

PRESS RELEASE

Energy: slight increase, 0.9% for electricity starting in January, gas up 4.7%

**wholesale markets returning to normality confirmed for electricity,
in January discounted offer *Tutela SIMILE*¹ - winter season increase for gas as expected**

Milan, 29 December 2016 – Slight electricity *bill* increase for the average household² in the first quarter of 2017; higher increase for the gas *bill* due to higher winter season consumption. Starting in January 2017, the electricity *bill* of an average household will increase by 0.9%, whereas for gas the increase will be 4.7%. This is how the *reference prices* will change for *protected* households and small consumers for the first quarter of 2017.

The average household will pay 498 euro (before taxes) for electricity in the rolling year³ (1 April - 2016 - 31 March 2017), -1.5% compared to the equivalent 12 months of the previous year (1 April 2015 - 31 March 2016), corresponding to a saving of approximately 8 euro. As for gas, the typical household will pay 1.022 euro in the same time period, and in any case -6.5% compared to the rolling year, corresponding to a saving of 71 euro.

In the first quarter of 2017, the trend in the price of electricity is determined mainly by the expected increase of the component covering the purchase costs of the Italian wholesale market, increasingly more connected with the corresponding continental electricity markets, which have recently seen high increases, also prospectively, offset by lower dispatching costs (i.e. the costs incurred by the grid operator - Terna - for maintaining the balance and safety of the electricity system). The components pertaining to network tariffs and general system costs - the former going up and the latter sharply down - basically balanced out, due also to the effects on both of the application of the second 'step' of the tariff reform for household customers.

In particular, electricity purchase costs reflect the expected increase for the first quarter of next year, due to the recent tensions in European spot markets triggered by France decreasing its nuclear power production; these increases are virtually neutralized by a sharp reduction in dispatching costs, thanks to the effects of the measures taken by the Regulatory Authority (resolutions 342/2016, 444/2016 and 459/2016) to stop and prosecute abnormal behaviours by supply and demand operators in wholesale electricity markets, restoring 'normal' operating conditions (for example, the uplift fee of last September - to cover the system dispatching costs incurred by Terna - went down by 3/4 compared to the level reached on average during the April/June 2016 quarter).

The overall decline of general system costs includes a significant reduction of around 1.3 billion euro (at system level) of A3 component requirements (covering incentives for the production of electricity from renewable sources), made possible by the reduced expenses planned for 2017 and the Regulatory Authority's management of its cash account, which has led to the clearing of the previous deficit despite growing requirements in recent years, resulting in the current reduction. Opposite to that, we should mention the reactivation (to the same level as 2015) of the Ae component (breaks for energy-intensive industries) after the previously planned recognition procedures for the 2014-2015 breaks were released and in consideration of the needs for 2016 and the following years.

¹ Translator's Note: "Tutela SIMILE" is the name of an electricity delivery mechanism that offers customers *protection similar* to the free market.

² The average household consumes 2,700 kWh of electricity in a year and 3 kW of engaged power; yearly gas consumption is 1,400 m³.

³ Rolling year means the year including the quarter being updated and the three previous quarters, considering also the consumption associated with each quarter.

The gas increase is basically due to the 'raw material' component, i.e. the increase in gas prices expected by the wholesale markets in the next quarter, partly due to increased demand in the winter months (next quarter's forward prices on the wholesale market for raw material alone show a +19.1% increase compared to the fourth quarter of 2016); there is also a slight increase for the transport component. These adjustments are partially offset by a sharp reduction of the component covering the renegotiation mechanism of long-term contracts, a system that favoured the reduction in wholesale gas prices.

Electricity – The electricity increase for average households is determined by several elements that define the final update.

The rise of the 'energy material' costs, which the Single Buyer is expected to bear in the first quarter of 2017, contributes +1.5% to the overall change in expenditure for the average customer. This increase breaks down into +3.6% for raw material purchasing costs, -2.3% for dispatching costs (mainly determined by reduced fees for essential units and especially by the fall of the uplift fee) and +0.2% for the supply costs equalization component⁴.

The update of transmission, distribution and metering tariffs is +3.6% (mainly due to the reduction in distributed electricity volumes and the application of the new tariff structure, in view of generally stable revenue recognized for distribution companies and the transmission operator), offset by the sharp decline in general system costs, down 5.0%, driven by the revision of the subdivided structure of the charges following the tariff reform and the corresponding rate decrease (for example, between the main components, A2 - which covers the costs for the dismantling of decommissioned nuclear power plants and the closure of the nuclear fuel cycle - decreases with a -0.9% impact, before tax, on the typical household user, A3 - which covers the costs to finance the system of incentives for the production of electricity from renewable sources - decreases with a -5.0% impact and A4 - which covers the special tariff treatment granted to the railway sector, for universal service and goods - decreases with a - 0.1% impact). As of part this overall drop in charges, we should mention the reactivation of the Ae component (breaks to high-energy intensive industries), with a 1.5% impact on the typical household user. Finally, there is a slight increase of the marketing and sales component, up 0.8%, after the updating of the respective marketing components (PCV payment, DISPBT component).

