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ANNUAL REPORT
TO THE INTERNATIONAL AGENCY FOR THE COOPERATION
OF NATIONAL ENERGY REGULATORS
AND TO THE EUROPEAN COMMISSION
ON THE REGULATORY ACTIVITIES AND THE FULFILMENT OF DUTIES
OF THE ITALIAN REGULATORY AUTHORITY FOR ELECTRICITY, GAS AND
WATER

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1 INTRODUCTION

This document presented by the Regulatory Authority for Electricity, Gas and Water provides the International Agency for the Cooperation of National Energy Regulators (ACER) and the European Commission with a report on the activities carried out and the fulfilment of its duties pursuant to articles 37.1.e) and 41.1.e) respectively of directives 2009/72/EC and 2009/73/EC.

The structure of the report, in line with that defined by the Council of European Energy Regulators (CEER), was shared with ACER and with the European Commission's General Directorate for Energy.

The report analyses the main aspects of the structural evolution of the two markets, electricity and gas, as regards both the regulatory activity and the state of competition. The report also includes a description of the recent legislation and regulatory evolution on the energy markets, of the activity carried out with reference to consumer protection and supply security, the latter as regards the aspects falling within the National Regulator's competences.

The resolution to liberalise the energy markets at the advantage of supply prices and to follow paths sustainable for the environment, together with the essential aspect of the secure supply for the continent, are clear European directions. Without similar supranational strong decisions, Member States would hardly have set such ambitious aims, targets that precisely for this reason are also difficult to reach.

There are no assurances against the "broad" horizon of uncertainties. The only way to manage them is to enter into relationships of solidarity and cohesion with other Countries living our same uncertainties concerning the future, although with other points of view, strengths and weaknesses.

Hence, the inestimable added value provided by the integration of markets, infrastructures, systems as well as by the cooperation among institutions that deal with energy regulations and policies. It is exactly in this view that the Authority which I head continues to work intensely with ACER and in CEER and with the other European Regulatory Authorities toward the completion of the internal energy market which needs a framework of harmonized rules. This report offers a practical testimony of the work being carried out.

Milan, 31 July 2014

THE PRESIDENT

Guido Bortoni

2 SUMMARY/MAIN DEVELOPMENTS IN THE ELECTRICITY AND NATURAL GAS MARKETS IN 2013

Main novelties as regards energy legislation

In 2013, many and relevant regulatory interventions were carried out as regards energy legislation.

Decree n. 65, dated 27 February 2013, of the Ministry of Economic Development defined a **mechanism for assessing and monitoring the Development Plan of gas transportation grids**. Pursuant to the Decree, grid administrators must communicate said Plan to Regions, the Authority and the Ministry of Economic Development. The Ministry and the Authority assess the Plan, each according to their own competences, also with reference to its consistency with the national energy strategy. Having heard the Authority, the Ministry must also assess whether the Plan contains an appropriate estimate of investment requirements and whether it is consistent with the ten-year grid development Plan at community level. Should the monitoring activity evidence that the grid operator did not realize an investment which, on the basis of the Plan, should have been realized, the Ministry and the Authority can oblige the operator to realize the investment within a defined period of time. In case of non-compliance with the measures issued following the monitoring activity, the Authority can impose sanctions.

Decree Law n. 63,¹ dated 4 June 2013, intervened in the sector concerning the requalification and **energy efficiency of the Italian real estate patrimony**, both public and private, with the aim to close several infringement procedures, launched by the European Union against Italy, with reference to the partial implementation of directive 2010/31/EU of the European Parliament and of the Council, dated 19 May 2010, on energy supply in the building sector.

Another relevant regulatory intervention for the sectors under the Authority's competence is represented by the so-called "Decreto del fare" ["Doing Decree"].² Said Decree narrowed the number of **subjects for which the Authority can continue to set prices of reference**; within the ambit of calls for tenders for appointing gas distribution services, should the local grantor bodies fail to comply with the terms for carrying out the calls for tenders, the Decree established that the administrator must lodge 20% of the charges due to the bodies³ in a specially provided head of the settlement fund for the electricity sector (said charges are destined to the reduction of the distribution tariffs of the corresponding ambit).

The so-called "Legge di stabilità" ["Stability Law"]⁴ established that the Ministry of Economic Development, upon the Authority's proposal and having heard the Ministry of Environment and Protection of Land and Sea, is to define a productive capacity remuneration system capable of providing appropriate flexibility services, the so-called **capacity payment**, in so far as what strictly

¹ Converted with amendments to Law n. 90 dated 3 August 2013, stating *Urgent measures for the implementation of directive 2010/31/EU of the European Parliament and of the Council of 19 May 2010, on energy provision in the construction sector for defining the infringement procedures launched by the European Commission, as well as other measures as regards social cohesion*.

