

PRESS RELEASE

Energy: from April a sharp fall in both electricity and gas prices (-8% and -5.7% respectively)

Reduction of prices on wholesale markets due to the expected seasonality

Milan, 29 March 2018 - A sharp fall in the electricity and gas *bill* for the average household¹ is expected in the second quarter of 2018. From 1 April, the *electricity bill* of the average household will significantly decrease by 8% and the gas bill by 5.7%. These reductions are the result of the fall of prices on the wholesale markets following the market trend of the last quarter, and mainly, the expected seasonal variation in electricity and gas consumption. These are the forecasts of the latest update of *reference prices* for households and the small consumers for the second quarter of 2018.

In particular, the fall in electricity is substantially linked to the trend of wholesale prices, estimated to be down in the second quarter of 2018 (the National Single Price (*PUN*) approximately 14% lower than the average of the first quarter of 2018). Similarly in the case of gas, the coming spring, with both consumption and prices lower throughout Europe, also implies - as expected - the lowering of prices in the Italian wholesale markets.

In detail, in the rolling year² (from 1 July 2017 to 30 June 2018), the average household's expenditure on electricity will be Euro 533.73 (including tax), up 5.6% compared with the same twelve months last year (1 July 2016 – 30 June 2017), equal to an increase of about 28 euro/year, which is still a consequence of the tensions occurred in the electricity markets at the end of 2017. In the same period, the average household's expenditure on the *gas bill* will be approximately Euro 1,042, up 1.3% compared with the same twelve months of the previous year (1 July 2016 – 30 June 2017), equal to about 13 euro/year, which reflects the slight recovery of gas prices in recent months as a result of the recovery of the European economy as a whole.

In the second quarter of 2018 the trend in **electricity prices**, as said, is mainly associated with the overall reduction in the supply costs linked to the reduction in the wholesale market prices expected in the next three months (also consistent with the trend of the prices of forward products) and the recovery in the surplus of revenue from the quarter just gone³, to the benefit of consumers. The overall costs for dispatching (costs of maintaining an adequate and balanced electricity system) are substantially stable, with a slight increase in the general system charges (+1.1%), mainly linked to the adjustment for the component covering incentives to energy-intensive companies (the old Ae inside the *A_{SOS}* grouping) to partially retrieve the costs for the aids of 2016, when the component was zeroed pending the conclusion of the State Aid procedure in the European Commission (aids now unblocked after clearance by the European Commission for the Adjustment Plan, then transposed with a recent Decree by the Minister of Economic Development that established the new aids for energy-intensive companies in force since 1 January 2018).

The reduction in **gas** price is substantially due to the reduction of the 'raw material' component linked to the fall in gas prices in the wholesale markets for the next quarter, in part due to the effect of lower demand over the next few months. The transport component is also lower as is the component covering supply-related activities.

¹ The average household has an average electricity consumption of 2,700 kWh per year and a subscribed demand of 3 kW; for gas, consumption is 1,400 cubic metres per year.

² Rolling year means the year comprising the quarter subject to updating and the three previous quarters, also taking into consideration the consumption associated with each quarter.

³ With the reformed standard offer regime, purchases of electricity by the Single Buyers are carried out entirely on spot markets.

Electricity - In detail, the reduction for electricity for the average household is determined by the fall in the costs of supply, which contributes - 9.1% to the total variation in expenditure for the average consumer (with dispatching costs essentially unchanged at +0,06%). This sharp reduction is counterbalanced in part by an increase of 1.1 % in the general system levies. This increase is made up of a +0,97% of the old A_e component covering the incentives for energy-intensive companies, now included in the A_{SOS} grouping, and an overall +0.13% of the A_4 component (covering the special tariff regimes for the universal and goods rail service) and the A_s component (covering the costs for the electricity bonus), both in the A_{RIM} grouping. This is how one gets to the final -8% for the average consumer's overall spending.

Natural Gas - In detail, the decrease in gas price is determined mainly by the strong decline in the C_{MEM} component relative to the supply costs, with -4.2% on the average consumer's expenditure, reflecting the expected decline of wholesale prices in forward markets in Italy and in Europe. The transport service component Q_t is also declining (-1.3% on the average consumer's expenditure), linked to the reduction in the charges for transport from the Virtual Trading Point (VTP) to the network redelivery point following the zeroing of the storage service tariff component for the period 1 April - 30 September. A slight decline (-0.2%) is also recorded in the component covering wholesale supply related costs (CCR). This is how one gets to the overall -5.7% in the average consumer's expenditure.

