

## PRESS RELEASE

### **Energy: from January, electricity to increase by 5.3% and gas by 5%**

**for electricity, the increase in wholesale prices and conformity and safety costs were decisive;  
whereas for gas, there is the predicted winter effect**

Milan, 29 December 2017 – In the first quarter of 2018, electricity and gas *bills* are set to increase. From 1<sup>st</sup> January, the typical household<sup>1</sup> will see an increase of 5.3% for the supply of electricity and 5% for gas, as is foreseen by the updates to the *reference prices* for households and small consumers of the *standard offer market* services.

In particular, the increase in electricity price is tied to a series of concurrent factors (9), all upward, which have led to a significant growth in wholesale prices in this past quarter (+20% of the National Single Price (PUN) just from October to November): the recovery in consumption (+1.6% in electricity demand in Italy in the first 11 months of 2017), to be confirmed in 2018, is a positive sign of recovery of production businesses, but with the parallel effect of a rise in wholesale prices; the prolonged unavailability of certain French nuclear plants, with an increase in the price of wholesale electricity in the market north of the Alps, which causes an increase in the Italian price and reduces the volumes imported from France; some electricity transit limitations in the Italian network, especially in Southern Italy, leading to an overall reduction in the efficiency of the system; the decreased availability of national hydroelectricity generation due to the scarcity of water in this period (2017 was the most ‘arid’ year in the past 200 years), replaced by the more costly production of gas power plants; the seasonal increase in wholesale gas prices on a European level (and therefore also in Italy), which contributed to raising the price of electricity.

In addition to these events, there is also an increase in the component relating to dispatching – i.e. for maintaining the electricity system updated and balanced – and an increase in costs tied to interruptible resources (for the whole of 2018) for electricity system safety, as foreseen by the guidelines of the Ministry of Economic Development, based on analysis conducted by Terna (pending operation of the capacity market, for which the Italian government has not yet received authorisation from Brussels), as well as the increase in costs for the essential safety units, decided by the Authority on the basis of indications by Terna.

Finally, domestic customers (and not only) also have to bear the increase in general system costs due to the reinforcement of concessions for energy-intensive users, decided with decree of the Ministry of Economic Development implementing the recent European Law<sup>2</sup> which has been approved by the European Commission last Spring for the Adjustment Plan prepared by the Italian government.

There is a positive impact on consumers, however, of the first recoveries, under prescriptive measures taken by the Authority, of the costs incurred for past irregular conduct by offer and demand operators in the electricity wholesale markets (balancing market).

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<sup>1</sup> The typical household has an average electricity consumption of 2,700 kWh per year and a maximum capacity of 3 kW; for gas, average consumption is 1,400 cubic metres per year.

<sup>2</sup> Law no. 167 of 20<sup>th</sup> November 2017.

However, for gas, the increase is essentially determined by the expected dynamics of the Winter season, with increasing consumption and prices on a European level, which – in a single market – also means an increase in prices in the Italian wholesale markets.

In detail, the cost of electricity (including taxes) for the typical household in the rolling year<sup>3</sup> (from 1<sup>st</sup> April 2017 to 31<sup>st</sup> March 2018) will be around 535 euro, a variation of +7.5% as compared to the 12 months of the previous year (1 April 2016 – 31 March 2017), corresponding to an increase of around 37 euro/year. For the same period, the typical family household gas bill will be around 1,044 euro, a variation of +2.1% as compared to the 12 months of the previous year, corresponding to an increase of around 22 euro/year.

In the first quarter of 2018, the trend in price of **electricity**, as mentioned earlier, is tied to numerous factors.

The overall increase in the costs of supply is the result of the variation in wholesale prices in recent months – affected by the events described above – which has led to higher than expected electricity prices in the fourth quarter of 2017, with a difference in purchase costs that the existing standard offer mechanism has to recover over time<sup>4</sup>. These supply costs are also affected by the increase in dispatching costs, which is itself determined by various elements: the increase in the component for maintaining the system balance (uplift), which is settling towards normal values, starting from discounted levels thanks to the reduction in favour of the consumers applied in the fourth quarter of 2017, as a result of recovery for preceding months; the increase in costs for interruptible units (large industrial plants disconnectable in the case of emergency, to reduce consumption) in order to address possible critical situations that could occur in 2018 following the ministerial guidelines increasing system safety; the increase in costs for essential units, i.e. generation units deemed indispensable for guaranteeing system safety in certain areas of the country.