² That is, Decree Law n. 69 dated 21 June 2013, converted with amendments to Law n. 98 dated 9 August 2013, stating *Urgent measures for economic revival*.

³ These are charges mentioned under art. 8, paragraph 4, of Ministerial Decree n. 226 of 2011, that is the share of the remuneration of the locality capital concerning the distribution and measure services, as well as the relevant share of yearly amortization.

⁴ Law n. 147 dated 27 December 2013, stating *Measures for the State's annual and long-term accounts*.

necessary to guarantee the security of the electrical system and the covering of requirements carried out by grid operators, without increasing electricity prices and tariffs for final customers. As regards gas distribution, in order to enable the **completion of the methane supply programme of Southern Italy**, the granting of contributions was authorised in capital account to specific Municipalities and their consortia, counting on the resources of the Fund for development and cohesion, with reference to the 2014-2020 national programme. By intervening on the accounting regulations enforceable to independent Authorities, said law requires their compliance with public finance restrictions. However, depending on their respective regulations, expenditure containment measures have been identified, alternative compared to the laws in force concerning public finance enforceable to the same.

Lastly, Decree Law n. 145, dated 23 December 2013,⁵ contains many and relevant measures concerning the energy sector. In detail, the regulation provides for as follows:

- the Authority must update the **criteria for setting reference prices** for the supplies destined to final customers not supplied on the free market, keeping into account the changes intervened in the hourly price trend of electricity on the market;
- the **minimum prices guaranteed**, defined by the Authority, must be, for each plant, equal to the hourly zone price should the energy purchased and sold be produced by plants that have access to incentives dependent on electricity tariffs of the energy produced, with the exception of the electric energy input by photovoltaic plants with power rating up to 100 kW and by hydroelectric plants with electric power up to 500 kW;
- a **reduction of the A₃ component** in the electricity bill, through a possible alternative offered to producers of electric energy from renewable sources owners of plants that benefit from incentives under various forms; in other words, producers can continue to benefit from the incentivising regime due for the rightful residual period, or opt for a recalculation of the incentive, consisting in the use of a reduced incentive of a specific percentage, however against a seven-year extension of the incentivising period. The reduction percentage, specific for each typology of plant, shall be defined with a Decree of the Ministry of Economic Development together with the Ministry of Environment and Protection of Land and Sea, upon the Authority's opinion;
- in order to promote the competitiveness of industrial enterprises, remunerations for covering the **general system expenses imposed on gas consumption** (and the division criteria of said charges at the final customers' expense) must be re-established by the Authority, keeping into account the definition of high energy consumption enterprises, according to measures issued by the Ministry of Economic Development;
- the Authority must identify the **basic cost components** that will have to be expressed clearly in the offers so as to enable consumers to exploit the opportunities offered by the liberalization of the energy markets, **thus making contract offers more easily comparable** for final customers as regards the purchase of gas or electric energy;
- the Authority must promote **the installation of smart meters** and see that the data read by the meters be made available to customers in a joint and precise manner, so as to enable

⁵ Converted with modifications to Law n. 9 dated 21 February 2014, n. 9, stating *Urgent interventions for launching the Piano destinazione Italia, for the containment of electricity and gas tariffs, for the reduction of car insurances with tort liability, for internalization, development and digitalization of enterprises, as well as measures for the realization of public works and Expo 2015.*

consumers to easily read their personal consumption data and guarantee the correspondence between consumptions invoiced and actual consumptions;

- the Ministry of Economic Development, having heard the Authority, shall start a procedure of **progressive requirement covering as regards the minor islands** not interconnected by developing energy produced by renewable sources and defining temporal aims and modalities for supporting investments, also through the UC₄ tariff component;
- a pro-competitive intervention, specifically aimed at suppressing the regulation that provided for the appointing through call for tenders, on behalf of the Region of Sardinia, of an integrated licence for the management of the Sulcis coal mine. Therefore, the Decree has given the Region of Sardinia the right, within 30 June 2016, to **call for tenders with the aim to realize a thermoelectric coal plant** on the territory of Sulcis Iglesiente. The winning tender shall be guaranteed that the *Gestore dei servizi energetici* (GSE) will purchase the electric energy produced and fed into the grid by the plant, up to the twentieth running year, at market price increased of a **specially provided incentive**. The deriving charges shall be at the expense of the Italian electric system, with relevant withdraw on electric tariffs, according to modalities defined by the Authority;
- a set of regulations in order to give **impulse to the calling for tenders** for appointing the gas distribution service and others to **favour the realization of a new capacity of gas storage** (completing the measures of Legislative Decree n. 130 of 13 August 2010);
- in order to **favour the development of the forward gas market** managed by the GME, as of 1 January 2014 and for a three-year period, any subject feeding gas into the national grid – and whose share is above 10% - shall be obliged to offer on said market a volume of gas corresponding to 5% of the total annual input, with concomitant offer to purchase the same quantity on the same market with a difference in price between sale price and purchase price not above a specific value defined by the Ministry of Economic Development, upon the Authority's proposal.

