked rise of 8.3%, slightly higher than the 8.2% highlighted by the consumption of thermolectric generation, again favoured in the first part of the year by the temporary

unavailability of the French nuclear power stations, which reduced electricity imports from France. The increase in civil (residential and tertiary) consumption, however, was less significant, growing by 2.1% compared to 2016. The consumption for other uses, containing the consumption for transport, increased by only 0.7%.

Therefore, the end demand for gas in 2017 reached 85% of the record high achieved in 2005, when consumption stood at 85.3 G(m<sup>3</sup>).

This increase in end demand was accompanied by an adequate increase in net imports (6.6%). The volumes of gas imported from abroad increased by 4.4 G(m<sup>3</sup>) compared to 2016, reaching 69.7 G(m<sup>3</sup>); exports fell by 61 M(m<sup>3</sup>). Further decrease was seen in the national production (-4.3%), albeit to a lesser degree than that of the last five years. During the year the withdrawals from storage were higher than the inputs; therefore, at the end of the year, the storage volumes were 235 M (m<sup>3</sup>) lower than it was at the beginning of the year. Also considering system consumption and network losses, the net value of the national consumption was of 72.6 G (m<sup>3</sup>) in 2017, a value that is 5.5% higher than 2016. Since, as has been seen, the increase in domestic demand was met by higher imports, the level of dependence on foreign production, measured as the ratio between gross imports and gross domestic consumption, rose further, to reach 92.7%, the highest value recorded to date.

According to the data collected in the customary *Annual survey on the regulated sectors* carried out by the Regulatory Authority for energy networks and the atmosphere, in 2017 altogether 5,383 M(m<sup>3</sup>) were extracted by 20 companies (they were 21 in 2016), belonging to 16 corporate groups. Since last year's production was of 5,551 M(m<sup>3</sup>), in 2017 the decrease measured in the survey data was of 3%. In 2017 the national production share held by the companies of the Eni group, went down to 77.1% from 81.5% recorded in 2016. The group remains the dominant operator of this segment with an absolute major share, very distant from the second corporate group, Royal Dutch Shell, that owns 11.3%.

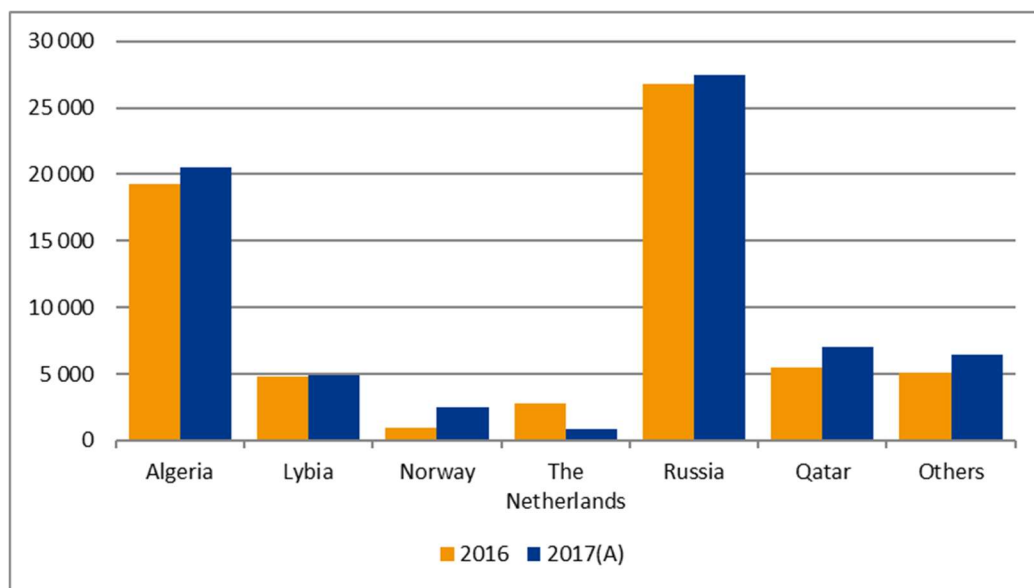
In 2017 gas imports in Italy reached 69,651 M(m<sup>3</sup>), therefore increasing by 6.7% compared to 2016, because 4,367 M(m<sup>3</sup>) more than the previous year were purchased from abroad. The exports also increased, going from 212 to 273 M(m<sup>3</sup>). The foreign balance therefore went from 65,072 to 69.378 M(m<sup>3</sup>).

Figure 4,5 shows the amounts of gas supplied in the last two years per country of origin<sup>280</sup> of the gas. With the exception of volumes from Holland, which decreased by almost 70% compared to 2016, imports increased from all other countries from which Italy imports gas. In particular, compared to 2016, Italy imported 1.54 G(m<sup>3</sup>) more from Norway, 1.5 G(m<sup>3</sup>) more from Qatar, 1.2 G(m<sup>3</sup>) more from Algeria and 1.3 G(m<sup>3</sup>) from other areas. The amounts imported from Russia have only grown by 642 M(m<sup>3</sup>) compared to 2016.

Due to these changes, in 2017, the weight of Russia among the countries that export to Italy fell to 39% from 41% in 2016, and Algeria's share dropped from 30% to 29%. The third most important country is Qatar, from which Italy receives 10% of the total imported gas, followed by Libya, whose share remained stable at 7%. In 2017, 9% of Italian imports came from all the other countries together. The incidence of Norway and Holland remained unaltered, together reaching 5%.

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<sup>280</sup> Imports are divided by Country of physical origin of the gas, not by contract. Even the gas imported in swap regime is accounted for according to its Country of physical origin.

**Figure 4.5 Gross gas imports according to its origin**M(m<sup>3</sup>); assessments carried out according to the input point of the gas

(A) Preliminary data.

Source: Ministry of Economic development

According to the (temporary) data collected with the annual survey on the sectors regulated by the Authority, 68.8 G(m<sup>3</sup>) were imported into Italy in 2017, 4.9 more than in 2016<sup>281</sup>. The increase was of 7.7%, one percentage point more than what the Ministry for Economic Development had provided<sup>282</sup>. 4.5% of the total gas provisioned abroad, approximately 3.1 G(m<sup>3</sup>), is purchased at the European Exchanges.

As always, the first place in the rankings of the importing companies was held by Eni, which purchased 35.2 G(m<sup>3</sup>) of gas in 2017, with an increase of 5.1% compared to 2016. As in 2016, the increase in imports by Eni was lower than the one recorded for total national imports; this caused a further decrease in the market share of the company that reached 51.1% (50.5% if it is calculated on the Ministry's import value), from the 52.3% highlighted in 2016. This is the third consecutive decrease since 2010, when - thanks to the operation of the antitrust limits established by the Legislative Decree n. 164<sup>283</sup> of 23 May 2000, the portion of foreign gas provided by Eni went down to 39.2%. Since then, when the effects of the legislative provision expired, this share increased constantly until 2014, when it reached 56.5%.

Edison's imports have also grown, second in the ranking, with the same percentage as Eni (5.1%) even though it started at lower levels. In 2017 this company provided 15.4 G(m<sup>3</sup>), 0.7 more than in

<sup>281</sup> Data from Annual surveys on regulated sectors.

<sup>282</sup> The differences compared to the Ministry data are due, in part, to the number of companies who answer the Authority's Annual survey, and also due to the discrepancies in the classification of the import data. In other words, it is possible that some of the quantities that are classified as import by the Ministry, will be considered as "Acquired at the Italian border", due to the Customs clearance procedures.

<sup>283</sup> This decree provided, among other measures, the imposition of maximum limits for the import and sales on the end market of natural gas by a single operator (75% of the imports in 2002, that reaches 61% in 2010), with the objective of defining the conditions for the entry to the gas market imported by subjects other than Eni and the other two subjects historically present on the gas import market, even if their shares are small.



2016. Its share in the import market went down to 22.4% from the previous 23% and the distance from Eni was again shortened by another percentage point (after the three points in 2016).

A strong increment also occurred in the imports of Enel Trade, going from 7,2 to approximately 8 G(m<sup>3</sup>) in 2017. Enel Trade therefore remained in third place with a share of 11.6%, slightly higher than the 11.3% obtained in 2016. Again in 2017, like in 2016, the fourth position in the rankings of the importers is held by Dufenergy Trading, whose import amounts, however, represent slightly more than one fifth of those of Enel Trade, that is the third importer.

As in previous years, the groups<sup>284</sup> that hold a share of more than 5% of the overall gas supplied (i.e. produced or imported) are Eni, Edison and Enel (Table 4.3). Together, these top three importers imported 58.5 of the 68.8 G(m<sup>3</sup>), 85.1% of the natural gas entering the Italian market. Considering the quantities produced within the national boundaries, these three groups account for 85.2% of all the natural gas supplied. Unlike in the past, this share fell (it stood at 86.6% in 2016), due to the increase of the Edison and Enel shares not offset by the fall in Eni shares. The three groups are also the only groups that each hold a share of more than 5% of the available gas, with an overall share for all three (88.8%) that is slightly higher than that of gas supplied.

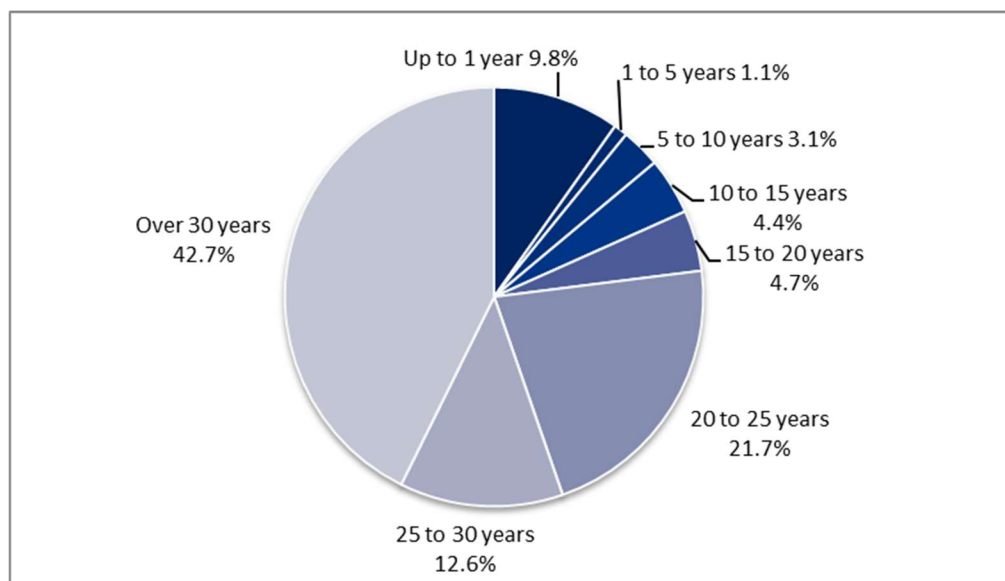
The analysis of the *Annual Contract Quantity* agreed upon in import contracts (annual and multi-year) active in 2017 according to the entire duration (Figure 4.6) outlines a still rather long structure. The long-term contracts share, those whose entire duration exceeds 20 years, is in fact equal to 77%, although in slight decrease compared to last year (when it was of 79.3%). The incidence of short-term imports, those with a duration shorter than five years, increased (10.9% from 9.1% in 2016), like the medium duration contracts (5-20 years) that increased slightly compared to last year (12.1% from 11.6% of 2016). The *annual contract quantity* underlying the shares expressed in the figure, are altogether lower than those of the last few years: in 2017, the contracted volumes were altogether equal to 84,7 G(m<sup>3</sup>), compared to the average of approximately 86 G(m<sup>3</sup>) of the last the 3 years. The incidence of spot<sup>285</sup> imports, those with a duration of less than one year, went back to 9.8% in 2017, from the 6.8% of 2016. Considering residual life, the import contracts of 2017 (Figure 4.7) appear collectively still rather long, but the contract structure is getting shorter every year, even if very slowly: 56.8% of contracts (59.1% in 2016) will expire within the next ten years and 39.8% of these (42.5% in 2016) have expiry dates within the next five years. In contrast, 35.9 % of the contracts in force today have a residual life of more than 15 years. This share stood at 34.3% in 2016.

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<sup>284</sup> In the survey on the gas market the participation to a corporate group is defined according to what is specified in art. 7 of the Law of October 10th, 1990, n. 287: in extreme summary, the belonging to a group is established even when there is a de facto control of the investee in the company.

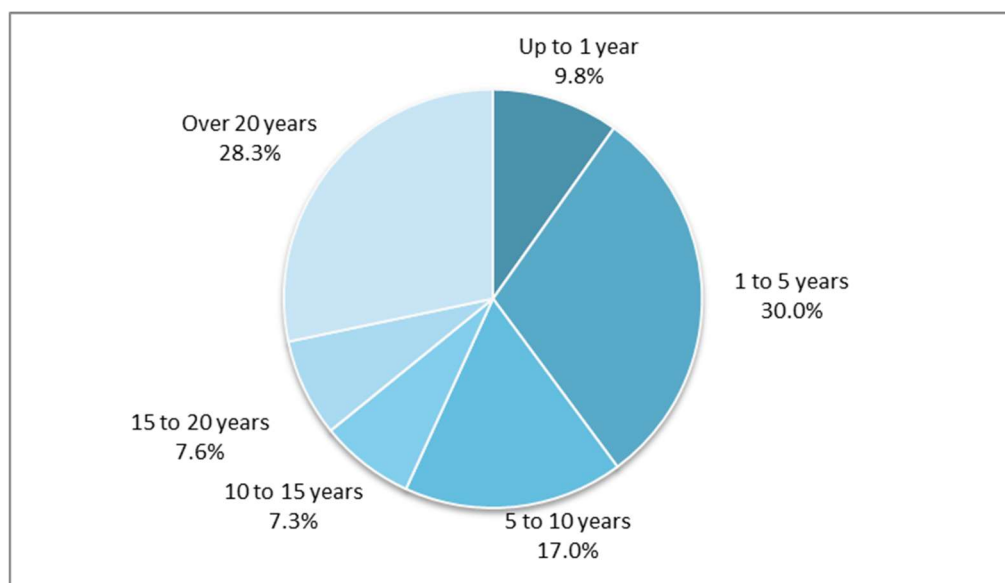
<sup>285</sup> It is important to remember that this has been assessed excluding the *Annual Contract Quantity* of *spot* contracts, like in the past years, that did not create imports in Italy, because the gas was sold directly abroad by the operator who was active in Italy and who purchased it.

**Figure 4.6 Structure of the contracts (annual and multi-year) active in 2017, according to their entire duration**



Source: Annual surveys on regulated sectors.

**Figure 4.7 Structure of the contracts (annual and multi-year) active in 2017, according to their residual duration**



Source: Annual surveys on regulated sectors.

In 2017, the total demand of the natural gas sector, understood as the sum of the volumes of natural gas sold on the wholesale market (including reselling) and retail market plus self-consumption grew by 6.8%, reaching 285.6 G(m<sup>3</sup>) (Table 4.3). The wholesale market handled 210.8 G(m<sup>3</sup>), a significant increase compared to 2016 (+7.8%); the retail market handled 59.8 G(m<sup>3</sup>), recording an increase of 3.6% compared to 2016, while self-consumption totalled 15 G(m<sup>3</sup>), also with an increase (+6.4%). Like in 2016, 4 industrial groups held a share of more than 5% of the total demand in 2017.