The increase in the component of general system costs, which is influenced by the effects of the application of the government's revision of concessions for energy-intensive companies, also contributes to the overall increase in electricity price. In particular, based on the government and parliamentary guidelines, considering the expected cost associated with the new concessions, the Authority – for the domestic sector – has distributed the increased funds necessary to finance the concessions mainly among domestic customers with high annual consumption, to protect those with low consumption. In detail, only 30% of the increased costs for domestic customers will be borne by those who consume less than 1,800 kWh/year<sup>5</sup>, with the remaining 70% borne by those with higher consumption<sup>6</sup>. This choice also takes into account the “buffer” effect of deferring the final stage of the domestic tariff reform, relative to general system costs. The Authority decided a few days ago to defer this reform until January 2019, following specific proposal by the Authority approved by Parliament and Government. This deferral serves as a “shield” to limit possible cost increases, protecting in particular low-consumption domestic customers, for the whole of 2018. The decision of the Authority, taken on the basis of a specific provision of the decree on energy-intensive businesses, to transfer to bills gradually the increase in funds estimated to be necessary to finance the 2018 concessions, limits the impact of the new concessions for energy-intensive manufacturers.

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<sup>3</sup> the rolling year is understood to mean the year including the quarter subject to updating and the three preceding quarters, also considering the consumption associated with each quarter.

<sup>4</sup> With the reformed standard offer, Single Buyer purchases of electricity are performed entirely on spot markets.

<sup>5</sup> For the components related to general costs only, the structure already planned for 2017 remains in force, with the differentiation between resident and non-resident customers (irrespective of the level of power), the application of a fixed rate for non-residents (in order to limit the possible impact on low-consumption resident domestic customers), maintaining the 2 progression brackets (up to 1,800 kWh/year and over 1,800 kWh/year) for resident customers.

<sup>6</sup> With this distribution, the bill increase due to the increase in costs to finance the concessions to energy-intensive companies, for a low-consumption customer (1,500 kWh/year, 3 kW) is +0.8%, much lower than the increase of +1.9% borne by the typical customer.

There is a slight decrease, however, in network tariffs, i.e. transmission, distribution and metering and relative mechanisms of equalisation and incentive system funding for improved quality.

The variation in gas is related essentially to the increase in the ‘raw material’ component, i.e. the increase in expected gas prices in wholesale markets in the next quarter, also due to the increased demand in the winter months. Wholesale price increases are also affected by the 50% reduction in use capacity of the TEMP gas pipeline (the pipeline that connects the Dutch fields to Italy) for maintenance. There is also a slight increase in the transport component. These increases are, in part, counterbalanced by the reduction, with its zero-setting, of the component for the gradual application of the reform of the economic conditions of the standard offer. This reform maintains the link between the update of the standard offer price and the wholesale prices of the biggest European gas market (Dutch TTF market), even more stable than the Italian market, although under development, protecting the consumers from excessive fluctuations.

**Electricity** – In detail, the increase in price of electricity for the typical household is determined by the increase in the costs of supply, which contributes by around +3.8% to the overall variation in cost for the typical customer. This increase includes the +1.3% variation in purchase costs, approx. +1.2% in dispatching costs and around +1.3% of the equalization component for the recovery between expected supply costs and those actually recorded in the preceding quarter. The increase in general system costs contributes to +1.9% of the cost for every typical customer, fully determined by the variation in the component of general costs to cover the incentives to energy-intensive companies, whereas all other components are stable. There is a slight adjustment for the marketing and sales component of +0.1% to the cost for the typical customer. These increases are counterbalanced in part by a fall in transmission, distribution and metering tariffs of 0.5% in typical customer costs. Thus, the final adjustment is +5.3% for the overall costs for the typical customer.

**Natural gas** – In detail, the increase in price of natural gas is determined mainly by the increase in the Cmem component relating to the costs of supply, with +5% in cost for the typical customer, reflecting the expected increase in wholesale price in the Italian and European forward markets. There is a slight increase in the Qt transport component (+0.6% in cost for the typical customer), due mainly to a variation in the component to cover the cost of transporting gas from VTP to the point of redelivery. There is also a slight adjustment (+0.2%) for the distribution and metering service component and for the component to cover activities tied to wholesale supply, CCR (+0.1%). There is a decrease in the component for the gradual application of the reform of the economic conditions of the standard offer (GRAD), with its zero-setting, which contributes to the -0.9% in typical customer cost. Thus, the final adjustment is +5% for the costs for the typical customer.

## **Quarterly update in detail**

**The aggregations and graphics comply with the new features introduced by the ‘Bill 2.0’<sup>7</sup>**

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<sup>7</sup> In detail, the Bill 2.0 involves the simplification of content and terms used in the summarised bill (the bill sent to everyone), essential to understanding the final cost. The first page of the bill also shows the average unit cost of kilowatt-hour/standard cubic metre, as a ratio between the total cost and the invoiced consumption. Anyone who wants more in-depth information on the cost entries can always ask his/her supplier for details, or rather the various pages with the detailed description of the components that make up the overall cost. These details will always be provided in any reply to a complaint. Explicit evidence is also provided of the “system costs”, an entry to date indicated under network services, and greater clarity is guaranteed in the event of any recalculation, i.e. in the event of adjustments, which are highlighted in a special box.