Developments in the electricity market

Main regulatory developments

In 2013, the Authority adopted many measures as regards the electricity sector. The main ones are summarised as follows.

The review of the unbundling regulation currently in force was continued and, within the same domain, final measures were issued concerning the obligations of the accounting separation of the *Gestore dei servizi energetici* (GSE). In April, the final resolution concerning Terna's certification was adopted, in quality of operator of the electric energy transmission system in regime of ownership separation.

Several measures were adopted so as to increase the efficiency of the electricity dispatch service, among which: amendments to the regulations concerning the actual imbalances with the aim to minimise the risk that operators, in situations of vulnerability, can find convenient to adopt non-efficient behaviours and the introduction of a new mechanism for measuring and enhancing the contribution of the primary frequency regulation provided by the production units. At the same time, the Authority launched an organic review of the measures concerning actual imbalances, the selection and remuneration of flexibility services, the interruptibility services.

Several activities were carried out for the experimental introduction on the National Transmission Grid of accumulation systems [*“sistemi di accumulo”* (SdA)], aimed at making the dispatching of non-programmable plants easier (the so-called energy intensive SdA), and at increasing the safety characteristics and the defence capacity of the grids (the so-called power intensive SdA).

As regards the regulatory framework for renewable energies, the novelties concerned the regulation of connection, transmission, distribution, measure and dispatching services in the case of Simple production and consumption systems and in the case of private grids; the setting of the value of minimum guaranteed prices for plants powered by renewable sources with power up to 1 MW, which are allowed to access the *dedicated withdrawal* (simplified purchase and sale agreements); new interventions concerning distributed generation plants in order to guarantee the safety of the national electricity system.

Moreover, a procedure was launched for reviewing domestic tariffs and for tariff experimentation as regards heat pumps used as the only heating system.

International coordination

Given the positive results concerning economic efficiency in allocating cross-border capacity, the Italy-Slovenia market coupling was adopted in a permanent manner: in fact, the Authority approved in December 2013 the agreements for its continuation from 2014 on.

Upon completing the consultation phase, in May 2013 the Authority concluded its assessment of the 2012 ten-year National Transmission Grid development Plan and submitted its opinion to the Ministry of Economic Development and Terna. The Plan will be published on the Authority's website upon the Ministry's approval.

In 2013, the Authority continued to collaborate with the other European Regulators both at multilateral level - through ACER, CEER and regional initiatives - and by means of *ad hoc* bilateral meetings organised to analyse in-depth issues of common interest. As regards the electricity sector, in 2013 the Authority was particularly involved in analysing the European grid Codes with reference to: the capacity allocation and congestion management (CACM); grid connection; safety management of electric systems. Moreover, the Authority took on the leadership, together with ACER and the French Regulator, for writing the *Guidelines* concerning the integration of the balancing markets. Always within the ACER tasks, in 2013 an intense activity was carried out as regards the infrastructure Package. Moreover, the Italian Regulatory Authority, in collaboration with the German Authority, was entrusted with the task to coordinate the activities concerning the preparation of the roadmap for implementing the day-ahead market coupling with the final aim to reach, within 2014, the day-ahead market coupling at European level.

Wholesale and retail markets

The provisional data provided by Terna highlight that, in 2013, electric energy consumptions decreased by 3.4%, passing from 307 TWh in 2012 to almost 297 TWh in 2013. The reduction in consumptions was much higher than the GDP decrease, which in the same period registered a 1.9% contraction. In 2013, the net production covered 87.5% of national requirements, with 44.3 TWh imports that enabled to cover the remaining part of the demand. Also exports registered a 5.5% decrease, which this year were limited at 2,178 GWh. Power requirements touched the maximum peak at the end of July, reaching 53.9 GW. More precisely, gross **domestic production** amounted to 287 TWh, with a 3.8% decrease compared to 2012. Therefore, there has been a drop for the second consecutive year, the strongest registered since the 2008-2009 crisis. In particular, thermoelectric production registered a -13% fall; whereas, the increase in renewable sources has

remained steady (+17% between 2012 and 2013). Alone, gas and renewables ensure 76% of the production. However, the Herfindahal-Hirschman index on gross generation results to be in decrease for the umpteenth year, with a value equal to 830.