**Table 4.3 Development of the wholesale market**

Year	Demand Total <sup>(A)</sup> G(m <sup>3</sup> )	Peak demand <sup>(B)</sup> M(m <sup>3</sup> )/day	Production G(m <sup>3</sup> )	Import capacity G(m <sup>3</sup> )/year				N. of companies With a production share and import capacity >5%	N. of companies with a gas availability share <sup>(D)</sup> >5%	Share of the three major groups for the total demand
				Total	Priority access for transit <sup>(C)</sup>	Priority access for contracts LT	Non-restricted access			
2001	125.1	n.d.	15,5	n.d.	n.d.	n.d.	n.d.	n.d.	2	68.2%
2002	111.8	n.d.	14.3	84.0	0.5	77.3	4.2	3	3	67.4%
2003	123.6	n.d.	13.9	84.8	0.5	78.8	3.1	3	3	63.8%
2004	127.3	386	12.9	88.7	0.5	84.6	2.1	3	3	62.4%
2005	138.3	421	12.0	90.6	0.5	73.5	16.7	3	3	66.7%
2006	134.3	443	11.0	92.3	0.5	74.5	17.3	3	3	66.5%
2007	136.1	429	9.7	98.4	0.5	86.1	11.8	3	3	63.8%
2008	151.5	410	9.3	100.3	0.5	96.1	3.7	3	3	57.1%
2009	147.2	436	8.0	110.9	0.3	102.6	8.0	3	4	49.2%
2010	173.5	459	8.3	116.0	0.3	103.1	12.6	3	5	42.3%
2011	178.9	401	8.4	116.3	0.2	103.0	13.0	3	3	42.1%
2012	178.3	464	8.6	116.9	0.2	102.5	14.2	3	3	40.5%
2013	180.8	360	7.7	122.1	0	102.6	19.5	3	3	42.7%
2104	210.9	330	7.1	121.7	0	95.5	26.1	3	3	51.4%
2015	244.5	340	6.8	120.3	0	83.4	36.9	3	3	50.6%
2016	267.4	384	5.8	120.1	0	85.2	34.9	3	3	46.3%
2017	285.6	425	5.5	121.7	0	81.0	40.8	3	3	44.4%

(A) Gas volumes sold in the national wholesale and retail markets; including resale and self-consumption.

(B) Input peaks recorded in the days: 26/01/2004, 19/12/2005, 25/01/2006, 18/12/2007, 18/02/2008, 21/12/2009, 17/12/2010, 25/01/2011, 7/02/2012, 11/02/2013, 29/01/2014, 3/02/2015, 20/01/2016, 10/01/2017; the indicated volume includes the inputs, the storage distribution, the network losses and internal consumptions.

(C) In Italy there is no differentiated treatment for the transits considered as normal transports; the value indicated in the table refers to a transit contract that has obtained priority access, as it belongs to a multi-year contract.

(D) The available gas volumes include the production, net import and storage.

Source: ARERA processing on Snam Rete Gas data and on declarations of the operators.

More precisely, the industrial groups and their respective shares, indicated between parenthesis, are: Eni (22.1%), Engie (12.6%), Enel (9.8%), Edison (9.6%). Three of them, Eni, Engie and Edison, highlight a lower share than last year, while Enel's share has increased by 0.7 percentage points. The Royal Dutch Shell group is in fifth place with 3.5% (which was 3.8% in 2016). The first three groups cover altogether 44.4% of the total demand, a lower share than last year (which was 46.3%).

The sales and prices of the wholesale market are described in detail in the following paragraph.

#### 4.2.1.1 Monitoring the level of prices of the wholesale market

The data related to the gas wholesale market is, as always, from the first and temporary elaborations of the data collected in the annual survey that the Authority carries out on the state of the electricity

and gas markets in the previous year. The survey was addressed to the 642 credited companies of the operators Register, concerning the gas sales sector, that declared they carry out the activity of gas sales on the wholesale or end market in 2017 (even for a short period of the year). 537 of these companies answered, of which 39 declared they had remained inactive during the year. Of the 498 active ones, 78 sold gas only on the wholesale market and were classified as pure wholesalers, 313 sold gas only to consumers and were classified as pure vendors. The remaining 107, who operated on both the wholesale market and end market, were classified as mixed operators.

**Table 4.4 Sales and prices in the wholesale market in 2017**

M(m <sup>3</sup> ); c€/m <sup>3</sup>			
Operators	Number	Sales	Price
Pure wholesalers	78	105,651	19.97
Mixed operators	107	105,163	20.87
<b>Total</b>	<b>185</b>	<b>210,814</b>	<b>20.42</b>

Source: Annual surveys on regulated sectors.

The wholesale market, which handled altogether 201,8 G(m<sup>3</sup>), is supplied for 49% by pure wholesalers, and 51% by mixed operators. As in 2016, there was no increase in the number of companies that operated in the wholesale market in 2017 (on the contrary, it fell by 3 units), whereas the overall volume of gas they traded increased. In fact, 185 vendors, 10 fewer than 2016, sold a total of 15 G(m<sup>3</sup>) more than in 2016. Thanks to these developments (wider market and lower number of suppliers) the unit average volume has again increased by 13.6%, going from 1,003 to 1,140 M(m<sup>3</sup>) on the whole market.

In the period between the beginning of 2017 and the first quarter of 2018: 14 companies launched an activity of natural gas wholesale, 5 companies terminated their activity and 9 companies changed their corporate name.

There were several incorporations, some concerning the acquisition of companies that already belonged to the same corporate group (Youtrade, Vivigas, Europe Energy, Estra, Engie). Others occurred between distinct companies, like in the case of Energetic Source that joined the Eviva group and changed its corporate name.

In 2017, after years of continuous decline, the concentration of this market increased slightly: the share of the biggest three companies (Eni, Enel Trade and Eni Trading & Shipping) rose to 31.3% from 30.8% calculated in 2016. Likewise, the combined market share of the top five companies (the three mentioned above plus Engie Global Markets and Edison) rose to 45.8% from 45.5%. Obviously the HHI index calculated only on the wholesale market also went from 524 to 534, remaining however below the value of 1,500, considered the first symptom of concentration.

In 2017, the average price in the wholesale market was 20.42 €/m<sup>3</sup>, slightly higher than the 20.04 €/m<sup>3</sup> of the Virtual Trading Point (VTP; Platts data) and an increase (+7.5%) compared to the 18.99 €/m<sup>3</sup> recorded in 2016.

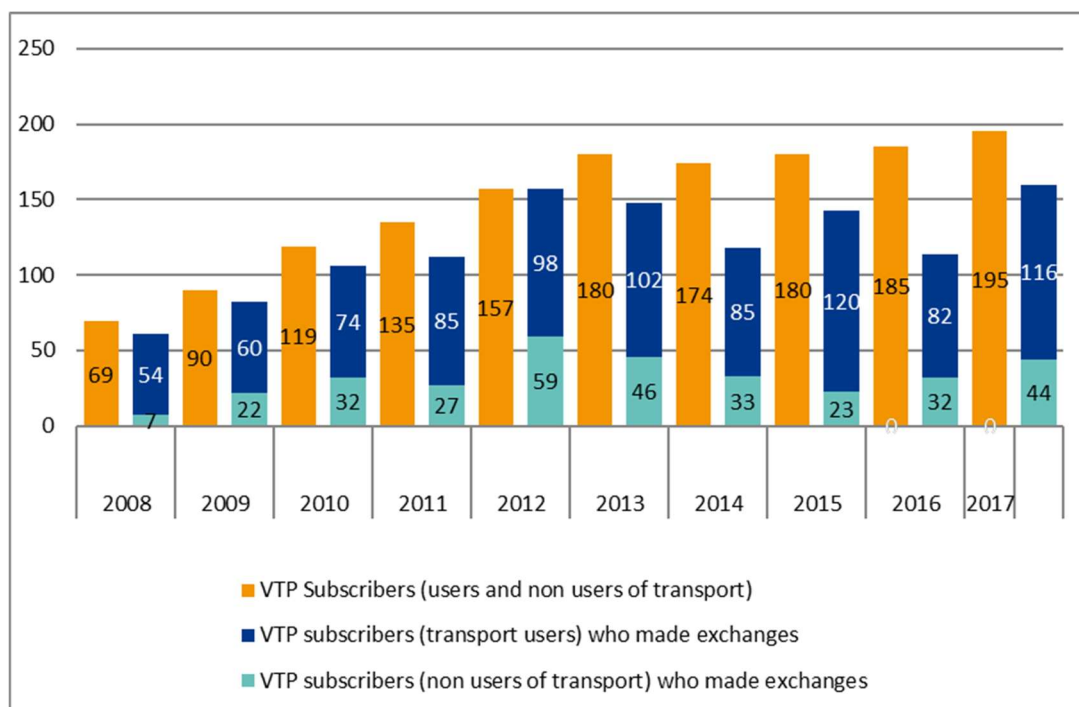
The mixed operator price was of 20.87 c€/m<sup>3</sup>, that is 0.9 cents higher than the price practised by pure wholesalers (equal to 19.97 c€/m<sup>3</sup>).

### Virtual trading point

The main trading platform in the wholesale market in Italy is the Virtual Trading Point (VTP), operated by the leading transport network operator, Snam Rete Gas. The sales that can be registered are the ones carried out with bilateral contracts and the ones carried out in the regulated markets managed by the GME. Since September 2015 it is also possible to register contracts managed by third party<sup>286</sup> Stock exchanges to the VTP, thus increasing the offer of futures products with physical gas delivery to the VTP.

In 2017, 160 entities, 40% more than 2016, performed the trade, sale and acquisition of gas on the VTP. Only 44 of these were pure *traders*, as they were not transport system users. Like in 2016, the positive trend in demand for natural gas has driven up the number of subscribers to the VTP, which in 2017 reached a maximum of 195 units. The number of those, among the subscribers, who performed transactions (Figure 4.8), has increased remarkably (+41%) compared to 2016, with an increase of 34 units (82 parties in 2016, 116 in 2017). In the same way, there was a significant increase (+38%) in the number of pure *traders* (i.e. subscribers that are non-users of the transport system) that reached 44 units, from the 32 of 2016. After three years of continuous decrease, the boosting of the demand for natural gas also supported the VTP, that was showing a clear recovery already in 2016.

Figure 4.8 VTP Subscribers since 2008



Source: Annual surveys on regulated sectors.

Figure 4.9 shows the development of gas transactions occurred at the entry points of the national gas system, and the exchanges recorded on the VTP. In the diagram we can see the groups formed by the imports at the *entry points*, the redeliveries to the VTP and, with the “VTP-GME” indication,

<sup>286</sup> By third party Stock exchange we mean the manager of a foreign regulated market, in which financial derivatives are exchanged, that provide the physical delivery and whose activities of compensation and guarantee for the transactions carried out in this market, are regulated through a *clearing house* (the third party that accepts the risk of counterpart); or it is the same *clearing house* that is responsible for the fulfilment of the physical delivery of the acquired products, directly or through subsidiaries or investees.

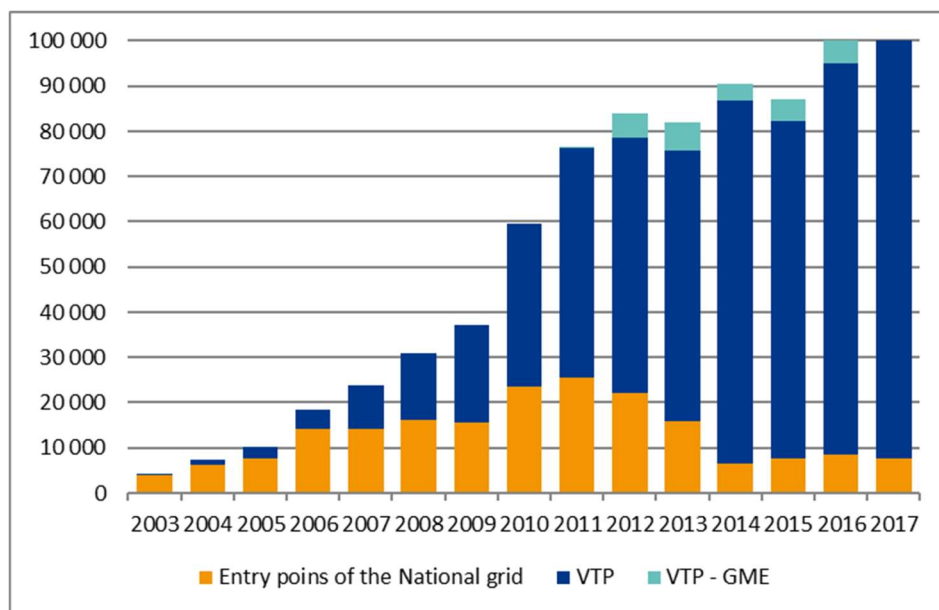
the group of exchanges registered on the VTP deriving from the market trading contracts managed by the GME, being the ones performed on the gas balancing Platform (PB-GAS) until September 2016, but also those in the M-GAS and, finally, the ones managed as *clearing house*. The imports at the entry points, that include all the (trade and customs) transactions, are grouped into one single entry, that includes the sales recorded at Tarvisio, Passo Gries, Mazara, Gorizia, Gela, and the redeliveries of gas that occur at the LNG terminals.

The VTP has grown remarkably in time, in terms of number of transactions and exchanged volumes, while the share of the RTN input points exchanges decreased, sometimes because of the import decrease and, partially, also due to the growing number of other available purchase modes: VTP and organized markets.

In 2017, despite the increase of the imports, the volumes registered at the RTN input points recorded a 7% decrease. The OTC volumes traded on the VTP, which in 2016 had shown a substantial increase (16%), continued to grow, but in 2017 the increase stalled at 7%. There was very strong growth, of 26%, in the VTP-GME, a further increase on the 18% growth in 2016. Beginning in the autumn of 2015, the transactions recorded on the VTP, which acts as *clearing house*, increased remarkably. As will be seen in the next paragraph, the launching of the new balancing market (fourth quarter of 2016), that brought a net increment of the exchanges on the several M-GAS platforms, was useful to support this continuous increase.

**Figure 4.9 Volumes of the transactions in the national network input points**

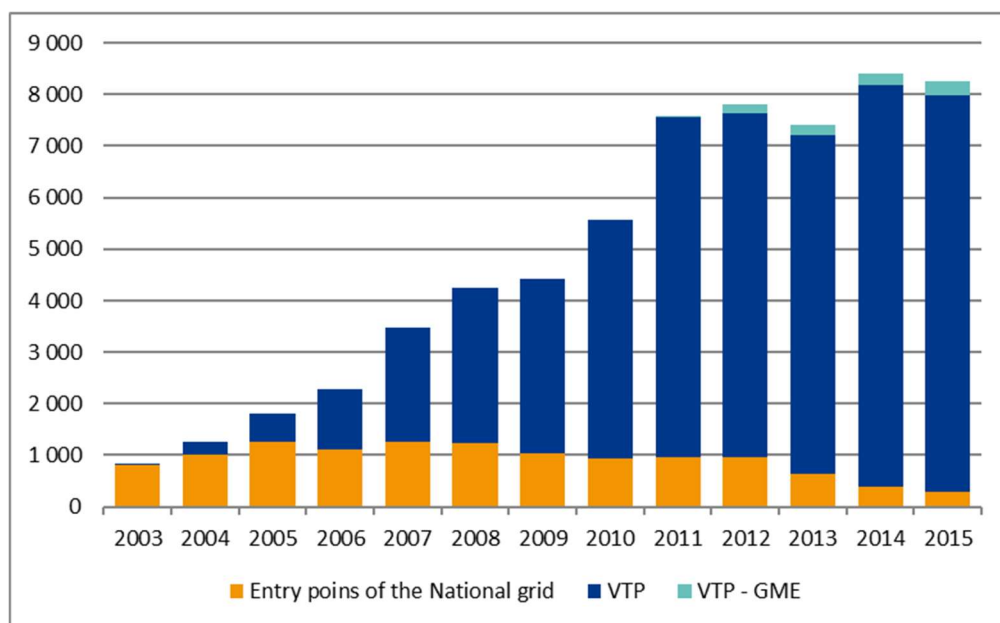
M(m<sup>3</sup>) standard from 38.1 MJ; the performed transactions refer to gas input into the network by the yielding user



Source: ARERA processing on Snam Rete Gas data.



