

Energy: 2.9% increase in electricity starting in April, gas down by 2.7%

For electricity the trends in the related European markets and the extreme cold wave caused increases in the wholesale market price at the beginning of the year

Milan, 30 March 2017 – In the second quarter of 2017, electricity *bills* will slightly increase, while gas *bills* will decrease for the average household¹. From the 1 April, the electricity bills will raise by 2.9% for the average household while gas bills will decrease by 2.7%. This is what is provided for by the updates of the *reference price for standard offer* households and small consumers for the second quarter of 2017. In particular, the electricity trends have been affected by wholesale market price increases at the beginning of the year, triggered by emergencies on the related European markets, especially the French market, and the extreme cold wave. In detail, for electricity the pre-tax spending for average household in the rolling year² (1 July 2016 – 30 June 2017) will be around 505.54 euros, with an increase of 0.7% as compared to the equivalent 12 months of the preceding year (1 July 2015 – 30 June 2016), that is an increase of 3.7 euros. For gas, the spending for the average household for the same period will be around 1,029 euros, with a decrease of 4.4% compared to the rolling year, corresponding to a saving of around 47 euros.

In the second quarter of 2017, the **electricity price** trend is mainly determined by the increase of supply costs observed in the first quarter of the year. As previously stated, this was due to the exceptional increases at the beginning of the year in the Italian wholesale market (with quotations of the national single price in January being over 55% higher than in the same month of 2016), triggered by the trends in the related European electricity markets – especially the French market with its continuing price increases relating to the downtime of several nuclear plants –, by the extreme cold wave and the increase in gas prices. These phenomena led to electricity prices in the first quarter being much higher than expected, with the difference in procurement costs now to be recovered³, which is also associated with a moderate increase in dispatching costs (the costs incurred by the network operator – Terna – to maintain the balance and safety of the electricity system). Nevertheless, procurement costs are expected to decrease for the second quarter of the year.

The increases in purchasing are partly offset by a decrease in general system charges, especially in the component A3 (the component covering the incentives for the production of electricity from renewable sources). This reduction is possible thanks to the positive trend of the relevant cash account. All of the other components of the general charges are unchanged.

Grid tariffs remain also unchanged throughout the year, with the third and final ‘step’ of the tariffs Reform for household customers coming into force in January 2018. Furthermore, as part of the Reform, starting 1 April, customers may fully utilise the new ‘power’ lever and identify the most suitable and cost-efficient level for their needs: in fact, there will be a one-off power change cost reduction⁴, with the possibility to choose between a greater number of levels (with 0.5kW

¹ 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.

² Rolling year is to be understood as the year comprising the quarter subject to updating and the three preceding quarters, also taking into consideration the consumption for each quarter.

³ With the reformed standard offer regime, electricity purchases by a Single Buyer are carried out entirely on the spot markets

⁴ In detail, for two years the planned fixed administrative contribution (27 €) will be offset and the planned contribution for each Kw increment of additional power will be reduced by approximately 20%; furthermore, said contribution in euro/kW will not come due

‘increments’ for the most populated groups of household users, compared to the ‘traditional’ granularity of 1.5kW).

The decrease in **gas** is linked to the reduction of various components. The ‘raw-material’ component records a slight decline, with the wholesale market gas prices expecting a limited decrease in the next quarter; furthermore, the component relating to transmission service decreases, with the component covering the activities related to purchase slightly decreasing.

A substantial decrease is also noted in the component covering the mechanism for renegotiating long-term contracts (the system that favoured the reduction of wholesale gas prices), finally offset due to the termination of the same mechanism. This mechanism, provided for by the gas reform enacted in 2012 by the Regulatory Authority, provided for the alignment of Italian prices to European prices, thus allowing to promptly receive wholesale price signals and to immediately transfer them to the final consumers.

Electricity – In detail, the increase in the electricity price for the average household is due to two main elements, leading to the final update.

The increase in supplying costs for ‘energy’, which contributes to +3.8% of the overall variation in the expenditure for the average customer. An increase that includes a 2.2% growth of procurement costs (due to the need to recover costs from the first quarter of 2017, partially offset by the expected reduction in procurement costs in the second quarter of the year) and a 1.6% growth of dispatching costs (also due to the need for recovery in respect to the first quarter of 2017 and by the estimated costs for the second quarter). A slight increase (+0.1% on the overall variation for the average customer) also involves the marketing and sales component due to the $DISP_{BT}$ component updating. Increases are counterbalanced by 1.0% decrease in component A3, covering general system charges for the abovementioned reasons.

This brings the total to +2.9% for the average customer total expenditure.

Natural gas – In detail, the reduction in gas prices is due to the decrease of several components.

