

Energy: extraordinary measure of ARERA avoids the doubling of prices, limiting the increase to +59%.

**Gas price will be updated at the end of each month.
Reporting to the Government and Parliament
on the *end of the standard offer service*.**

The explosion of wholesale prices drives up standard offer prices as well. ARERA and the Government intervene to limit the price increases but cannot eliminate them. New updating method for gas. ARERA calls for standard offer protections to remain in place past January 2023.

Milan, 29 September 2022 – With an **extraordinary measure** deemed necessary due to the exceptional gravity of the current situation, **ARERA – the Italian Regulatory Authority for Energy, Networks and Environment – is limiting the increase in electricity prices for households still covered by the standard offer** and preventing prices from doubling, although they remain extremely high.

Wholesale gas prices, which have reached abnormally high levels in recent months due to the ongoing war in Ukraine, concerns about the security of natural gas pipelines and financial tensions, are estimated to have risen by around 100%, despite the Government's intervention with the "Aiuti Bis" Decree offering a second round of relief.

To further limit price increases for households and businesses, ARERA has decided to, on an exceptional basis, postpone the necessary recovery of the difference between the forecast prices for the previous quarter and the actual costs that arose, which also showed extraordinarily high increases.

Based on preliminary data, in the third quarter of 2022, the single national price (PUN) of electric power was nearly twice that of the second quarter of 2022 and almost four times the average price of the third quarter of 2021.

Although it could not prevent the increases, ARERA's exceptional measure for the fourth quarter of 2022, combined with the Government intervention, **limited the increase in the reference price of electricity for typical households in the standard offer market to +59%**.

This quarterly update applies to electricity only.

According to the new calculation method, which ARERA introduced in July (Resolution 374/2022/R/gas), the price of gas for customers still covered by the standard offer will be updated at the end of each month and published in the first few days of the month following the reference month based on the average of actual prices on the Italian wholesale market.

The price of gas that will be paid by customers for their October consumption will then be published on ARERA's website – arera.it – within 2 business days from the beginning of November. ARERA has also provided clear information on billing mechanisms in the month of October.

This method will remain in force until the end of the *gas standard offer for households*, scheduled for January 2023, although **ARERA sent a recommendation to the Government and Parliament today reiterating its request for that deadline to be postponed.** In the same recommendation, given the critical issues of the current period, ARERA also asked to postpone the end of the standard offer for electricity for micro-businesses (scheduled for 1 January 2023) and, consequently, that for households as well.

"The exceptional nature of the situation, with a conflict that makes supplies uncertain and continues to push up prices," remarked ARERA President **Stefano Besseghini**, *"demands an equally exceptional response, especially since Parliament and the Government are in the middle of a transition. The doubling of bills could have led to an increase in arrears, creating additional difficulties for households and the energy system."*

In accordance with the provisions of the Government's "Aiuti Bis" Decree, ARERA has intervened for the fourth quarter as well by **eliminating the components of the general system charges for both electricity and gas** for all users and confirming the application of the negative UG2 component to the benefit of gas consumption for up to 5,000 scm/year. These measures, combined with the confirmation of the reduction of VAT on gas to 5%, create a **positive impact for 30 million households and over 6 million small businesses, tradesmen and shop owners.**

Also in accordance with the "Aiuti Bis" Decree, ARERA has confirmed **the strengthening of the electricity and gas social bonuses**, which, for the fourth consecutive quarter, will allow households eligible for the bonuses to significantly offset the effects of the increases, also thanks to the containment of the increase in the electricity sector made possible by ARERA's extraordinary measure. **Families with an Equivalent Economic Status Indicator (ISEE) of up to € 12,000** (or € 20,000 for large families) **remain eligible for these social bonuses. All eligible families receive the bonuses directly in their bill, provided that they have a valid ISEE within the specified threshold in the year 2022.**

For gas, while it cannot mitigate the exceptionally high market prices, the new updating method does aim to make supplies to customers more secure. Indeed, the ongoing geopolitical tension has worsened the critical challenges that suppliers are experiencing on wholesale markets in procuring the gas they need to satisfy the needs of their customers, including households. The new mechanism reduces the risk that suppliers may be unable to guarantee operations and, consequently, supplies, minimising the risk that families will be forced to seek services of last resort and that the suppliers themselves will default, compromising the entire economic balance of the Italian gas supply chain, with additional costs that would be nationalised.

ARERA also provided clear information on the billing mechanisms in October, specifically indicating that the price for the previous month will be used for advance billing. This mechanism will be applied in subsequent months as well.

In addition, **specific transparency obligations were introduced for suppliers.** If they need to recalculate the price applied in previous bills, not only must they include adequate information to this effect in the bill (as required by the Bill 2.0 rules) but they must also create a specific section on their website in which they clearly and comprehensibly explain the reason for the recalculation and how the prices are determined. **Billing, if the supplier's systems permit, may also be monthly.**

The effects in electric bill

Wholesale prices have grown enormously and remained extremely high. This is reflected in the difference in expenditure compared to the previous year (in the fourth quarter, the rolling year¹ corresponds with the calendar year).

In terms of final effects, **the electric bill for the typical household in 2022** (1 January 2022 - 31 December 2022) **will be about € 1,322**, compared to about € 632 in 2021 (the same 12 months of the previous year).

Market trends

Uncertainties related to developments in the Russia-Ukraine conflict continue to drive up prices in energy market products and fuel their volatility.

As far as **natural gas is concerned, supply shortages persist in Europe**, exacerbated first by the reduction and then – as of 31 August – by the complete suspension of Nord Stream 1 pipeline flows. In this context, the price of natural gas has fluctuated sharply with peaks that, in the second half of August, exceeded € 300/MWh. However, high price levels have boosted LNG imports, contributing to the filling of European storage beyond the target set by the new European regulation (80% by 1 November 2022).

Conditions of scarcity of supply shortages have also emerged in the electricity market.

In addition to the reduced availability of French nuclear energy, the drought that dominated the spring and summer months not only resulted in lower hydroelectric production than last year but also limited the production capacity of some combined-cycle plants located in the Po river basin, due to the cooling constraints associated with the river's reduced flow.

¹ A rolling year is defined as the year consisting of the quarter being updated and the three preceding quarters, including considering the consumption associated with each quarter.

In this context, in line with the upward trend in gas prices, the single national price (PUN) reached the record levels mentioned above.

The components of the bill

With respect to the individual components of electric bills in detail, **the 59% growth in the final price of electricity for the typical household (66.01 euro cents per kWh, including taxes)** is substantially due to the abnormal increase in the price of energy (PE), +59.6%, which was barely affected by the limited drop in the price of dispatching (PD), -0.6%. The energy equalization price component is stable.

General system charges remained unchanged at zero. Regulated grid tariffs (transmission, distribution and metering) are also unchanged.

Full details on the update are available in the Data Sheet.