Figure 4.10 Number of transactions in the national network input points



Source: ARERA processing on Snam Rete Gas data.

### Gas Stock Exchange

The gas Stock Exchange in Italy was created in 2007 with Decree law n. 7 of 31 January 2007, converted with the Law n.40 of 2 April 2007, that establishes the obligation of natural gas cultivation for the concession holders, to yield the shares of gas produced in Italy due to the State and, for the importers, to offer a share of the gas imported at the regulated capacity market. With the law n.99 of 23 July 2009, the financial management of the gas market was exclusively entrusted to the GME, which manages the sale and purchase offers (and all the connected services) according to financial criteria.

The first core of the Stock Exchange was created in March 2010, with the creation of the negotiation Platform for the exchange of imported gas shares, called P-GAS. But the launching of the true natural gas *spot* market occurred in October 2010, with the GME that carries out the role of central counterparty, and with the creation of **M-GAS**. On this market, the operators, that have been qualified to perform transactions on the VTP, can buy and sell amounts of *spot* natural gas. At the time it was divided in:

- MGP-GAS (day ahead gas market), in which the dealing occurs with sale and purchase offers related to the next-day gas. The negotiation modality is continuous with closing auction price;
- MI-GAS (intra-day gas market), in which the dealings occur with gas negotiations related to the actual gas-day. The negotiation modality is continuous.

The PB-GAS was activated at the end of 2011 and has replaced the “storage” balancing system with an “on market” balancing system, where the price is no longer established by the Authority, but defined by the intersection between supply and demand related to the stored gas. Those who own storage capacities are obligated to participate in this mechanism. The compulsory participation,

added to the presence of Snam Rete Gas as balancing Manager (RdB), has allowed a much higher gas movement in this market, compared to the others managed by the GME.

PB-GAS is divided into the following compartments:

- Compartment G-1, a true day ahead market where, on a voluntary basis, different flexible resources, among which LNG and Edison storage, can be called to answer to the possible Snam Rete Gas offers for the covering of the predictive system imbalance;
- Compartment G+1, a next-day market, where the operators offer the storage resources in their own availability on a daily basis, in purchase and sale. Snam Rete Gas offers an amount of gas corresponding to the system total imbalance, in purchase or sale, to stock its resources offered by the operators, needed to maintain the system balance.

Following the approval of the European balancing<sup>287</sup> Regulations, a balancing system was introduced, on 1 October 2016, to take the place of the G-1 and G+1 sections, that places all the available flexible resources such as storage, import or regasification of the LNG, in competition, during the whole day. In this system, the users and Snam Rete Gas access these spot market products to stock the necessary resources to balance the individual position and the aggregated position of the system, respectively. This reform also introduces imbalance prices that induce the single users to balance their own positions, so that the network, in its totality, is also balanced. In this context, the Snam Rete Gas system operator supplies the users with real-time information on the state of the network so that the users can balance the system efficiently, limiting, vice versa, its purchase and sales actions on the market to what is strictly necessary to supply "price signals".

Beyond the existing MGP-GAS and MI-GAS, the following *spot* markets of useful balancing products have been activated since 1 October 2016:

- the storage gas Market (MGS) allows all the users to exchange, in one single marginal price auction session, the title of the stored gas; Snam Rete Gas can access this market in order to safely manage possible network deviations, as well as for other operations;
- the locational *products* Market (MPL) is carried out according to auction negotiation methods and only upon request of Snam Rete Gas. In this market, Snam Rete Gas obtains the amounts of gas that are necessary to manage the physical requirements inside the balancing zone, or possible expected deviations between total network inputs and withdrawals, from the qualified users.

The negotiations of both the aforementioned sections, organized in a transitory way in the context of the balancing Platform (PB-GAS), are part of the Gas Market organization (MGAS), since April 2017, in the implementation of the Decree of 13 March 2017, by the Ministry for Economic Development.

Since 2015, the operators can also extend the PSV registration for the transactions concluded at Stock Exchanges managed by others than the GME<sup>288</sup>. The GME has been instructed to record the transactions performed on the platforms managed by ICE Endex and Powernext (PEGAS platform of the EEX group) on the PSV, which had already launched *futures* products with delivery to the PSV, in April 2015.

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<sup>287</sup> (EU) 312/2014 Regulation approved by the European Commission on March 26th, 2014.

<sup>288</sup> Resolutions 282/2015/R/gas of June 12th, 2015, and 436/2015/R/gas of September 10th, 2015,.

The forward market managed by GME (MT-GAS) was launched on 2 September 2013. This market, that was placed next to the existing spot markets, is carried out according to the continuous negotiation modalities with different negotiation *books*, one for each type of negotiable product and referring to different delivery periods, where gas purchase and sales offers are selected.

### Prices and Volumes

Within the context of the gas markets operated by the GME, in 2017, an overall 45.9 TWh of volumes were traded, slightly lower than what was recorded in 2016 (-3%). However, there are profound changes in the allocation of these volumes on the different platforms, insofar as 2017 was the first year of full operation of some of the new regulation markets (see previous paragraph). In the table we can see how the volumes, that in the previous year were shared between the G+1 and G-1 balancing platforms (until the third quarter of 2016) and the MI, MGP and MGS compartments (in the last quarter of 2016), in 2017 are entirely negotiated inside the various M-GAS compartments. The highest liquidity volumes are observed in the intra-day Market (23.8 TWh), the same preferably used by Snam Rete Gas<sup>289</sup> for its functions of balancing responsible entity (or party), corresponding to 25% of the exchanged volumes. The main operator in the gas storage Market (16.6 TWh) is still the balancing Manager (35%), whose net majority of traded volumes (80%) is based on the goals of the system balancing. The day-ahead Market (3.3 TWh) records a marked increase of the exchanged volumes coinciding with the launching of the *liquidity providing* mechanism relatively to the G+1 contracting gas day.

During 2017 there were no recorded negotiations for the *locational* products Market, while we can observe a recovery of the auction negotiations on the P-GAS “*Royalties*” compartment (1.9 TWh), after four years of inactivity, that occurred in last the five months of the year for the monthly products expiring in the second subsequent month (M+2). Negotiations on the gas futures Market were recorded for the first time in 2017, for a total of 186 GWh, mainly for *Balance Of Month* products (54%). The first negotiations on this market, that occurred in the month of January, are recorded corresponding to the review of the calculation of the control price.

Concerning the prices in outcome on the various platforms (Figure 4.11), the M-GAS recorded values between 19.26 €/MWh of MGS and 19.67 €/MWh of MI-GAS, and nearly always lower compared to the average share of the PSV (in the year equal to 19.92 €/MWh<sup>290</sup>). The sharp rise recorded in December on all the spot markets is partially due to the activation, of the pre-alarm state of the Emergency Gas Plan by the Ministry for Economic Development, after the accident that occurred on the import pipeline from Austria. As noted in the final quarter of 2016, a clear correlation was confirmed in 2017, between the quote on the VTP and the prices recorded on the M-GAS, represented by the *System Average Price* (SAP), confirming its role in providing users with clear price signals induced by the Balancing Manager to promote balancing actions by individual users themselves. The price level and their volatility on MGS, seem to be more distant from the other compartments and quotes.

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<sup>289</sup> According to what is provided by the (EU) 312/2014 Regulation concerning the hierarchy between market resources for the market balancing.

<sup>290</sup>Source: Thomson-Reuters.

**Table 4.5 Annual volumes for each of the gas markets managed by GME**

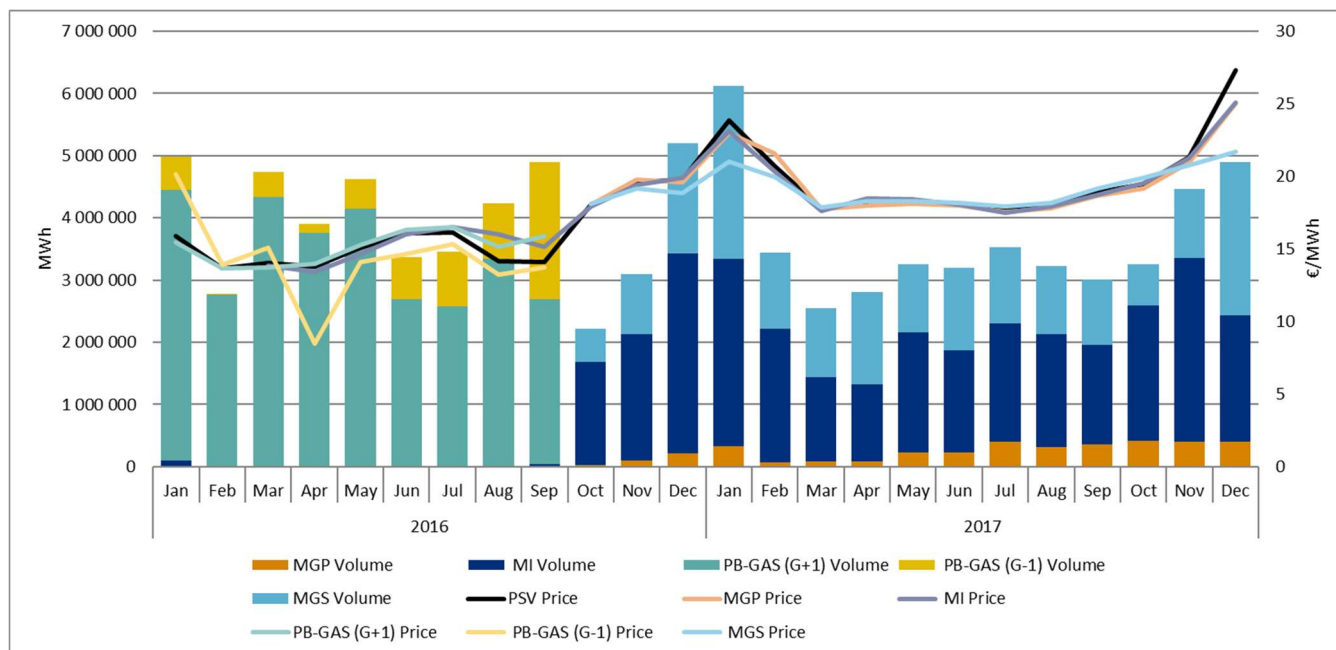
MWh

		2010	2011	2012	2013	2014	2015	2016	2017
P-GAS	Import	365	-	-	-	-	-	-	-
	Royalties	-	2,869,528	2,707,932	1,800,900	-	-	-	1,947,397
	L. D. n.	-	-	-	-	-	-	-	-
	130/10	-	-	-	-	-	-	-	-
M-GAS	MI-GAS	-	12,616	36,120	3,820	102,130	1,009,437	7,089,717	23,825,785
	MGP-GAS	-	149,378	135,900	13,300	-	-	334,930	3,279,530
	MT-GAS	-	-	-	-	-	-	-	186,092
	MGS	-	-	-	-	-	-	3,269,012	16,632,693
	MPL	-	-	-	-	-	-	-	-
PB-GAS	PB-GAS (G+1)	-	1,711,574	34,925,457	40,832,824	38,584,290	40,863,279	30,568,460	-
	PB-GAS (G-1)	-	-	-	48,344	2,940,479	7,326,319	6,218,251	-
<b>TOTAL</b>		<b>365</b>	<b>4,743,096</b>	<b>37,805,409</b>	<b>42,699,188</b>	<b>41,626,899</b>	<b>49,199,035</b>	<b>47,480,370</b>	<b>45,871,497</b>

Source: GME.

**Figure 4.11 Monthly performance of prices and volumes in the markets useful for gas balancing**

€/MWh; MWh



Source: GME.

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

##### Measures for the development of competition in the wholesale market

The functioning of the natural gas markets, whose main technical rules are based on a consolidated order, only needed certain adjustments.

First of all, the Authority adopted<sup>291</sup> provisions to strengthen its own function of natural gas wholesale market monitoring, laying the foundations for the introduction of a unique text that - similarly to what occurs on the electricity market - allows for the availability of more automated analysis, warning and report tools. In that context;

- the Snam Rete Gas company was defined as the party responsible for the development of the instrumental activities to exercise the monitoring functions of capacity and flow;
- GME was defined as the party responsible for the development of instrumental activities to exercise the function of monitoring of the market competition, integrity and transparency.

The Authority subsequently approved<sup>292</sup> the proposal of the Snam Rete Gas Company related to the creation of a monitoring office, also providing the expected costs for these activities. In consideration of the fact that the monitoring activity is fundamental for the positive operation of the markets and its benefits fall upon the system users, the deliberation provided that the financing be obtained from the funds to cover the costs connected to the gas system balancing system. Finally, in the beginning of 2018, the Authority also approved<sup>293</sup> the application of this financing mechanism to cover the costs of the activities carried out by the GME in matters of gas market monitoring.

The following operations were adopted, with reference to the natural gas market organised by the GME, geared to render it more efficient, also for the balancing service management:

- the Authority expressed<sup>294</sup> its favourable opinion on the amendment of the M-GAS Regulation prepared by the GME, to the Minister for Economic Development, regarding the necessary measures for the activation of the regime phase of the new natural gas system balancing regulations, introduced in 2016<sup>295</sup>;
- the approval<sup>296</sup> of the outline of the agreement between Snam Rete Gas and GME and a proposal, from Snam Rete Gas, to update the conditions for the sale and exchange of natural gas to the PSV, functional to the management of the natural gas market in the context of the natural gas system balancing regime and of the integrated text related to the provisions in matters of regulatory conditions for the development of the management activities of the physical gas market (TICORG);
- the approval<sup>297</sup> of the agreements between GME and Snam Rete Gas, Stogit and Edison Stoccaggio, functional for the management of the market for the in-stock gas negotiation

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<sup>291</sup> With the Resolution 308/2017/R/gas of May 5th, 2017.

<sup>292</sup> With the Resolution 846/2017/R/gas of December 5th, 2017.

<sup>293</sup> With the Resolution 87/2018/R/gas of February 15th, 2018.

<sup>294</sup> With acceptance of 98/2017/I/gas on March 3rd, 2017.

<sup>295</sup> With Resolution 312/2016/R/gas of June 16th, 2016.

<sup>296</sup> With the Resolution 147/2017/R/gas of March 16th, 2017.

<sup>297</sup> With Resolution 630/2017/R/gas of September 14th, 2017.