The quarterly update in detail

Aggregations and charts reflect the new features introduced by 'Bill 2.0'⁴

Electricity - From 1 April 2018, the *reference price* charged to the average consumer will be 18.98 euro cents per kilowatt hour, including taxes, broken down as follows⁵:

Energy costs:

- 6.65 euro cents (35.02% of the total bill) for energy supply costs;
- 1.67 euro cents (8.82%) for retail marketing.

Transport and Meter costs:

- 3.87 euro cents (20.38%) for distribution, metering, transport, transmission and distribution equalisation and quality.

System charges costs:

- 4.26 euro cents (22.44%) for *general system charges*, set by law.

⁴In detail, Bill 2.0 provides for the simplification of the content and terms used in the summary bill (that is usually sent to all consumers), in order to facilitate understanding the final expenditure. The first page of the bill also shows the average unit cost per kilowatt hour/ standard cubic meter, as the ratio between the total cost and consumption invoiced. Anyone wishing to explore the different cost items can ask his/her supplier for additional details, i.e., the various pages with an analytical description of the components that make up the overall cost. The detailed items will always be provided in responses to complaints. "System charges" are also clearly shown; up until now, this item was shown as part of the network services. Increased clarity is also ensured in case of recalculations, i.e., compensation, highlighted by a special box.

⁵ Resolution 200/2015/R/COM – Bill 2.0 – of 30 April 2015, provides for a different aggregation of individual components in the bills to consumers, starting 1 January 2016. In particular, the items previously under *Sale services* are moved without further changes to the item *Energy costs*, whereas the items previously under *Network services* are divided in two separate aggregations, i.e., *Transport and Meter costs* (distribution, metering, transport, transmission and distribution equalisation and quality) and *System charges costs*.

Taxes:

- 2.53 euro cents (13.34%) for taxes, including VAT and excise duties.

In the 2nd quarter of 2018, system charges are divided as follows:

In implementation of Decree-Law 210/15 and in view of the decision of the European Commission concerning the compatibility of the measures benefitting energy-intensive companies the European rules on State Aid (Decision C (2017) 3406), the Authority has updated the general structure of the groupings and of the components of the electricity system general charges in Resolution 481/2017. From 1 January 2018 it has thus provided that the rates of general charges relating to the components A2, A3, A4, A5, As, MCT, UC4, UC7 and the additional components to be applied to all types of contract will be separated into the following groupings: "General charges related to the support of renewable energy and cogeneration" (A_{SOS}), which includes all costs covered by the A3 tariff component up until 31 December 2017, with the exclusion of the cost items related to production attributable to non-biodegradable wastes; "Remaining general charges" (A_{RIM}).

The A_{SOS} component, which generally represents 84.98% of general charges, is divided between the following two items:

- 66.91 % for the incentives for renewable energy sources and CIP 6/92 cogeneration (share of old A3 component);
- 18,07% for the aids to the energy-intensive companies (old 'Ae' component).

The A_{RIM} component, which generally accounts for 15.02% of the general charges, is divided up among the following elements:

- 7.82% for the promotion of energy efficiency (UC7 component);
- 2.89% charges for nuclear safety and regional compensation (A2 and MCT components), including €135 million per year for the State Budget;
- 0.92% for supporting system research (A5 component);
- 0.92% for compensations for minor electricity companies (UC4 component);
- 1.40% for the special tariff regimes for the universal and goods rail service (A4 component);
- 0.82% for the electricity bonus (As component);
- 0.25% for the incentives for energy production from non-biodegradable wastes (share of old A3 component).

Natural gas - In detail, from 1 April 2016, the gas *reference price* for the average consumer will be 72.32 cents euro per cubic metre, including taxes, divided as follows⁶:

Natural gas costs:

- 23.36 cents euro (32.30% of the bill total) for the natural gas supply and related activities;
- 5.08 cents euro (7.03%) for retail sale.

⁶ Resolution of 30 April 2015, 200/2015/R/COM – Bill 2.0 – envisages, as of 1 January 2016, a different aggregation of the individual components in energy bills to consumers. In particular, the items under *Sales Services* are moved without further changes to the item *Natural gas costs*, whereas the items under *Network services* will become two separate aggregations, namely *Transport and Meter costs* (distribution, metering, transport, transmission and distribution equalisation and quality) and *System charges costs* (equalisation of sales and marketing, last resort service arrears, energy saving and renewable energy development interventions).

Transport and Meter costs:

- 13.12 cents euro (18.14%) for the distribution, metering, transport, transmission and distribution equalisation and quality control services.

System charges costs:

- 2.47 cents euro (3.41%) for general system charges, established by law.

Tax:

28.29 cents euro (39.12%) for taxes including excise duties (21.14%), regional surtax (2.81%) and VAT (15.17%).

All Resolutions are available on the www.autorita.energia.it website.