The supplying costs component decreases slightly (-0.1%) respect to the overall variation in the expenditure for the average customer, which reflects the expectations of a limited decrease in the wholesale prices in the Italian and European forward markets.

The transport services component (Q_t) is in sharp decline (-1.2%) respect to the overall variation in the expenditure for the average customer, due to the fall in the QTF_i tariff component to cover the costs of gas transport from the VTP to the redelivery point, after offsetting the tariff component CRV^{OS} to cover expenses related to storage service. A slight reduction also involves the component covering the activities related to purchase (CCR), down by 0.1% respect to the overall variation in the expenditure for the average customer. Finally, there is a sharp reduction in the component covering long-term contracts renegotiation mechanism (the system that favoured the reduction of wholesale gas prices, CPR), showing -1.3% respect to the overall variation in the expenditure for the average customer, following its offsetting due to the termination of the mechanism itself, with already sufficient funds for the regulation of the financial accounting operations connected to its termination.

This brings the total to -2.7% for average customer expenditure.

if the power increase is subsequent to a previous reduction made on the same meter in these two years or will be returned if the customer decides not to go with the previously required additional power.

Details of the quarterly update

Aggregations and charts comply with the new elements introduced by 'Bill 2.0'⁵

Electricity – In detail, starting 1 April 2017, the electricity *reference price* for the average customer will be 19.183 euro cents per kilowatt hour, including taxes, broken down as follows⁶:

Energy expenses:

- 7.40 euro cents (38.55% of bill total) for energy supplying costs;
- 1.66 euro cents (8.65%) for retail marketing.

Energy transmission and meter management expenses:

- 3.95 euro cents (20.61%) for distribution, metering, transport, equalization of transmission and distribution and quality services.

Expenses for system charges:

- 3.62 euro cents (18.89%) for *general system charges*, set by law.

Taxes:

- 2.55 euro cents (13.30%) for taxes including VAT and excise duties.

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

- 78,95% for incentives on renewable and assimilated sources (component A3);
- 3.40% charges for nuclear safety operations and land compensation (component A2 and MCT), including 135 million euro / year allocated to the State budget;
- 6.86% breaks for high electricity consumption manufacturers (component 'Ae');
- 6.71% energy efficiency promotion (component UC7);
- 1.08% system research support (component A5);
- 1.08% compensations for minor electricity companies (component UC4);
- 0.96% special tariff schemes for Rete Ferroviaria Italiana, for its universal service and goods (component A4);
- 0.96% electricity bonus (component As)

⁵ In detail, the 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 also shows the average unit cost per kilowatt-hour/standard cubic meter, as a ratio between total expenditure and billed consumption. Anyone wishing to get more information on the various items can ask their provider for details, i.e. additional pages containing a full description of the components making up the overall expenditure. The full details will always be provided when responding to a complaint. The "System costs charges", an item shown as part of the grid services up to now, is also shown explicitly and clarified in the event of any recalculations, i.e. adjustments which are in turn highlighted in a dedicated box..

⁶ As of 30 April 2015, resolution 200/2015/R/COM - Bill 2.0 – provides for, starting 1 January 2016, a different aggregation of components in the invoicing of the bill to end customers; in particular the former *Sales services* item will transfer as under the item *Energy material expenditure*, whilst the former *Grid services* items transfer to two separate aggregations, namely *Meter transport and management expenditure* (distribution, metering, transport, equalization of distribution and, quality) and *System costs expenditure*.

Natural gas – In detail, starting 1 April 2017, the *reference price* of gas for the average customer will be 73.23 cents euro per cubic meter, including taxes, broken down as follows⁷:

Natural gas expenses:

- 24,49 euro cents (equal to 33.44% of bill total) for natural gas supply and related activities;
- 0.57 euro cents (0.78%) for the gradual application of the natural gas standard offer regime conditions reform ;
- 5.06 euro cents (6.90%) for retail sales.

Gas transmission and meter management expenses:

- 12.52 euro cents (17.10%) for distribution, metering, transport, equalization of distribution and quality services.

Expenses for System charges:

- 2.16 euro cents (2.95%) for *general system charges*, set by law.

Taxes:

- 28,43 euro cents (38.83%) for taxes including excise taxes (20,88%) the additional regional tax (2.77%) and VAT (15.18%).

All resolutions are available at www.autorita.energia.it

⁷ As of 30 April 2015, resolution 200/2015/R/COM - Bill 2.0 – provides for, starting 1 January 2016, a different aggregation of components in the invoicing of the bill to end customers; in particular the former *Sales Services* items transfer as under the item *Natural gas material expenses*, whilst the former *Network services* items transfer to two separate aggregations, namely *Meter transport and management expenses* (distribution, metering, transport, equalization of distribution and quality) and *System costs expenditure* (sales marketing equalization, arrears of last instance services and energy saving and renewable resources development interventions).