(MGS); in particular, the agreements regulate the exchange of information and the verification of coherence of the transactions concluded at the MGS;

- the approval<sup>298</sup> of the measure of unitary contribution for 2018 for the participation on the markets that compose the M-GAS, managed by the GME;
- favourable opinion was expressed<sup>299</sup> to the Ministry for Economic Development, for the amendment of the M-GAS market regulation, prepared by the GME, regarding the provisions in matters of measuring units used in the contracts of the products quoted on the M-GAS and of operating management of the MGS.

#### 4.2.2 Retail markets

The provisional results of the Annual Survey, on which the comments found in these pages are traditionally based, show that, in 2017, 59.8 G(m<sup>3</sup>) were sold to the free or regulated end market, to which are added the 154 M(m<sup>3</sup>) supplied through services of last resort and *default*<sup>300</sup>. Overall, the end sales therefore amounted to almost 60 G(m<sup>3</sup>), with an increase of 2 G(m<sup>3</sup>) compared to 2016.

In order to obtain data that can be compared with the end gas consumption data published by the Ministry of Economic Development mentioned above, commented in the previous pages, we must however consider the volumes related to self-consumption, more than 15 G(m<sup>3</sup>), that bring the value of overall consumption given by the Annual Survey to 75 G(m<sup>3</sup>), which is comparable to the 72.6 G(m<sup>3</sup>) reported by the Ministry. The two sources classify the volumes of gas handled over the year in different ways. In the annual survey data, the level of total consumption reached in 2017 has recovered, and slightly exceeded, that of 2013, although it still remains very distant from the pre-crisis values, which were close to 85 G(m<sup>3</sup>).

**Table 4.6 End consumption of natural gas in 2016 and 2017**

Withdrawal points in thousands; volumes in M(m<sup>3</sup>)

	VOLUMES			WITHDRAWAL POINTS		
	2016	2017	VARIATION	2016	2017	VARIATION
End sales	57.719	59,816	3.6%	21,183	21,177	0.0%
Last resort and <i>default</i> supplies	152	154	1.5%	91	108	18.3%
<b>TOTAL MARKET</b>	<b>57,871</b>	<b>59,973</b>	<b>3.6%</b>	<b>21,274</b>	<b>21,285</b>	<b>0.0%</b>
Self-consumption	14,118	15,025	6.4%	2.6	2.6	0.0%
<b>END CONSUMPTION</b>	<b>71,989</b>	<b>74,995</b>	<b>4.2%</b>	<b>21,277</b>	<b>21,280</b>	<b>0.0%</b>

Source: Annual surveys on regulated sectors.

In 2017, as in recent years, self-consumption showed a fairly significant increase, up by 6.4% in terms of volume, which was not manifested in terms of withdrawal points, which remained stable at around 2,600 units. This item has a very strong influence on electricity generation (89.4% of self-consumption is recorded in this sector).

<sup>298</sup> With the Resolution 800/2017/R/gas of November 30th, 2017,.

<sup>299</sup> With the Acceptance of 804/2017/R/gas of November 30th, 2017,.

<sup>300</sup> The request for the data related to the last resort and *default* supplies can be found in the Annual Survey with a simplified modality. Therefore, for this kind of supply there are no available details (consumption sector, type of connection, etc.) with which the final sales are usually analysed. So all the detailed analyses are accomplished net of this market component in the rest of this paragraph.



The recovery of end consumption, which is significant in both Annual Survey data (6.4%), and ministerial data (5.5%), appears to be linked to a more consistent growth in the production sectors (close to 5.2%), whereas growth in civil consumption is positive but less intense (close to 2.4%).

Of the 59.8 G(m<sup>3</sup>) of gas sold in the end market, 13.1 G(m<sup>3</sup>) were sold from pure vendors while the remaining 46,7 G(m<sup>3</sup>) were traded by suppliers who also operate in the wholesale market (Table 4.7). The average price practised to the consumers, equal to 34.28 c€/m<sup>3</sup>, increased by 0.52 c€, or 1.5% compared to the value of 2016. As usual, this price is higher than the one practised on the end market by the wholesalers (pure and mixed), which was equal to 31.42 c€/m<sup>3</sup>. The reason for the positive difference of 2.86 c€, mainly resides in the type of supplied customers and the connected characteristics. The companies that operate mostly in the end market mainly address civil customers that are connected to the distribution networks and that, although there are many of them, are characterised by slightly higher consumptions. Vice versa, the customers supplied by the wholesalers are mainly the large consumers, especially industrial, which, thanks to the high levels of consumption, are surely able to obtain more favourable prices. The industrial customers are often directly connected to the transport network and, therefore, they do not pay for distribution costs.

**Table 4.7 Sales and prices for the end market for 2017**

M(m<sup>3</sup>); c€/m<sup>3</sup>

Operators	Number	Sales	Price
Pure vendors	313	13,078	44.51
Mixed operators	107	46,739	31.42
<b>Total</b>	<b>420</b>	<b>59,816</b>	<b>34.28</b>

Source: Annual surveys on regulated sectors.

The difference in price offered, that can be observed in the wholesale market is definitely lower. With an average price of 20.42 c€/m<sup>3</sup> practised by wholesalers, suppliers (or the companies that operate mostly on the end market) have requested an average of 20.87 c€/m<sup>3</sup> for the gas they sold to other retailers, which is less than half a cent more.

Regardless of the increase of sales on the end market, that doesn't occur each year, we can however assist to the increase of the number of active suppliers in this segment of the supply chain for over ten years. In 2017 the latter exceeded 400 units, highlighting an increase of 18 units compared to 2016<sup>301</sup>. The rising trend of the number of suppliers is continuous and can also be observed in the electricity market. The on-going growth of the number of parties that operate inside the market, despite widening its consistency, constitutes the cause of the slight decrease in the average unitary sales volume that went from 144 M(m<sup>3</sup>) in 2016 to 142 M(m<sup>3</sup>) in 2017, although this value is still far from the pre-crisis values, or the 230 M(m<sup>3</sup>) that were the average sales in 2009.

The increase in the number of suppliers is also explained by the many movements that are recorded among the companies every year. Last year: 43 companies launched their sales activity to consumers (33 in 2017 and 10 in the first quarter of 2018), these are mainly companies that already

<sup>301</sup> As we saw in the paragraph dedicated to the wholesale market, this year, 537 companies of the 642 that declared they were performing the activity of gas sales in 2017 (even if only for a short period of the year), registered in the Authority's Operator Registry, answered the Annual Survey on the electricity and gas. Excluding the 39 companies that declared they remained inactive, of the remaining 498, there were 78 that sold gas exclusively on the wholesale market. The subjects that operated in the retail market were thus 420.

carried out sales activities in the wholesale market or in the end electricity sales; a total of 14 companies terminated their activity, 6 companies acquired or sold their activity; 14 companies changed corporate group; there were 10 incorporations.

Of the 420 operative vendors that responded to the Annual Survey, 11.7% (i.e. 49 entities) supply customers throughout the country, i.e. in all 19 Italian regions supplied with methane<sup>302</sup>; 260 companies (61.9%) sold electricity in 6 to 18 regions; the remaining 111 companies (26.4%) operated in 1 to 5 regions. The number of companies that operate all over the country has grown continuously (7% in 2014, 8.4 % in 2015, 10% in 2016).

The corporate breakdown of the share capital of gas suppliers, limiting the analysis to direct holdings, displayed poor foreign presence: only 20 companies (of around 407 that provided this data) have a non-Italian majority shareholder. The direct foreign shareholders are mostly Luxembourg or Swiss companies, but there are also German, Austrian and Spanish companies.

To calculate the market shares and the level of concentration of the end sales market correctly it is necessary to analyse the work of the corporate groups, not the work of the single corporate names (Table 4.8).

**Table 4.8 Top twenty groups for sales on the final market in 2017**

Volumes in M(m<sup>3</sup>)

GROUP	VOLUME	SHARE	POSITION IN 2016
Eni	12,406	20.7%	1°
Edison	7,954	13.3%	2°
Enel	6,581	11.0%	3°
Energeticky A Prumyslovy Holding, A.S.	2,526	4.2%	8°
Iren	2,483	4.2%	4°
Hera	2,145	3.6%	5°
A2A	1,948	3.3%	7°
Sorgenia	1,184	2.0%	11°
Axpo Group	1,020	1.7%	14°
Engie	979	1.6%	6°
E.On	924	1.5%	10°
Royal Dutch Shell Plc	862	1.4%	9°
Estra Spa	853	1.4%	13°
Ascopiave	811	1.4%	12°
Repower Ag	777	1.3%	18°
Unogas	697	1.2%	15°
Eg Holding Spa	637	1.1%	16°
Metaenergia Spa	504	0.8%	26°
Solvay Energy Services Italia	495	0.8%	47°
Gas Natural Sdg S.A.	482	0.8%	17°
Others	13,551	22.7%	-
<b>TOTAL</b>	<b>59,816</b>	<b>100.0%</b>	<b>-</b>

Source: Annual surveys on regulated sectors.

<sup>302</sup> In Sardinia the gas service isn't present.

In 2017 the level of concentration in the end sales market, that last year had recovered after years of constant decrease, went down again compared to 2016. The first three groups control 45%, while the share of the previous year was of 47.2%. Considering the first five groups, the supplied market portion rises to 53.4% (from the 55% of 2016).

The Herfindahl-Hirshman Index calculated on the sales market was of 817, lower than the 875 of 2016. The level of the index remained therefore much lower than 1.000, value under which the concentration is normally considered insufficient.

No change has occurred in the top three positions of the end market: Eni, Edison and Enel still hold the top three places; all three, however, report a decrease in market share. The weight of the Eni group (this year of 20.7%) fell by half a percentage point compared to 2016, as did that of the Enel Group, while Edison's share fell by 1.2 points compared to the previous year. The distance between Eni and Edison has therefore become slightly larger (from 6.8% to 7.4%), while the distance between Edison and Enel was shortened (from 3% to 2.3%).

Concerning the turnover of the groups in the various positions of the ranking, the rise of the Czech group Energeticky a Prumyslovy Holding must be highlighted (that includes the EP Commodities company), that has recently entered the Italian market. This group went from eighth to fourth position, thanks to a sales increment of 69%, much higher than the market average). Sorgenia, Axpo Group, Repower, Metaenergia and Solvay Energy Service Italia groups also rose.

Table 4.9 proposes the summary of the natural gas end market sales data, per type of market and consumption sector, in the last two years, elaborated on the data collected during the Annual Survey, that is still temporary for 2017.

Net of the last resort and *default* supplies, 74.8 G(m<sup>3</sup>) were sold in 2017 - of which 15 were for self-consumption and 59.8 for sales - to 21.2 million customers (redelivery points).

Overall, the quantities of gas increased in almost all sectors with the exception of central heating and trade and services, compared to 2016. Self-consumption, which refers mainly to the thermoelectric sector, recorded a further increase (6.4%); the quantities of gas sold in the free market recorded an increase of 5.7%, while there was a loss of 6.8% in sales on the regulated market. The regulated market values shown in the table do not include the quantities supplied in the *default* and last resort services, as they cannot be divided into the different sectors. These were of 152 M(m<sup>3</sup>) in 2016 and 154 M(m<sup>3</sup>) in 2017. If the default and last resort services are also considered, the gas sold in the regulated market increases to 9.1 G(m<sup>3</sup>), although the loss compared to 2016 remains substantially unaltered (-6.7%).

Customers who bought gas for self-consumption decreased strongly (- 26.7%), like the decrease of 11.1% that concerned customers supplied under the market at standard conditions (but if we consider the *default* and last resort services, the decrease is reduced to 10.9%); vice versa the customers of the free market have altogether increased by 15.3%.

In 2017 the climate was rigid in the winter months and warmer, compared to the past years, in the summer months; the economic recovery was strong and the unavailability of the French nuclear stations, that went on for a good part of the year, are the elements that allowed a discreet recovery of the gas consumption. Civil consumption (i.e. the domestic sector, together with central heating, the tertiary sector and public services) increased overall by 2.4% compared to 2016, while the uses in production (manufacturing and thermoelectric combined) recorded a growth of 5.2%.

The rate of growth of the civil sector improved significantly if we consider the sales on the **free market exclusively**, which grew by 8.1% as compared to 2016. In fact, with the exception of the trade and services sector, which records a slight decrease (-0.5%), natural gas volumes sold in the

free market to households was 20.2% higher than in 2016, volumes sold to condominiums increased by 7.4% and public services by 5.4%.

**Table 4.9 End market per consumption sector**

Customers in thousands and volumes in M(m<sup>3</sup>)

CONSUMPTION SECTOR	2016				2017			
	REGULATE D MARKET	FREE MARKET	SELF- CONSUMP TION	TOTAL	REGULATE D MARKET	FREE MARKET	SELF- CONSUMP TION	TOTAL
<b>VOLUMES</b>								
Domestic	8,866	5,725	0	14,591	8,356	6,880	0	15,236
Condominium domestic use	737	1,758	11	2,506	598	1,888	9	2,495
Trade and services	17	7,439	76	7,532	15	7,400	49	7,464
Industry	6	18,789	1,540	20,336	3	19,838	1,529	21,370
Electricity generation	0	13,105	12,490	25,595	0	13,494	13,438	26,932
Public service activities	2	1,274	0	1,276	2	1,343	0	1,345
<b>TOTAL VOLUMES</b>	<b>9,629</b>	<b>48,090</b>	<b>14,118</b>	<b>71,837</b>	<b>8,973</b>	<b>50,843</b>	<b>15,025</b>	<b>74,841</b>
<b>REDELIVERY POINTS</b>								
Domestic	12,212	7,446	0	19,659	10,861	8,810	0	19,671
Condominium domestic use	94	113	1	207	80	117	0	198
Trade and services	9	1,068	2	1,079	9	1,052	1	1,062
Industry	3	178	0	180	2	180	0	182
Electricity generation	0	1	0	1	0	1	0	1
Public service activities	1	59	0	60	0	65	0	65
<b>TOTAL POINTS</b>	<b>12,319</b>	<b>8,865</b>	<b>3</b>	<b>21,186</b>	<b>10,952</b>	<b>10,225</b>	<b>2</b>	<b>21,179</b>

Source: Annual surveys on regulated sectors.

In 2017 customers of the gas market remained stable in its totality, they actually recorded a very slight decrease, having gone down by nearly 7,000 redelivery points. The sales increase is therefore not due to the rising of the number of contracts, but to a genuine increase in consumption. A movement of the customers towards the free market has however been recorded and for several years, partially due to the gradual expulsion from the standard offer, *ope legis*, of all the of non-domestic<sup>303</sup> customer categories and, concerning the families, partially because of the end of the standard offer regime that is programmed for 1 July 2019.