**Electricity** - In detail, from 1<sup>st</sup> January 2018, the *reference price* of electricity for the typical customer will be 20.626 cents of a euro per kilowatthour, including taxes, divided as follows<sup>8</sup>:

***Energy Costs:***

- 8.35 euro cents (40.48% of the total bill) for the cost of energy supply;
- 1.67 euro cents (8.12%) for retail marketing.

***Transport and Meter Costs:***

- 3.87 euro cents (18.75%) for services of distribution, metering, transport, transmission and distribution equalisation, quality.

***System Costs:***

- 4.05 euro cents (19.65%) for *general system costs*, set by law.

***Taxes:***

- 2.68 euro cents (13.00%) for taxes including VAT and excise duties.

**In the first quarter of 2018, the *system costs* were divided as follows:**

In implementation of that provided for by Leg. Decree 210/15 and in consideration of the decision made by the European Commission on the compatibility of measures benefiting energy-intensive companies with the European regulations on State Aid (Decision C (2017) 3406), the Authority updated the general structure of grouping and headings of the general electricity system costs, with Resolution 481/2017. Therefore, from 1<sup>st</sup> January 2018, it has established that the rates for the general costs under parts A2, A3, A4, A5, As, MCT, UC4 and UC7 and for further headings to be applied to all types of contract shall be separated into the following groups: “General costs in support of renewable energy and CHP” (ASOS), which includes all costs up to 31<sup>st</sup> December 2017 covered by the A3 tariff heading, with the exclusion of the heading referring to production from non-biodegradable waste; “Remaining general costs” (ARIM).

The A<sub>SOS</sub> heading, which counts for a total of 84.4% of general costs, is divided into the following two parts:

- 70.33% for incentives for renewables and CHP, CIP 6/92 (rate of the former heading A3);
- 14.51% for concessions to energy-intensive companies (former heading ‘Ae’).

The A<sub>ARIM</sub> heading, which counts for a total of 15.2% of general costs, is divided into the following elements:

- 8.22% for the promotion of energy efficiency (heading UC7);
- 3.04% costs for nuclear safety measures and territorial compensation (headings A2 and MCT), including the 135 million euro/year destined for the National Budget;
- 0.96% in support of system research (heading A5);
- 0.96% for compensation to smaller electricity companies (heading UC4);
- 0.86% for special tariff schemes for Rete Ferroviaria Italiana (Italian Railway Network), for universal and goods service (heading A4);
- 0.86% for the electricity bonus (heading As);

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<sup>8</sup> Resolution 200/2015/R/COM of 30 April 2015 – Bill 2.0 – envisages, from the 1<sup>st</sup> of January 2016, a change in aggregation of the individual invoice parts of the bill to end customers, and in particular the entries that were included under *Sales Services* become *Energy Costs*, whilst the entries under *Network Services* become two separate groups, *Transport and Meter Costs* (distribution, metering, transport, transmission and distribution equalization, quality) and *System Costs*.

- 0.25% for incentives for the production of energy from non-biodegradable waste (rate of the former heading A3).

**Natural gas** – In detail, from the 1<sup>st</sup> of January 2018, the *reference price* for gas for the typical customer will be 76.69 euro cents per cubic metre, including taxes, divided as follows<sup>9</sup>:

***Natural gas costs:***

- 26.25 euro cents (34.23% of the total bill) for the supply of natural gas and related activities;
- 0.00 euro cents (0.00%) for the gradual application of the reform of the economic conditions of the standard offer of natural gas;
- 5.08 euro cents (6.62%) for retail sale.

***Transport and meter costs:***

- 13.93 euro cents (18.17%) for services of distribution, metering, transport, distribution equalisation, quality.

***System costs:***

- 2.47 euro cents (3.22%) for general system costs, set by law.

***Taxes:***

28.96 euro cents (37,76%) for taxes including excise duties (19,94%), additional regional tax (2.65%) and VAT (15.17%).

All the resolutions are available at [www.autorita.energia.it](http://www.autorita.energia.it)

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<sup>9</sup> Resolution 200/2015/R/COM of 30<sup>th</sup> April 2015 – Bill 2.0 – envisages, from 1<sup>st</sup> January 2016, a change in aggregation of the individual invoice parts of the bill to end customers, and in particular the entries that were included under *Sales Services* become *Natural Gas Costs*, whilst the entries under *Network Services* become two separate groups, *Transport and Meter Costs* (distribution, metering, transport, transmission and distribution equalization, quality) and *System Costs* (equalisation of sales marketing, default for services of last resort and measures for energy saving and renewable source development).