This brings the total to +0.9% for the average customer's expenditure.

Natural Gas – The gas increase is mainly determined by the update of raw material supply costs, contributing +5% to the overall change in the average customer's expenditure, reflecting expectations of increased wholesale prices in Italian and European futures markets, basically due to higher consumption in the winter and some technical issues of the English system that affected European prices in general.

The transport service (Qt) component's moderate 0.4% increase is due to the variation of the tariff component QTFi, which covers gas transportation costs from PSV to delivery point, and of the QTVt component, which covers the costs of network losses and unaccounted-for gas. The distribution and metering service component's slight 0.4% increase is due to the update for 2017. There is also a small adjustment, +0.1%, for the QVD component, which covers the marketing costs of retail sales.

⁴ With the update of the first quarter of 2017, some elements change in the update procedures of the reference prices of the 'Maggior Tutela' [Enhanced Protection; TN] service. The previous general framework remains substantially unchanged, except for modifications in how the energy material reference price is determined, always updated quarterly, but with a method that allows a more immediate alignment with the supply costs coming from the market, with a quantification only on the three-month horizon covered. Thus improves the condition of greater correspondence to costs, without discretionary elements in the price, requested by the European Commission as one of the elements for the permanence of enhanced protection, toward its evolution to the planned universal service role.

The increases are offset by the 1.2% reduction of the component covering the renegotiation mechanism of long-term contracts (CPR) in view of the regulation of the financial accounting operations connected to its termination.

This brings the total to +4.4% for the average customer's expenditure.

Electricity reforms of 2017

As mentioned, the **second step** of the electricity **tariffs reform** for household customers gets implemented starting January 2017, according to the process established last year by resolution 582/2015, with some improvements in terms of reduced impact on low-consumption customers, in order to make things as gradual as possible as per legislative decree 102/2014.

Starting in 2017, all progressive taxes and subsidies pertaining to the grid tariff alone are eliminated for household customers, thus restoring equity of contribution and compliance with service costs. After more than 40 years, the old distinction between 'D2 tariff' (residents up to 3 kW) and 'D3 tariff' (residents with more than 3kW and non-residents) is in fact abolished, replaced by the new TD grid tariff, undifferentiated for household customers and variable only by virtue of the power used and the kWh taken from the grid by the individual customer. The differentiation between residential and non-residential customers (regardless of power level) is maintained for the tariff components of general system costs, providing for the application of a fixed fee for non-residents (in order to limit potential impacts on low-consumption resident household customers) and keeping only two progressive tax steps (up to 1,800 kWh/year and over 1,800). There remains a progressive tax element for the DISPBT component⁵ applied to non-resident customers and structured on the same two selected parts of the general costs.

In order to select the power level most suited to their needs, thus making their consumption more efficient, starting in 2017 end customers can choose between a larger number of levels (with 0.5 kW increments for the most populated groups of household users, compared to the old 1.5 kW granularity) and, starting next April 1, there will be a one-off power change cost reduction⁶.

The social discount bonus for low-income households in need remains available, boosted by the Regulatory Authority for 2017 as well, which 'writes off' any adverse effects from the new tariff. The bonus boost should be further increased by Decree of the Minister of Economic Development, as proposed by the Regulatory Authority with report 287 of June 2015.

A further reform will be initiated in January 2017; households and small businesses still under standard offer regime will be able to select the **Tutela SIMILE**⁷ offer as well; this is the new transitional mechanism established by the Regulatory Authority by which one can sign up for a free market offer (only through www.portaletutelasimile.it), but with a uniform contractual structure set by the Regulator, different only in price and equal to the standard offer regime price with the one-off bonus discount proposed by the various operators.

⁵ The DISPBT component compensates the difference between the amounts paid by Enhanced Protection customers through the marketing fee (PCV), commensurate with the efficient costs of free market selling companies and the marketing management costs credited to protected selling companies.

⁶ The planned fixed administrative contribution (27 euro) will be cancelled for two years and the planned contribution for each kW increment of additional power will be reduced by about 20%; moreover, said contribution in euro/kW will not come due if the power increase is subsequent to a previous reduction made on the same counter in these 2 years or will be returned if the customer decides not to go with the additional power previously requested.