In fact, in 2017, 1 million and 366 thousand customers left the standard offer market, while the free market records 1 million and 360 thousand more. In particular, the departure of 1.351.000 families is highlighted in the standard offer service, while in the free market there are 1.363.000 domestic customers more than in 2016. In the case of central heating with domestic use the balance is negative: with 14.000 points that left the standard offer, only 5,000 more were recorded in the free

<sup>303</sup> As can be remembered, according to the decree law of June 21st, 2013, n. 69, since the second half of 2013 the obligation to offer the economic protection conditions concerns only the end customers, no longer the users with different uses and limited consumptions or those related to public service activities. Before this law the redelivery points owned by the customers had the right to the protection service: domestic, condominiums with domestic use with consumptions lower than 200.000 m<sup>3</sup>/year, non domestic with consumptions lower than 50.000 m<sup>3</sup>/year, and public service activities. So, since the second half of 2013 the non domestic customers have gradually left the perimeter of protection and the collected data confirms this.

market. A total and meaningful loss of customers emerges in commerce and services (-1,000 redelivery points supplied in the regulated market and -16,000 redelivery points in the free market). the balance is positive in the case of the industrial sector (-1,190 points in regulated, but +2,595 points in the free market) and even more for the public service activities (no one left the standard offer market and +5,000 points in the free market). As a result of what was mentioned above, we can observe that in 2017 the unit average consumption grew: compared to 2016, the average consumption for domestic customers went from 742 to 775 m<sup>3</sup>, for domestic use central heating from 12,098 to 12,590 m<sup>3</sup>, for trade from 6,980 to 7,025 m<sup>3</sup>, for the industry from 112.3 to 117.6 thousand m<sup>3</sup>, and for the electricity generation from 31.2 to 41 M(m<sup>3</sup>). The only exception is represented by the public service activities, sector in which the unit average consumption decreased slightly from 21,298 to 20,675 m<sup>3</sup>. In the free market the average consumption was higher than the one seen in the regulated market.

The proportion of volumes purchased on average on the free market was 67.9%, that of the regulated market was 12%, while self-consumption amounted to 20.1%. If we consider **sales in its strict sense** and therefore exclude self-consumption, 85% of the gas was purchased on the free market and the remaining 15% on the regulated market. In terms of customers, 51.7% turned to the regulated market, while 48.3% bought on the free market.

Considering **only the domestic sector**, we can observe that the share of volumes purchased on the free market in 2017 reached 44.8% for the families and 59.4% for central heating (both shares are calculated from the sales total in the strict sense of the word). In 2016 these values were, respectively, of 37.9% and 54.6%.

**Table 4.10 Final market by customer type and size in 2017**

M(m<sup>3</sup>)

SECTORS	CUSTOMERS DIVIDED PER ANNUAL CONSUMPTION CLASS (m <sup>3</sup> )						TOTAL
	< 5.000	5.000- 50.000	50.000- 200.000	200.000- 2.000.000	2.000.000- 20.000.000	> 20.000.000	
<b>REGULATED MARKET</b>	8,302	607	64	0	0	0	8,973
Domestic	8,208	145	3	0	0	0	8,356
Condominium domestic use	84	453	61	0	0	0	598
Trade and services	+1	1	0	0	0	0	2
Industry	8	6	1	0	0	0	15
Electricity generation	2	1	0	0	0	0	3
Public service activities	0	0	0	0	0	0	0
<b>FREE MARKET</b>	8,178	5,067	2,573	5,642	9,535	19,847	50,843
Domestic	6,680	161	11	5	23	0	6,880
Condominium domestic use	74	1,320	399	80	16	0	1,888
Trade and services	58	347	223	353	255	107	1,343
Industry	1,169	2,407	1,164	1,780	798	82	7,400
Electricity generation	198	830	767	3,313	7,498	7,232	19,838
Public service activities	0	2	9	112	945	12,426	13,494
<b>TOTAL</b>	16,480	5,674	2,637	5,643	9,535	19,847	59,816

Source: Annual surveys on regulated sectors.

As already mentioned in chapter 3 (paragraph 3.2), this year, for the second time, the Annual Survey of Regulated Sectors asked electricity and natural gas suppliers certain questions to assess the quantity, types and the methods of supply that companies offer customers who have chosen the free market.

Again, as mentioned in chapter 3, with the experience gained in the 2017 edition, the questions were slightly different, in order to try to capture the complex and varied reality of commercial offers. The objective was to refine the definitions and categories to render them as appropriate as possible to classify the many offers found on the market, even if they didn't quite represent the truth. Like last year, the results published in these pages must be received with necessary caution. What's more, since the supply of the non-domestic customers traditionally introduces more complex and varied necessities compared to the families, this year's distribution of the collected results is also practically only concentrated on the latter<sup>304</sup>.

The average number of commercial offers that sales companies were able to offer their potential customers was 13.7 for the domestic customers, 7.6 for domestic use central heating and 76.6 for non-domestic customers. The latter obviously has a greater possibility of choice, generally being the most important customer in terms of consumed volumes and with more differentiated requirements compared to those of a domestic customer. The supplier is surely ready to offer more personalized services and individual contracts to this type of client. However, 24% of the vendors, offer a single contract mode, 34% offer up to 3 and the remaining 42% of the suppliers propose a range that offers 4 and more contract offers to their customers.

Of the 13.7 offers that are available for domestic clients, 4.1 can only be bought *on-line*, or only through Internet, that by now constitutes a very important sales channel through which the company can clarify its own offer with all the necessary details and save on management costs. However, 16.5% of the vendors don't make offers *on-line*. In 2.4% of the cases the number of *on-line* offers is equal to the number of offers that are altogether proposed to the customers. Therefore, in most cases, the number of *on-line* offers was lower than the total offers. The *on-line* offers still haven't found much interest on behalf of the families, and it turns out that only 4.1% of the customers subscribed to a contract offered through this channel.

Concerning the preferred type of price, it was found that 68.6% of households subscribed to a fixed price contract on the free market (i.e. with the price that doesn't change for at least one year from the time of the subscription), while only 31.4% chose a variable price contract, with the price that changes according to the timing and methods established by the contract itself. There are different types of indexing modes for variable price contracts. 45.7% of the customers who subscribed to a variable price contract signed a contract that provides a fixed discount on one of the components established by the Authority for the standard offer regime; 19.8% of the customers chose a contract that provides the indexing of the Brent and 18.5% of the customers have chosen one indexed on the PUN. A small share of customers (0.8%) has chosen to index the gas price to the price of the PSV or to that of the markets managed by the GME. The remaining 15.3% of the contracts provides alternative forms of indexing, often with a combination of those mentioned above.

Concerning the length of the contract, 2.8% of the customers subscribed to a contract that provides a clause of minimal contractual duration, where the client can't change supplier for a minimum time duration established by the contract, in order to apply the established price. The percentage is higher with fixed price contracts where the clause is applied to 3.1% of the customers, while it is of

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<sup>304</sup> The only result shown for the non-domestic clientele concerns the number of available offers because the specific question in the vendor's questionnaire obtained many results.



2.2% for the blocked price contracts. However not all the vendors of the free market apply a contract that provides a contractual minimal duration clause, and those that contemplate this possibility, offer alternative contracts that do not include this constraint. There are 16 vendors who apply contracts with minimal duration clauses, and they supply altogether slightly less than 1 million customers. The customer share of these vendors, who purchased a contract with minimal duration clause is equal to 33.8% (14.6% with variable price and 59.4% with blocked price).

25% of the domestic customers subscribed to a contract that provides an abatement or a discount of one or more free periods or of a fixed sum in money or volume, that can be una tantum or permanent, and eventually provided when a certain condition is established (i.e. a discount for contracts subscribed by friends of the customer, discount for direct automatic bank payments, etc.). More in detail, it turns out that the discount is applied to an average of 17% of the customers who chose a fixed price contract and to 42% of the customers who chose the variable price contract.

Finally, concerning added services in contracts subscribed by families, we can see that between the domestic customers whom chose a blocked price contract, a net preference (51.4%) emerges for those contracts that provide the participation to a points-program and a certain liking (7%) for contracts that offer an accessory energy service. A large part of the customers, 38.8%, subscribed for a contract that does not provide any additional service. This portion is even higher, 86.5%, for variable price contracts.

#### **4.2.2.1 Monitoring level of prices, the level of transparency, the level and effectiveness of market opening and competition**

The Authority has two sets of data for the sales prices in the retail electricity market:

- One for the average conditions for natural gas supply, carried out according to Resolution ARG/elt 64/09 of 28 May 2009, in which the monthly data relative to the charges invoiced by the vendors to the domestic and non-domestic customers is recorded with quarterly intervals, divided into consumption classes and market types;
- the other carried out within the context of the *Annual Survey on the regulated sectors*, in which the data of competence for the previous year is recorded and divided according to several retail categories (type of market, sector and consumption classes, type of connection).

As already mentioned in chapter 3 (see paragraph 3.2.2.1), the Authority also defined the retail market monitoring system for both electricity and natural gas (TIMR). The TIMR imposes that the companies who carry out the activity of electricity and natural gas end sales (with a number of supplied withdrawal points higher than 50,000), must communicate the data related to the average monthly prices of natural gas practised on the end market to the Authority, every quarter, along with many other indicators (TIMR results are exposed in the next paragraph). In fact, since January 2012 and limitedly to the vendors obligated by the TIMR, the average prices collected by the Authority according to the Resolution ARG/elt 64/09 converge in the *retail* monitoring. According to an institutional agreement, however, all the data collected according to the ARG/gas 64/09 Resolution are supplied to the Ministry for Economic Development every six months, who then sends them to Eurostat to fulfil to the obligation on statistics of electric power and natural gas end prices. As the latter was modified in 2016, with the adoption of *Regulation (EU) 2016/1952 of the European Parliament and of the Council on European statistics on natural gas and electricity prices*

and repealing Directive 2008/92/CE, the Authority has renewed<sup>305</sup> its own survey systems of the prices practised by the suppliers of electricity and natural gas to the consumers, in order to adapt them to the demands of the new European Regulations.

The data of the *Annual Survey* is used for the statistical analysis carried out by the Authority, especially those exposed in the annual reports to the national and European Authority.

The interim analysis of data gathered in the survey conducted by the Authority for 2016 shows that, last year, the average price of gas (weighted by the quantities sold), net of sales taxes, set by the sales companies operating on the end market, was of 34.3 c€/m<sup>3</sup> (Table 4.11). This price was 33.8 c€/m<sup>3</sup> in 2016. Therefore, the overall average price of gas in Italy increased by 1.5%.

This increase is the result of the combination of the development of the annual consumption single classes that show different evolutions. The first two classes show a slight increase, equal to 0.4 and 0.9 c€/m<sup>3</sup> (equivalent to 0.7% and 2.2%), the three middle classes show decreases between 0.7 and 1.5 c€/m<sup>3</sup> (from 2% to 5.1%), while the largest class (consumption over 20 million m<sup>3</sup>) shows an important increase, in absolute terms (2.5 c€/m<sup>3</sup>) and relative terms (approximately 11%).

The above caused the stability of the price difference between smaller and larger customers in the five years considered, with an average value of c€ 28.4/m<sup>3</sup>. The difference is due to the fact that the fixed costs are shared on greater amounts, in the presence of higher consumption.

In particular, the effect of the distribution tariffs is much higher on smaller consumption, while, for larger customers that are directly connected to the transport network, this component is not even present. What's more, the small consumptions are characterized by a greater correlation with the seasonal and climatic development that involves greater modulation costs. In addition, the large customers supplies are characterized by more flexible price systems, in which the indexing formulas answer more quickly and more intensely to the structural variations of the international markets. In fact, the important increment highlighted above for the larger class reflects the remarkable increment recorded in the main European markets between 2016 and 2017. We can state that the ability to obtain more convenient supply conditions is directly proportioned to the size of the customer, in relation to the greater knowledge of the market and higher attention on contract conditions.

**Table 4.11 Average sales prices net of on the final market taxes**

c€/m<sup>3</sup>; annual consumption classes expressed in m<sup>3</sup>

ANNUAL CONSUMPTION CLASS	2013	2014	2015	2016	2017
Lower than 5,000	61.2	58.8	55.7	51.7	52.1
From 5,000 to 50,000	51.3	46.9	46.0	42.1	43.1
From 50,000 to 200.000	44.4	41.4	41.0	37.0	36.2
From 200,000 to 2.000.000	36.6	35.0	32.5	28.3	26.8
From 2,000,000 to 20,000,000	33.8	34.0	28.0	24.2	23.0
Over 20,000,000	32.7	32.2	26.5	21.8	24.3
<b>TOTAL</b>	<b>44.0</b>	<b>42.3</b>	<b>38.9</b>	<b>33.8</b>	<b>34.3</b>

Source: Annual surveys on regulated sectors.

<sup>305</sup> With the Resolution 168/2018/R/com dated March 29th, 2018, that has also repealed Resolution ARG/elt 167/08.,

On the other hand, as already seen in the electricity sector, it is necessary to consider that the range of offers from suppliers to consumers has become remarkably wider, with the development of the free market, and now the customers can choose between very different packages. Some of these include accessory services (assistance, maintenance, insurance, etc.), for which the price of gas offered considers additional elements to the single cost of the gas itself. Other offers provide discounts on raw materials, while others offer advantages on the purchase of different goods or services (discounts at the supermarket, on fuel, on telephone services, etc.). Many suppliers also offer blocked price formulas, whose price update mechanisms are not influenced by the economical dynamics of the energy prices, but often depend on the date of subscription to the contracts (and in particular on the current expectations on the future development of the fuel price), and on the duration of the contracts themselves (the longer it is, the more the stipulated price must consider the risks of market changes). Other offers are related to the respect of defined consumption thresholds, after which additional price components are considered. Table 4.12 shows the cross-section of the average prices per consumption sector. The total average of each sector (last column on the right) depends on the division of the volumes sold between the size classes. Due to what is stated above, the domestic sector, characterized by the presence of lower unit consumption, presents a higher total average price, while industry and electricity generation present lower prices for the opposite reason.

**Table 4.12 Retail sales prices on the final market by consumption sector and customer size in 2017**

c€/m<sup>3</sup>; annual consumption classes expressed in m<sup>3</sup>

SECTOR	CUSTOMERS DIVIDED PER ANNUAL CONSUMPTION CLASS (m <sup>3</sup> )						TOTAL
	< 5.000	5.000- 50.000	50.000- 200.000	200.000- 2.000.000	2.000.000- 20.000.000	> 20.000.000	
Domestic	52.0	42.4	37.0	33.3	26.6	-	51.8
Condominium domestic use	49.7	44.2	41.3	35.9	30.8	-	43.6
Public service activities	51.3	39.5	35.2	29.3	23.7	20.8	32.2
Trade and services	52.9	43.2	35.8	27.7	24.4	25.3	37.6
Industry	53.9	42.1	34.3	25.9	22.6	22.5	24.7
Electricity generation	51.9	39.8	29.0	24.9	24.3	25.3	25.2
<b>TOTAL</b>	<b>52.1</b>	<b>43.1</b>	<b>36.2</b>	<b>26.8</b>	<b>23.0</b>	<b>24.3</b>	<b>34.3</b>

Source: Annual surveys on regulated sectors.

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

The **retail markets sale monitoring system** (already described in detail in chapter 3 and in the previous paragraph) allows the Authority to accomplish the regular and systematic observation of the sale conditions, including the liberalisation degree, the market competitiveness and transparency, and the level of participation of the consumers and their degree of satisfaction.

Please refer to paragraph 3.2.2.1 in which the 801/2017/I/com Report illustrates the main outcomes of the monitoring activity, describing, when possible, the evolution of the relevant phenomena in the first five years of the monitoring (2012-2016).

### Switching

On the basis of the data from the transport and distribution of natural gas, the percentage of *switching*, the number of customers<sup>306</sup> who switched over to another provider during the calendar year 2017<sup>307</sup>, was of 5.7%, or 48.5% when measured according to the consumption of customers who made the switch (Table 4.13). Differently from recent years, the percentages are not increasing, they have slightly decreased compared to 2016, probably also because the passages to the free market, pushed by the regulation changes of gradual exclusion from the standard offer regime, are disappearing in time.

**Table 4.13 Switching rates of final customers**

CUSTOMERS PER SECTORS AND CLASSES OF ANNUAL CONSUMPTION	2016		2017	
	CLIENTS	VOLUMES	CLIENTS	VOLUMES
Domestic	6.1	7.2	5.2	5.8
Condominium domestic use	11.1	13.2	8.4	11.4
Public service activities	19.3	28.7	17.2	25.4
Other uses	12.7	60.5	12.1	57.4
of which:				
< 5.000 m <sup>3</sup>	10.7	13.4	10.5	12.9
5.000-50.000 m <sup>3</sup>	20.1	20.9	17.7	18.5
50.000-200.000 m <sup>3</sup>	24.0	24.4	21.3	21.9
200.000-2.000.000 m <sup>3</sup>	29.4	31.7	28.2	30.8
2.000.000-20.000.000 m <sup>3</sup>	56.3	61.2	59.0	63.2
> 20.000.000 m <sup>3</sup>	69.5	68.2	66.6	62.5
<b>TOTAL</b>	<b>6.6</b>	<b>50.8</b>	<b>5.7</b>	<b>48.5</b>

Source: Annual surveys on regulated sectors.

The changes in domestic consumers suppliers in 2017, not obligated by the law, maintain a low, more or less stable, profile (Fig. 3.15). Last year, in fact, slightly more than 1 million customers changed suppliers, equivalent to a share of 5.2% (and corresponding to a portion of volumes of 5.8%). The fraction of domestic use central heating that switched to another vendor was higher and equal to 8.4%, for volumes corresponding to 11.4% of the related consumption sector. 17.2% (equivalent to 25.4% in terms of volumes) of the agencies that manage a public service activity have chosen to switch to a new supplier; this is a rather high rate, but this is also one of the categories

<sup>306</sup> For reasons of editorial convenience, we generally speak of customers in the text. We must however explain that we are speaking of a number of redelivery points in the case of the transport users and the number of metering groups in the case of distribution users.

<sup>307</sup> The questions were asked in such a way as to observe the phenomenon according to the definition provided by the European Commission. The questionnaire of the previous years was used once again, for the recording of the *switching* activities, understood as the number of supplier changes in a specific time frame (year) that includes:

- The *re-switching*, when a customer changes a second time (or more), again in the same chosen time frame;
- The *switch-back*, when a customer goes back to the first or previous supplier;
- The *switch* to a competitive company of the *incumbent* and vice versa.

When a customer changes residence area, the *switch* is registered only if he goes to a different supplier than the existing *incumbent* in the area in which he arrives; what's more, a change of economic conditions with the same supplier cannot be considered a *switch*, even if a new contract formula is chosen or for the change from a regulated price to a non regulated price offered by the same supplier or by a subsidiary.

that must leave the standard offer regime, according to the law. Lastly, the “other uses” that changed their supplier were altogether 12.1% of the total in terms of customers, and 57.4% in terms of volumes.

Inside the “other uses” we can notice, as always, that *switching* rates increase depending on consumption volumes, because for these customers the expense for the purchase of gas takes on important levels and, therefore, the need to change supplier is higher, to find better conditions and more favourable contractual prices.

**Table 4.14 Switching rates by region and customer type in 2017**

Percentage values

REGION	DOMESTIC		DOMESTIC USE CONDOMINIUM		OTHER USES		ACTIVITIES OF PUBLIC SERVICES		TOTAL	
	CLIENT	VOLUME	CLIENT	VOLUME	CLIENT	VOLUME	CLIENT	VOLUME	CLIENT	VOLUME
	S	S	S	S	S	S	S	S	S	S
Piedmont	5.4	5.9	8.1	11.2	13.0	63.3	18.7	28.2	6.0	54.1
Valle d'Aosta	3.2	3.4	6.8	10.1	10.8	41.3	24.8	19.1	4.3	34.6
Lombardy	5.1	5.8	9.6	12.7	12.9	55.7	22.4	22.7	5.7	46.4
Trentino Alto Adige	2.1	2.3	6.6	12.2	6.6	59.2	12.9	18.8	2.8	50.0
Veneto	5.2	5.8	9.6	15.2	13.7	65.5	27.5	52.3	6.0	54.0
Friuli Venezia Giulia	5.3	6.2	8.7	10.7	16.1	68.5	29.4	31.1	6.2	59.1
Liguria	4.7	5.9	10.6	12.0	13.3	81.6	16.6	14.1	5.2	64.3
Emilia Romagna	4.6	4.9	4.1	5.2	10.8	50.7	25.0	29.4	5.2	43.7
Tuscany	5.8	6.3	6.2	5.9	13.3	63.8	12.4	9.9	6.3	54.1
Umbria	5.5	6.4	8.8	9.1	17.2	57.0	21.2	50.7	6.4	48.0
Marche	5.2	5.8	8.8	11.7	11.4	50.1	11.8	34.8	5.7	39.9
Lazio	6.3	7.1	9.3	12.6	9.5	74.5	8.3	12.8	6.5	57.9
Abruzzo	6.7	8.3	11.8	18.5	7.4	43.5	16.7	33.9	6.9	36.0
Molise	5.6	6.7	8.4	46.1	12.0	83.9	15.9	14.7	6.0	70.9
Campania	5.4	6.3	11.1	10.7	11.1	79.5	9.3	17.4	5.6	66.4
Apulia	4.7	5.5	5.4	5.5	10.9	41.2	14.2	20.8	4.9	36.2
Basilicata	4.0	4.7	6.6	9.1	9.0	52.2	4.5	2.7	4.3	39.4
Calabria	4.4	5.2	5.1	2.7	10.8	24.4	9.5	16.9	4.6	23.2
Sicily	4.1	4.8	4.0	4.2	9.5	41.3	10.5	15.0	4.2	37.3
ITALY	5.2	5.8	8.4	11.4	11.9	21.2	17.2	25.4	5.6	13.2
NORTH	5.0	5.6	8.3	11.5	12.6	59.0	22.4	29.1	5.6	49.6
CENTRE	6.0	6.7	8.6	11.8	11.3	63.3	11.8	19.9	6.4	51.8
SOUTH AND ISLANDS	4.7	5.5	7.8	8.0	10.5	45.8	10.2	15.9	4.9	40.5

Source: Annual surveys on regulated sectors.

Considering the territorial fragmentation of the gas market, the *switching* levels, on a territorial level, with details also per type of customer, are shown in table 4.14. The domestic customers located in the Centre also show a liveliness that is higher than the rest of Italy, in 2017, with *switching* rates that are higher than the national average, especially when the rates are calculated on the number of customers. In general terms, however, the regional values maintain a normal

territorial homogeneity especially in the zones of the Centre-North and in the lower intensity consumption sectors, while Southern Italy shows overall lower supplier change rates. For the domestic clients, the percentage of the Centre is equal to 6% in terms of customers and to 8.3% in terms of volumes, against a national average of 5.2% (customers) and 5.8% (volumes). Similar data also emerges on the *switch* of domestic use central heating, again higher in the Centre compared to the national average.

### **Complaints and notifications**

Concerning the activity in matters of complaints and notifications performed by the call centre of the Help Desk from 1 January 2017 to 31 December 2017, for the gas sector refer to paragraph 3.2.2.1 which summarises the data for both the electricity sector and the gas sector.

#### **4.2.2.2 Recommendations on supply prices, investigations and measures to promote effective competition**

##### **Measures for the promotion of competition and recommendations on the final sale prices**

The activities in terms of analysis and recommendations on the final sale prices performed by the Authority are common to the sectors of electricity and gas and are already described in paragraph 3.2.2.2.

##### **Investigations, inspections and measures for the effective promotion of competition**

With reference to the activities carried out by the Italian Regulator in 2017, refer to paragraph 3.2.2.2.



### **4.3 Security of supply**

Legislative Decree No. 93/11, in implementing the Third energy package, attributes the functions and competences referring to this paragraph of the annual Report to the EC (i.e. to monitor the balance between energy supply and request, to foresee the future request and the available offer, the additional capacity and the measures in order to cover peak demand or supply decrease) exclusively to the Ministry for Economic Development.

## 5 CONSUMER PROTECTION AND DISPUTE SETTLEMENT IN ELECTRICITY AND GAS

### 5.1 Consumer protection

#### Compliance with Annex 1 of the 2009/72/CE Directive

Articles 37, para. 1, letter n), and Art. 41, para. 1, letter o), of the 2009/72/CE and 2009/73/CE Directives request that the regulator, also in collaboration with other Authorities, guarantee that the consumer protection measures, including those of Annex 1, be effective and applied.

These measures are by now fully applied in Italy, also in virtue of the most recent provisions in matters of invoicing.

#### Guaranteeing access to consumption data

Legislative Decree No. 93/11 provides that, within 6 months from the publication of the Decree (31 December 2011), the Authority must adopt new rules or modify the existing ones in such a way as to *“... allow the consumers to have access to the relevant consumption data and to obligate the distribution companies to make the consumers data accessible for the suppliers, taking care of the quality and timeliness of their supply”*.

The regulations on billing give customers the right to information on actual consumption data. In particular Bolletta 2.0, entered into force on 1 January 2016 (see *Annual Report 2015*) must contain annual consumption data and its division into bands; further elements are also available on-line in the detailed invoice. Through complaints and requests, the customer can request the data to the vendor, who will request them to the distributor.

Considering the great distribution of smart meters in the electricity sector, the end customer has the availability of the current consumption data in terms of power and energy, and the consumption values divided by hours of *peak/off-peak/mid-level* used for the last invoice through the electronic display.

Italian legislation has furthermore established that the Integrated Information System (SII<sup>308</sup>) must develop, via a central register of the withdrawal points and a system of operator accreditation, procedures for the centralised management of consumption data communication and the development of the respective services.

The need for the Authority to intervene by strengthening the right of access to data by consumers, in order to increase awareness, according to the procedures outlined in the document, was also reiterated by the provisions of Law no. 205/2017 (described in detail in chapter 2), which established that by 1 July 2019, the SII must allow end users to access data regarding their own consumption, free of charge. In December 2017, the Authority has shown<sup>309</sup> its own guidelines in matters of the different methods of implementation of the historical data of electricity consumption and power withdrawal to consumers in low tension, in the performance of the regulations of Legislative Decree n. 102/2014 upon implementation of the European Directive 2012/27/UE on energy efficiency. This consultation completes and partially re-elaborates what was introduced in a previous consultation

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<sup>308</sup> Adopted with the Resolution ARG/com 201/10 of November 17th, 2010.

<sup>309</sup> With the document for consultation 186/2015/R/eel of April 23rd, 2015.

in 2015, to consider the evolutions occurred meanwhile and, in particular, of the digital transformation that also invests the electricity sector. With this new consultation document, the Authority pursued the primary goal of making withdrawal history or **energy footprint** data accessible and useful to consumers in digital format, to develop innovative services for energy efficiency and active management of demand, made possible by the availability of the new tools brought into operation with the 2G metering system.

### Public service requirements

The requirements related to the public service contained in the legislative Decree n. 93/11 (Art. 35, para. 2 and 35, para. 3), except those illustrated below and related to vulnerable customers, refer to:

- the *switching* right within 3 weeks from the request;
- the access to transparent information related to the tariff and economic conditions and the minimal contractual conditions;
- the measures needed to guarantee the distribution of the check-list for the consumers elaborated by the European Commission to the consumers, containing practical information about their rights;
- the definition, by the Regulatory Authority, for the promotion of energy efficiency, of criteria geared to promote the optimization of the use of the electricity by the electricity companies, also by supplying rational management services for the energy, developing innovative offer formulas and introducing metering systems and intelligent networks.

A Help Desk was provided by the Single Buyer in 2008, for the energy consumer for the information to consumers through *call-centres*.

With reference to domestic customers, the Authority has introduced tools to:

- improve the knowledge and understanding of the market and its rules. The publication of the *Atlas of energy consumer rights* and the adoption of the deliberation related to transparency of bills are listed among these initiatives;
- facilitate the assessment and choice of the offers in the free market. The provision of a *Trova Offerte (Offer Finder)* and the imposition of an obligation, for the seller, to provide the expenditure comparability card to the end customer before the end of the contract, are listed among these initiatives.

Protocols of agreements with consumers associations have also been activated, to promote consumer information. The *Code business conduct for the sales of electricity and gas to consumers*<sup>310</sup>, regulates (implementing what is prescribed in the third energy package) the right of access to transparent information related to tariff and economic conditions and to minimal contractual conditions for the consumers.

Legislative Decree n. 21 of 21 February 2014, that implemented the Directive 2011/83/UE in the Italian legislation, in matters of consumers rights, that integrates and modifies some rules of the

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<sup>310</sup> Annexe A of the Resolution ARG/com 104/10 of July 8th, 2010, and subsequent amendments and integrations.

Consumer Code, with regards to the conclusion phase of the contracts between suppliers and consumers, in case these contracts are concluded remotely or outside commercial locations.

The Authority has adapted<sup>311</sup> the provisions of the Code of business conduct to the changes of the Consumer Code, regarding the implementation of pre-contractual nature on behalf of vendors and the modes of exercise of the right of reconsideration of the domestic end customer. In these circumstances, it has been decided that the aforesaid changes are applied only to contracts stipulated remotely or outside commercial locations, and that the forecasts concerning the indication of the price, net of taxes (without prejudice to the possibility of indicating the price including the taxes according to the offer structure) and to the price communication criteria.

Considering the implementation of the contract, the application of the right of reconsideration has been provided for all the subscriptions to a new contract by domestic customers, in which the stipulation occurred by means of remote communication techniques or outside commercial locations. Informative requirements have therefore been introduced on behalf of the seller, for the benefit of the consumer, as well as provisions in matters of reasonable and proportional costs for the seller, in case of the exercise of the right to reconsider, when the implementation of the contract has already been requested by the customer.

The commercial conduct code was modified in 2016<sup>312</sup> in the part that concerns the seller's information obligation. It was decided that the clients be informed of the possibility to access the free mediation proceedings, and only for domestic customers, that they may obtain the list of authorised organisations. This information must be contained in the contracts, the seller's website or the answers of the latter to the complaints. The answers to the complaints must also indicate the possible automatic indemnification for the customer.

The *switching* procedures were reinforced by the Authority in 2011, particularly concerning the information flows between distributor and seller, related to the passage of data and its timing, so that the seller may use them for invoicing according to specific timing, and has facilitated the flows themselves with communication standards. Again in 2011, the three-week deadline of the *switching* procedures provided by the 72/2009/CE and 73/2009/CE Directives was introduced for the electricity sector. The same deadline was introduced in the natural gas sector in 2015.

In 2015, the Authority established<sup>313</sup>, for the electricity sector, that from 1 June 2016, all the operations needed to pass to a new seller be carried out in a centralised way through the Integrated Informative System (SII), the national data bank created to make the exchange of information between the operators of the sector more transparent and efficient. Since then, the vendor cannot address the single distributors but only the SII, through which it can realize the operations faster and with greater simplicity. In April 2016 the Authority adopted further provisions<sup>314</sup> for the performance of this reform in the electricity sector and for the reduction of the delays for the *switching* in the gas sector.