⁷ All Enhanced Protection consumers will be eligible to sign the yearly **Tutela SIMILE** contract, if they so wish, exclusively by going to the website managed by the Single Buyer as part of the Integrated Information System, which will collect the offers and put customers in touch with prospective sellers, with no middleman or distance selling costs. The standard contract, which will meet the minimum conditions set by the Regulatory Authority, will concern just the supply of electricity, without additional services.

The businesses belonging to the *Tutela SIMILE* programme that already meet the requirements are about 30, offering household customers an average yearly discount of around 50 euro (about 10% discount on the yearly expenditure, before tax, of average households). The average discount for non-household customers is around 80 euro.

With *Tutela SIMILE* [See footnote 1 above; TN], the Regulatory Authority gives consumers under Standard offer regime the opportunity to become familiar with a type of offer more similar to free market offers, as these will be the only mode of supply possible when the price protection schemes end.

Details of the quarterly update

Aggregations and charts comply with the changes introduced by ‘Bill 2.0’⁸

Electricity - Starting 1 January 2017, the *reference price* of electricity for the typical customer will be 18.635 euro cents per kilowatt hour, including taxes, broken down as follows⁹:

Energy expenses:

- 6.75 euro cents (36.22% of the total bill) for energy supply costs;
- 1.64 euro cents (8.78%) for retail marketing.

Counter transport and management expenses:

- 3.95 euro cents (21.22%) for distribution, metering, transport, equalization of transmission and distribution and quality services.

Expenses for general system charges:

- 3.79 euro cents (20.36%) for *general system costs*, set by law.

Taxes:

- 2.50 euro cents (13.42%) for taxes including VAT and excise duties.

In the 1st quarter of 2017, system costs break down as follows:

- 79.90% for incentives on renewable and assimilated sources (component A3);
- 3.25% costs for nuclear safety operations and land compensations (component A2 e MCT), including 135 million euro/year for the State Budget;
- 6.40% energy efficiency promotion (component UC7);
- 0.92% special tariff schemes for Rete Ferroviaria Italiana [Italian railway company; TN], for universal service and goods (component A4);
- 0.92% electricity bonus (component As)
- 1.03% system research support (component A5);

⁸ Bill 2.0 provides for the simplification of the content and terms used in the summary bill sent to everyone, which is essential to understanding the final expenditure. The first page of the bill shows the average unit cost per kilowatt hour/standard cubic metre, as the ratio between the total expenditure and the billed consumption. Anyone wishing to get more information on the various expenditure items can ask their provider for the details, i.e. additional pages with an analytical description of the components that determine the overall expenditure. Said details will always be provided when responding to a complaint. "System costs expenditure", an item shown as part of the grid services up to now, is also shown explicitly and clarified in the event of recalculations, i.e. adjustments, which are in turn highlighted inside their own special box.

⁹ As of 1 January 2016, resolution 200/2015/R/COM – Bill 2.0 – of 30 April 2015 provides a different aggregation of components in the invoicing of the bill to end customers; the former *Sales services* items transfer as is under the item *Energy material expenditure*, whereas the former *Grid services* items transfer to two different aggregations: *Counter transport and management expenditure* (distribution, metering, transport, equalization of distribution and quality) and *System costs expenditure*

- 1.03% compensations for minor electricity companies (component UC4);
- 6.55% breaks for high electricity consumption manufacturers (component 'Ae');

Natural Gas – Starting 1 January 2017, the *reference price* of gas for the typical customer will be 75.26 euro cents per cubic metre, including taxes, broken down as follows¹⁰:

Natural gas expenses:

- 24.61 euro cents (32.71% of the total bill) for natural gas supply and related activities;
- 1.41 euro cents (1.88%) for the gradual application of the natural gas protection tariff reform and for the renegotiation mechanism of multi-year supply contracts;
- 5.06 euro cents (6.72%) for retail sales

Counter transport and management expenses:

- 13.28 euro cents (17.64%) for distribution, metering, transport, equalization of distribution and quality services.

Expenses for general system charges:

- 2.16 euro cents (2.87%) for *general system costs*, set by law.

Taxes:

- 28.74 euro cents (38.18%) for taxes including excise duties (20.31%), the additional regional tax (2.69%) and VAT (15.18%).

All the resolutions may be viewed at www.autorita.energia.it

¹⁰ As of 1 January 2016, resolution 200/2015/R/COM – Bill 2.0 – of 30 April 2015 provides a different aggregation of components in the invoicing of the bill to end customers; the former *Sales services* items transfer as is under the item *Natural gas material expenditure*, whereas the former *Grid services* items transfer to two different aggregations: *Counter transport and management expenditure* (distribution, metering, transport, equalization of distribution and quality) and *System costs expenditure* (sales marketing equalization, non-payment of last instance services and energy saving and renewable resources development interventions).