### Definition of vulnerable customers - Electricity sector

Legislative Decree n. 93/11 does not provide a specific definition of vulnerable customer concerning the electricity sector (as it does with natural gas, see below). In any case, article 35 on Public Service Requirement and consumer protection establishes that all domestic consumers and small

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<sup>311</sup> With the Resolution 269/2015/R/com of June 4th, 2015,.

<sup>312</sup> Resolution 413/2016 of July 21st, 2016,.

<sup>313</sup> With the Resolution 487/2015/R/eel of October 14th, 2015,.

<sup>314</sup> Resolution 208/2016 of April 28th, 2016,.

companies (with less than 50 employees and sales below 190 million euro) that do not choose their supplier on the free market are supplied in the context of standard offer service (Art. 1, para. 2 of Decree law n.73 of 18 June 2007, converted into law n. 125 of 3 August 2007). It also establishes that in relation to the evolution of competitive conditions on the retail market, the Ministry for Economic Development, at the outcome to the monitoring carried out at least every 2 years, can adapt the forms of **standard offer distribution service**, in particular with reference to industrial customers. The fees for this service are updated on a quarterly basis, referring to the market conditions related to liberalised phases of the supply-chain (commercialisation and supply costs).

In 2015 the Authority launched<sup>315</sup> a procedure for the definition of a reform path (the so called *Roadmap*) with the general objective of developing an efficient electricity retail sales market, with the consolidation of free market supply, as ordinary supplying mode also for small size customers (domestic customers and small companies).

This intervention is geared to support the awareness of small customers, facilitating the access of these customers to the market, through an evolution of protection mechanisms “guided and supervised” by the Authority, with the overcoming of the actual alternation between the standard offer service and the free market; two initiatives go in this direction:

- The introduction of a supply which is similar to the free market supplies, the *Tutela SIMILE*<sup>316</sup> (protection),
- The introduction of free price offers with comparable protection conditions, the *PLACET*<sup>317</sup> offers,

Refer to paragraph 3.2.2.2 for the description of this offer.

In May 2017, the Authority launched<sup>318</sup> a new procedure for the promotion of new tools for the information and empowerment of domestic consumers and small companies in the retail markets for electricity and natural gas, believing that targeted information for these customers allows them to overcome the mistrust resulting from the limited knowledge of the market, on the one hand, and enables customers to exercise informed self-protection on the market, on the other.

Law no. 124/2017, dated 4 August 2017, “Annual law for the market and competition”, inter alia, established that, from 1 July 2019, price regulation must be definitively phased out (as described in Chapter 2). It provides that:

- From 1 January 2018, the electricity consumers supplied in standard offer must receive adequate information from their supplier in relation to the overcoming of the price regulations, according to the modes defined by the Authority;
- the Authority guarantees the publication and distribution of information concerning the overcoming of the price regulations and development conditions of the services for the benefit of the customers, also taking advantage of the *Acquirente Unico* (Single Buyer).

In November 2017, the Authority, in implementation of article 1, par. 69 of Law 124/17, provided<sup>319</sup> further initiatives of empowerment of small size consumers and, pursuant to Article 1, par. 72 of

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<sup>315</sup> With the Resolution 271/2015/R/com of June 4th, 2015.

<sup>316</sup> Resolution 369/2016/R/eel of July 11th, 2016,

<sup>317</sup> Resolution 555/2017/R/com dated July 27th, 2017

<sup>318</sup> Resolution 375/2017/R/com dated May 25th, 2017

<sup>319</sup> Resolution n. 746/2017/R/com dated November 10th, 2017.

the same law, the creation of a project of publication and distribution of the information. In particular, the provisions include the following:

- The standard offer operators and suppliers on the regulated gas market, from 1 January 2018 to June 2019, must send their customers, as part of the summarised bill, an appropriate information notice regarding the removal of price regulation, with content defined by the Authority in order to ensure its independence, neutrality and impartiality;
- the content of this information notice must be of dynamic nature. The first notice must be included in two bills issued in the first half of 2018. There shall be two further information notices, which must be shown on all bills issued in the second half of 2018 and in the first half of 2019;
- with effect from 1 January 2018, suppliers must publish the link to the “Retail market developments” section of the Authority website on the homepage of their websites, devoted to the phasing out of price regulation, and must redirect consumers, when they request information on their contracts by telephone in relation to the phasing out of price regulation, to the Authority website and to the Help-desk call centre;
- a multimedia communication project must be implemented to publicise and distribute information on the phasing out of the standard offer, the conditions of performance of service and the tools to reinforce end customer empowerment, including requesting the availability of space on public television to convey specific messages on the evolution of the *retail* market.

Since January 2009, a protection mechanism was activated for the electricity supplies, specifically referring to domestic customers whom find themselves in situations of economic difficulties or in serious health conditions, that receive a *bonus* or discount on the electricity supplies. In 2012, modifications were introduced to the discipline of **electricity bonus** for customers with serious health conditions (electricity bonus for physical distress). The bonus for physical limitation is divided in three bands, in order to consider the type of used equipment, the average hourly consumption of each type of equipment and the average hours of daily use. On the basis of these elements, certified by ASL, the customer is assigned to one of the three provided bands of compensation. The three bands are then further differentiated in order to consider the engaged power (up to 3 kW and from 4,5 kW)<sup>320</sup>.

The fees connected to the distribution of the electricity bonus for economic and physical limitations are included among the components of the general fees afferent to the electricity system and are covered by the *A<sub>s</sub>*, which is paid by all the customers who do not benefit from the electricity bonus.

### Definition of vulnerable customers - Gas sector

Legislative Decree n. 93/11 has defined as “vulnerable”, the domestic customers, non-domestic customers with consumption below 50,000 S(m<sup>3</sup>)/year and the consumers owners of utilities related to public service activities, that is utilities in the title of a public or private structure that carries out a recognized assistance activity.

This provision was subsequently amended by Decree law n.69 of 21 June 2013, that provided that the Authority continue to update the regulated service “only for the domestic customers”, in the

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<sup>320</sup> See the *Annual Report 2013* for the details of the functions of the *bonus*.



context of public service requirements. As a result of this amendment, the Authority has clarified that they still have the right to be **supplied in standard conditions**:

- consumption points of a domestic customer;
- consumption points related to condos with domestic use, with a consumption that is not over 200,000 S(m<sup>3</sup>)/year.

Decree law n. 69/13 was converted with law n.98 of 9 August 2013, confirming the end of the standard offer service for non-domestic consumers. The Authority has therefore adapted the provisions of the Gas Sales Integrated Text (TIVG) to the provisions of the converted Decree law.

Meanwhile the provisions of the Authority geared to reduce the dependency of the standard offer service updates from long-term import contracts (so called "gas reform"). In particular, the reform provided that for the updating of the raw material component, the reference to the changes of the price of oil, as a result of long-term contracts, would be progressively replaced by the changes of the prices in the *spot* gas markets. The procedure was terminated in the fourth quarter of 2013. The reference to long-term contracts has been completely eliminated and fully replaced by the price that is found in the spot market. While waiting for the Italian futures market to become fully operative, as provided by legislative Decree 93/11, the reference to the quotes that can be found on the Dutch TTF market has been maintained.

As already highlighted for the electricity sector, the Authority has launched a procedure<sup>321</sup> for the definition of the protection services reform path (so called Roadmap), while law n.124 of 4 August 2017, "Annual law for market and competition" has established the termination of price regulations for natural gas small consumers, starting on 1 July 2019.

Legislative Decree n. 93/11 establishes that the criteria and methods for natural gas supply in the context of **last resort service** (FUI) be characterized and updated for all the vulnerable customers who remain without a supplier for reasons that do not depend on their will.

Concerning the perimeter of the concerned customers, these categories have rights to obtain last resort<sup>322</sup> supply services: the consumers, or domestic customers, including condos with consumption that is not over 200,000 S(m<sup>3</sup>) per year that cannot be supplied, and other customers with consumptions below 50,000 S(m<sup>3</sup>) per year, who have no supplier, for reasons that do not depend on their own will; the consumers that can be supplied, or the utilities related to public service activities that, for whatever reason, but do not have a supplier. The last resort services distribution conditions are defined by the *Integrated text of natural gas retail sales activities and gases that are different from natural gases distributed by means of urban networks* (TIVG). In particular the modes and the timing of activation and termination of the service, and the procedures of taking over in the capacity of natural gas distribution and transport, are regulated. What's more, the economic conditions that the parties are forced to apply to the supplied consumers are set.

The party supplier of the last resort service is defined through a public tender procedure, managed by the Single Buyer based on the guidelines defined by the Authority. With the view of the end of

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<sup>321</sup> With the Resolution 271/2015/R/com of June 4th, 2015.

<sup>322</sup> Provisions of the legislative decree n. 93/11 (art. 7, comma 7) and the Ministerial decree of August 7th, 2013.

the services carried out by the suppliers defined in the month of September 2014, the Authority has launched<sup>323</sup> a procedure to modify the applicable regulation from October 2016.

The Authority illustrated<sup>324</sup> the possible amendments, also geared to favour the participation of concerned parties to the public tender procedures. The new regulation was approved in August 2016<sup>325</sup>, and with that, also activated the provisions contained in Decree of 22 July 2016 of the Minister for Economic Development. In September 2016 the Single Buyer carried out procedures for the localisation of the last resort services suppliers for the period of 1 October 2016 – 30 September 2018.

In the gas sector, the **default service** is also present, which has the purpose to guarantee the balancing of the distribution network and is destined to customers who do not have the right to benefit from the FUI service, since they do not fall within the types of customers mentioned above. The *default* service was fully launched in the thermal years 2013-2014.

Since 2009, a mechanism of social protection specifically made for domestic customers who find themselves in situations of economic distress is also active for natural gas supplies: the **gas bonus**. To cover the fees deriving from the application of the gas *bonus*, the Authority has created the GS<sub>r</sub> component on behalf of non-domestic customers, inside the compulsory tariff for the distribution services and natural gas metering. The value of the component is defined simultaneously with the tariff updating. The funds from the State Budget are added to the funds collected by the customers.

### The bonuses in numbers

In 2017 the total distributed bonus was equal to 1,26 million, including the electricity bonus, divided in economic distress and physical distress, and the gas bonus. These three bonuses can be cumulated in compliance with the restriction that each ISEE (Equivalent Financial Situation Indicator)<sup>326</sup> household is entitled to only one bonus for each category.

In this regard, to confirm what happened in the previous years, also for 2017 approximately 68% of the families who obtained the electricity bonus also requested and obtained the gas bonus. The storage of the electricity and gas bonus was also favoured by the introduction, since 1 January 2014, of a unique form that allows the application for both bonuses with the same request.

Starting from 1 January 2017, the ISEE threshold for qualifying for the bonuses rose from 7,500 euro to 8,107.50 euro, as established by the Decree of the Ministry of Economic Development of 29 December 2016; it remains unchanged for large families<sup>327</sup> (ISEE not exceeding € 20,000). Moreover, for the electricity sector, the same Decree:

- a) raised the discount on the net expenditure of the average household from 20% to 30% of gross average expenditure of the same average household;
- b) provided for the elimination of the condition of residence, according to which only one active supply could be subsidised at the place of residence of the person qualifying for the bonus;

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<sup>323</sup> Resolution 337/2016/R/gas of June 24th, 2016.

<sup>324</sup> Document for consultation 338/2016/R/gas of June 24th, 2016.

<sup>325</sup> Resolution 465/2016/R/gas of August 4th, 2016.

<sup>326</sup> The ISEE is a tool that measures the financial situation of Italian households. The indicator takes into account income, assets (personal and real estate) and of the characteristics of a household (per number and type).

<sup>327</sup> The definition of large family is contained in art. 3 comma 9-bis of the decree law of November 29th, 2008, n. 185 and corresponds to a family with at least 4 children that are fiscally dependent.

- c) maintained the condition of uniqueness, providing for qualification to compensation for economic hardship for a single domestic supply of electricity and/or gas in the name of one of the members of a household meeting the ISEE requirements;
- d) provided the updating, every three years, by the Authority, of the ISEE threshold value, based on the average value of the national index of the prices of consumption for the families of workers and used every three years of reference.

At the beginning of 2017, the Authority activated<sup>328</sup> the aforesaid Decree extending the rules of which in the previous letters b), c) and d) to the gas bonus.

Since the initial availability of the facility in 2008 and until 31 December 2017, 2,8 million families had the right to obtain the electricity bonus at least once. There were 706,969 families who obtained the bonus for economic distress active in 2017, increasing by 13.6% compared to the previous year; to which the 25,473 beneficiaries of the bonus distributed to owners of purchase cards are added, which decreased by 7.8% compared to 2016.

The beneficiaries of the electricity bonus for physical distress were 32,643 in 2017, increasing by 7.5% compared to 2016.

499.808 customers benefited from the **gas bonus** for economic distress by 31 December 2017, with an increase of 11.4% compared to the previous year; their requests, after all the controls related to the eligibility requirements from the Towns, were admitted to the facility after the verification of the gas distribution companies. Over 1,65 million families benefited from the subsidy, at least once, since the activation of the mechanism.

### Actions common to the electricity and gas sectors

The phenomenon of the **unsolicited contracts** refers to the cases in which consumers are induced to conclude electricity and/or natural gas supply contracts, actually non-intentional, due to unfair commercial conducts, practised by the suppliers with the objective of acquiring these contracts with the activation of switching procedures, to the detriment of the customer and of the previous vendor, that was capable of continuing the supply. Due to the increasing number of notifications received in the past years from consumers and their associations, the Authority has acted in order to check this phenomenon, also in reason of its negative impacts on the development of competition in the retail sales market. At the end of a supervisory activity and of a complicated consultation procedure, the regulation in this matter was defined in April 2012 and is described in detail in the 2013 Annual Report.

During 2016 the Authority completed the procedure launched in matters of consumption **invoicing** to the consumers of the natural gas and electricity retail markets, also as an outcome of the emerged criticalities.

The Authority intervened<sup>329</sup> at first to regulate the final invoice, which accounts for the consumption until the last day of the contract, in the cases in which the contract itself ends; subsequently<sup>330</sup> it

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<sup>328</sup> With Resolutions 1/2017/R/eel of January 12th, 2017, and 94/2017/R/com of March 3rd, 2017.

<sup>329</sup> Resolution 100/2016/R/com of March 10th, 2016.

<sup>330</sup> Resolution 463/2016/R/com of August 4th, 2016.

regulated the period invoices, emitted during the contractual relationship between vendor and end customer. With this last provision the Authority approved the *Integrated Text on Authority's provisions for billing in the retail service for electricity, gas and water* (TIF)<sup>331</sup>, which has the same field of application as the regulations related to the final invoice, whose provisions it incorporates.

Through the TIF, the Authority meant to define a Unique text containing all the provisions related to the invoicing of retail sales, that the suppliers are required to comply with in the context of contracts with their own consumers. The suppliers have the obligation to include a contract with clauses related to the invoicing equal to those of the protection regimes, in their range of offers on the free market, while for the other offers they are free to delay the aforesaid clauses according to what is indicated in the TIF; in these cases, however, informative requirements have been provided for the benefit of the end customer.

The regulation of the final invoice was made effective in June 2016 and it is applied in all the cases of termination of supply, i.e. the cases in which, for any reason (change of supplier, deactivation of the point and transfer), the supply contract between the supplier and the end customer connected in low tension expires, excluding the supplies destined to public lighting system, for the electricity sector, and the supplies lower than 200,000 S(m<sup>3</sup>)/year, for the natural gas sector.

More in detail, the obligation of vendors and distributors are defined, relatively:

- to the deadline of the emission of the invoice, providing that it is emitted no later than eight days before the expiration of the six weeks from the date of termination of the supply or within two days before the expiration of the six weeks, in the case of immediate delivery (for example, with electronic bills);
- to the metering data that must be used in the invoice, providing that the supplier uses the effective metering data received from the distributor and the meter self-readings validated<sup>332</sup> by it with priority and, only in their absence, the estimated metering data. In the absence of effective data, the vendor will be able to proceed to emit a final invoice based on the estimated data, informing the customer that this invoice will be object of further balancing following the arrival of the data from the distributor;
- to the procedures for the utilization of meter readings, with the aim of increasing the availability of the effective data, the Authority provided and regulated the communication of meter readings in cases of change of seller and transfer, in particular for customers of both sectors that are not equipped with meters enabled for telemetering<sup>333</sup>;
- to the provisions concerning the information procedures between seller and distributor inherent to the transmission of metering data functional to the termination of the supply;
- to the introduction of indemnifications for the benefit of the consumers, distributed by the vendor, in cases of late emission of the closing invoice, or by the distributor, in cases in which the metering data is not provided by the vendor in time to emit the closing invoice;
- to the introduction of a further indemnification, that the distributor must recognise to the vendor, in case the deadline of the provision of the data is not respected, in all the cases of termination of the supply.

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<sup>331</sup> Annexe A to the Resolution 463/2016/R/com.

<sup>332</sup> The same deliberation also regulated the activities that the distributor must bring to completion in the self-reading cases, providing its validation and the traceability to the supply termination date.

<sup>333</sup> These are mainly single-hourly withdrawal points for the electricity sector and redelivery points that aren't equipped with *smart meters* for the gas sector.

The Authority has also started to monitor the vendors, with the objective of estimating the possible changes of the structure and level of the introduced indemnifications. In this context, the information from the distributors is also acquired, to verify the efficiency in the provision of the metering data functional to the termination of the supply.

Concerning the so called “billing period”, the TIF defines, for each sector and each type of customer, the emission frequency of the ordinary invoices, providing meanwhile that the vendor of the free market can modify it but only in increase<sup>334</sup>. A time restriction for the emission of the invoice has been introduced, equal to 45 days from the last day of consumption debited in invoice, a restriction that can be different in the free market.

In the same way as what has been established for closing invoices, the obligation for the seller to respect an order of priority in the utilization of the metering data in the invoices is previewed also for the period invoicing, which privileges the effective metering data provided by the distributor and the self-readings communicated by the end customer and validated by the distribution<sup>335</sup> company, establishing that in the cases of utilization of its own estimation, the vendor must determine the metering data estimated on the basis of the information available on effective historical consumption of the customer, in order to reduce the offset between effective consumption and estimated consumption to a minimum. However, the vendor must proceed with the necessary recalculations, in the presence of effective data, and emit an invoice based on the effective consumption at least once a year and will be able to invoice the consumption following the date of issue of the invoice only if adequate information is guaranteed to the end customer.

To allow easier understanding of the invoicing documents, the Authority has established that, in case of monthly invoicing and if the final metering data of the period is a self-reading, it is not possible to use mixed invoices, that is invoices containing the effective and the estimated consumption.

The Authority also thought it was important to stimulate the use of self-readings for the customers of both sectors that do not own qualified telemetering<sup>336</sup> meters for period invoicing, introducing the obligation for all the vendors to acquire it, in periods defined and indicated by the latter, and providing specific methods so that the end customer is informed of the opportunity to resort to the latter. What’s more, with the TIF the possibility to communicate the self-readings also to consumers of both sectors equipped with qualified telemetering devices has been extended, in case they received invoices accounting estimated data for two consecutive months and the obligation to endorse and transmit self-readings to the distribution company was introduced, eventually obtained by written complaint or telephone notification. The corresponding validation and transmission obligation of the outcomes to the vendor have been defined with specific deadlines for the distributors, in matters of self-readings, to face the obligation imposed on the vendors.

The Authority has also provided new indemnifications in favour of the customers:

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<sup>334</sup> For example, for the domestic customers of the electricity sector, a two-month frequency has been established for invoicing; and in the free market the vendor can derogate this rule providing a monthly invoice.

<sup>335</sup> In the free market the vendor can establish a different order of priority, as long as it emits an invoice that takes into account the effective consumption, at least once a year.

<sup>336</sup> These are mainly single-hourly withdrawal points for the electricity sector and redelivery points that aren’t equipped with *smart meters* for the gas sector.

- to the suppliers in case of emission of the period invoice beyond the deadline of 45 days<sup>337</sup> from the last day of consumption debited in invoice;
- to the distributors, in the case in which the metering data was estimated for two consecutive months to customers with telemetering devices.

Together with the TIF, the Authority has introduced<sup>338</sup> specific requirements in matters of metering and **instalment payments**, in particular:

- in matters of metering, for both sectors, the obligation to record the causes (appropriately codified) of the failed reading attempts and the obligation to distribute automatic indemnifications, from the distributors to the vendor, have been introduced, in the event of delays in the provision of the metering data;
- the obligation of instalments for the invoiced amounts has been introduced to those exercising standard offer regimes, in the cases in which anomalous amounts were invoiced and for the non-compliance with the invoicing frequency provided in the TIF; this obligation is also fixed for the free market suppliers, who can also offer ameliorative instalment methods.

The aforesaid obligation and the TIF entered into force on 1 January 2017, except for some provisions for which a different deadline<sup>339</sup> was provided.

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<sup>337</sup> Or other deadline eventually indicated by the free market vendor.

<sup>338</sup> With the same Resolution 463/2016.

<sup>339</sup> In particular, the obligations inherent to the self-readings of the electricity customers with telemetering devices and the acquisition of self-readings through complaints or telephone, became effective in April 2017.



## 5.2 Dispute settlement

### The Regulatory Authority conciliation service

The **energy customers conciliation service** has been active since 2012, for the management of disputes, established by the Authority in the performance of Art. 44, para. 4, of Legislative Decree n. 93/11; it is managed by the Single Buyer and it has been operative, in an experimental phase, since 1 April 2013, with entry into regime on 1 January 2016.

The Conciliation Service is a voluntary procedure for the alternative resolution of the disputes, that can be activated by electricity and natural gas consumers for all kinds of criticalities (which do not concern fiscal and taxation profiles) towards the energy operators (exercising sales and distribution), in case of lack of or unsatisfactory answers to the complaints. The procedure is carried out *on-line* and with the presence of an impartial third-party conciliator, expert in mediation and, in virtue of specific training and updating meetings periodically organized by the Authority in collaboration with the Single Buyer. The eventual final agreement has settlement effectiveness between the parties, according to Art. 1965 of the Civil code. Due to its characteristics, the Conciliation Service is already in line with the EU regulations in matters of Alternative Dispute Settlement Resolution (ADR), lastly, with the 2013/11/UE Directive of the European Parliament and the Council of 21 May 2013 on the alternative resolution of the consumers disputes, that modifies the (CE) 2006/2004 regulations and the 2009/22/CE Directive.

With the approval of the new Art. 141, para. 6, letter c), of the Code of consumption – that modified Art. 2, para. 24, letter b), of law n. 481/95, attributing the regulating power to the Authority, with its own provisions, the methods of development of the procedure of extrajudicial resolution of the controversies – the attempt at conciliation becomes a condition of prosecution of the action proposed to the judicial authority for the controversies occurred in regulated<sup>340</sup> sectors.

The Authority has activated the aforementioned regulation with the approval<sup>341</sup> of an organic recognition text of the applicable provisions, grouped in the **Integrated Text on Conciliations (TICO)**<sup>342</sup>, that introduces a procedure for the experiment of the mandatory attempt of mediation at the Conciliation Service and defined the available alternative procedures. TICO has incorporated the previous regulation<sup>343</sup>, whose effects terminated on 1 January 2017, except for the mediation requests introduced within 31 December 2016 and until their conclusion. TICO, that has been operating since 1 January 2017 for the electricity and gas sectors, applies to the disputes occurred between consumers of electricity powered in low and/or medium voltage and the end natural gas consumers, and the gas consumers different from the natural gas distributed by means of city networks powered in low pressure, domestic and non-domestic, including *prosumers* (producers and consumers of electricity) and the operators - suppliers and distributors - and, limitedly to the *prosumer*, also the GSE.

The following procedures are excluded from the context of application of the TICO: the disputes that are exclusively related with fiscal or taxation profiles; those that the customer could not eventually present in judgement because the time limit had expired; those for which inhibitory

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<sup>340</sup> The legislative decree n. 130/15 has activated the Directive 2013/11/UE of the European Parliament and the Council of May 21st, 2013, in the Italian legislation, concerning the ADR for the consumers, that modifies the regulation (CE) 2006/2004 and the Directive 2009/22/CE (Directive for the ADR for the consumers).

<sup>341</sup> Resolution 209/2016/E/com of May 5th, 2016.

<sup>342</sup> Annexe A of the Resolution 209/2016/E/com.

<sup>343</sup> Annexe A of the Resolution 260/2012/E/com of June 21st, 2012.

actions have not yet been promoted, class actions and other actions to protect the collective interests of the consumers and the customers promoted by consumers associations according to the Code of consumption; those that are object of special termination procedures, unless the consumer also requests compensation for damage.

The development of the mandatory mediation attempt does not preclude, in any case, the concession of urgent and precautionary judicial provisions.

The Authority has also extended<sup>344</sup> the obligation, for all the operators, to participate to the mediation attempt (except for last resort suppliers - FUI). The eventual non-performance of this obligation is punishable by the Authority itself according to the enforced regulations. However, the convoked operator can provide justified reasons for the lack of participation, within a term of five days before the date of the first meeting, provided that these reasons refer to one of the causes of inadmissibility of the mediation attempt and object of self-declaration from the consumer; these justified reasons, if proven, are communicated to the consumer and entail the archiving of the request. The condition for the prosecution of judicial action is considered fulfilled if the first encounter at the mediation service ends without an agreement, including in the cases in which the counterparty does not appear in court.

10,588 requests were applied to the mediation service in the first year of operation of TICO (1 January 2017 - 31 December 2017), for a requests/day average equal to 42.6. A remarkable annual application increment was recorded, equal to 215%, compared to 2016, year in which the mandatory attempt of TICO was not yet operative. In 2017 an increment of the weight of direct accesses of the customers (25% compared to 13% of 2016) was recorded, and for the different delegates of the consumers associations registered in CNCU (43% compared to 28% of 2016) and, by consequence, a decrease in the activation requests coming from the associations themselves (32% compared to 59% of 2016). 76% of the requests received by the Service concerned a domestic end customer (in slight decrease compared to 77% of 2016). 60% of the requests received had the electricity sector as object, in slight increase compared to the same data of 2016 (58%).

Relatively to the controversies activated in front of the Conciliation service, the predominance of the arguments related to invoicing (58%) is confirmed, even if in decrease compared to 2016 (72%, including controversies in metering matters<sup>345</sup>). A further 20% is represented by the voices related to contracts (data in line with 2016), in most cases deriving from delays in the performance, and damages (6% in 2016). The value of the dispute was declared in the activation phase of the proceedings in 59% of the requests. Of these, 81% has an estimated value lower than 5,000 €<sup>346</sup>.

Concerning the development of the 10,588 requests received by the Service, 76% have been admitted to the proceedings (in slight decrease compared to 2016, when it was at 79%). The total agreement rate, decreasing compared to 2016, was equal to 68% of the concluded proceedings (net of the renounced proceedings, equal to approximately 1% of the admitted ones). The average duration of the concluded proceedings is equal to 45 solar days (46 for agreement cases, 42 for negative outcomes), decreasing compared to the 60 days of 2016.

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<sup>344</sup> According to art. 2, codicil 12, letter h), of Law n. 481/95.

<sup>345</sup> The web modules to present the mediation requests has been modified in 2017, to coordinate it with table 5 of the TIQV in terms of classification of first and second level of complaints and information requests.

<sup>346</sup> Threshold of the *small claims* ex Regulation (EC) n. 861/2007 of July 11th, 2007 and subsequent amendments included.

### Other conciliation services

As an alternative to the Service of the Authority, the end customer can undertake the mandatory reconciliation attempt to judicial terms also using other proceedings indicated in article 14 of the TICO. These are, in the first place, proceedings of average reconciliation at the Chambers of Commerce, as provided by Art. 2, para. 24, letter b), of the Law n. 481/95, that adhere to the convention subscribed by the Authority and by Unioncamere on 28 December 2016 and with appropriate training in the energy sectors with reference to mediators and to qualified staff. On 31 March 2018, Unioncamere communicated the adhesion of 44 Chambers of Commerce, pending the completion of the reorganization process of the chamber system. In the second place, there are proceedings at the Organisations registered in the ADR directory created by the Authority, only for the domestic consumers. In December 2017, in the performance of article 141-decies of the Code of consumption, the Authority instituted<sup>347</sup> the Directory of ADR Organisations to manage ADR proceedings according to Title II-bis of Part V of the Code of the consumption, in the sectors of competence, regulating<sup>348</sup> the procedure for the registration in the Directory and the modes of development of the activities related to the management, the maintenance and the vigilance of the Directory itself (for further details, see *Annual Report 2017*).

On 31 March 2018, 15 Organisations were registered in the ADR Directory of the Authority, (including the Conciliation Service of the Authority<sup>349</sup>), of which 6 of joint mediation, based on specific agreement Protocols stipulated between consumers associations and sales companies. For the joint mediation ADR Organisations, the Code of consumption, in article 141-ter, establishes further requirements of neutrality and independence to be registered in the Directory. The other registered Organisations are mediation organisations themselves (therefore also registered in the ADR Organisations Registry held by the Ministry of Justice according to the Legislative Decree n. 28 of 4 March 2010, and of the Ministerial Decree n. 180 of 18 October 2010), which have attested the possession of the specialist training in one or more sectors of competence of the Authority, for at least one conciliator. According to Article 141-decies, para. 2, each competent authority supervises the Directory and single ADR Organisations. The vigilance activity of the Authority on the ADR Directory and on the registered Organisations is explained in the case of possible conducts, adopted by the Organisation in the Directory, contrary to the normative and regulatory system in matters of ADR (and to the approved procedural regulations) and/or in the cases in which the Organization has not maintained the requirements provided for the registration and/or in case it did not fulfil the obligation of accounting of the activities carried out and/or training and updating of their own conciliators. The vigilance activity:

- is activated upon notification by anyone who has interests or office, by means of analysis of the relations of activity and the reception of the conciliators lists in possession of specialist training, and by means of the monitoring of the contents of the Organisation's websites or in the light of the communications of the Organizations themselves with respect to the eventual modification of the information rendered in the phase of registration;
- it can culminate, if that is the case, in the cancellation of the Organization from the Directory, by means of a proceeding with documented contradictory guarantees and adequate deadlines for the correction of what has been contested, regulated by Article 5 of the Regulation adopted by the Authority, in the performance of Article 141-decies, para. 4, of the Code of the consumption.

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<sup>347</sup> Resolution n. 620/2015/E/com of December 17th, 2015.

<sup>348</sup> Annexe A of Resolution 620/2015/E/com.

<sup>349</sup> Resolution n. 620/2015/E/com.