The maximum net **generating capacity** installed at 31 December 2013 was equal to 124.3 GW, while the net capacity available (for at least 50% of the hours) was equal to 98.6 GW. As regards the net capacity installed, there are two operators with a market share higher than 5%: Enel (31.1%) and Edison (5.2%). The capacity percentage held by the first three operators is equal to 41.2%, with an almost 2% decrease compared to 2012. The HHI index concerning the net capacity installed highlights a decrease in market concentration compared to 2012.

In 2013, the quantity of electric energy purchased in the **Electricity Stock Exchange** was equal to 289.2 TWh, with a 2.9%⁶ decrease compared to 2012 (298.7 TWh), thus prolonging the decreasing trend started in 2010 and reaching the all-time low since the starting of the market. Despite the drop in purchases, the Stock exchanges produced a marked increase in 2013 compared to 2012, setting at about 207 TWh (+16.1%). The increase in Stock volumes influenced market liquidity which passed from 59.8% in 2012 to 71.6% in 2013. The average energy purchase price registered in the Stock Exchange amounted to 62.99 €/MWh, with a 16.6% downturn compared to 2012. The decline turned out to be particularly relevant especially in peak hours, moment in which the PUN decreased to its all-time low (70.97 €/MWh, -17.7% compared to the previous year). Also in non-peak hours the downturn in prices was considerable, even if less consistent, with prices that decreased in average to 59.40 €/MWh (-14.9% compared to the previous year). The contraction of electricity consumptions, together with the strengthening of the supply coming from sources at null variable cost, favoured a slight reduction of the concentration and market power, as highlighted by an improvement in the competitiveness indicators considered. Even if it is a market with its own dynamics, the Italian electricity Stock Exchange registered the most relevant downturn among the main European Stock Exchanges (-16.6%). This downturn resulted in a growing convergence between the prices in Italy and those in other main Stock Exchanges, although there is still a relevant distance between the corresponding price levels.

As mentioned, on the basis of the provisional data published by Terna, in 2013 **total consumptions** (net of losses) amounted to about 297 TWh, slightly over 10 TWh less than those consumed in 2012 (-3.4%). An analysis of the data concerning uses enables to highlight that consumptions decreased in all sectors, in particular in the manufacturing sector (-4.7%), but also in the domestic sector (-4.3%). In 2013, the **number of electric energy sellers** increased by 50 units, all on the free market. This number has been in constant expansion since 2007 - the year of total opening of the market – owing to the entrance of new actors coming from contiguous sectors (reportedly, gas sale), but also from others. The growth trend has not stopped in recent years, despite the total volumes sold have been decreasing since 2008, although there has been an increase in the delivery points.

In the **standard offer market**, the sale volumes have decreased by almost 9% compared to 2012. The reasons for said decrease are related to the current economic situation which in 2013 remained substantially negative, driving consumers to save on energy costs in part by reducing consumptions, and in part by switching to the free market, in search of more favourable price conditions. Actually, the loss of customers in the standard offer market, quantifiable in about 1.2 million delivery points, together with that observed in the safeguarded categories (-20,000

⁶ The variation compared to the previous year is calculated on the average hourly purchases in consideration of the fact that 2012 was a leap year.

delivery points compared to 2012) was more than compensated by the increase in the amount of customers on the free market, risen to more than 1.5 million units. Also the net reduction in the average consumptions as regards all the typologies of customers (with the sole exception of the safeguarded categories, for various reasons) seems to be a further confirmation of this hypothesis: consumers increase and the new ones enter directly in the free market, to which also the “old” ones move in search of better conditions; however, they all consume less, perhaps because of the progressive changes in durables and/or because always more sensitive toward environmental issues, but – most likely – also to reduce energy expenditure. In 2013, the energy sold in the **safeguarded categories** decreased by almost 15%, as well as the number of customers served which decreased by almost 18%. The contraction of collections seems almost entirely due to the reduction of the customers served in this market which, after absorbing peaks due to the economic crisis of enterprises, seems to have returned to more physiological levels. On the contrary, the electricity provided in 2013 on the **free market** underwent a very slight contraction (-0.1%), despite the strong increase (+17.3%) in the customers served. The substantial stability of the volumes sold on the free market is entirely due to the remarkable increase that the domestic sector registered in this market: the energy sold to domestic customers on the free market, in fact, increased by 15.6% (+22.5% the number of points served). However, in 2013, the non-domestic consumptions registered a decrease in all of the markets: 8.7% in the standard offer regime, 14.6% in the safeguarded categories and -2.6% in the free market. Therefore, as a whole, in 2013 the standard offer regime acquired 25% of all the energy sold in the end market (26% in 2012), the safeguarded categories absorbed 2% (the same of 2012) and the free market acquired 73% (against 72% in 2012).

On the basis of the data collected, the total **switching** in the electricity market seems to have settled around the values of the past years. Actually, in terms of volumes, the 2013 value is exactly the same of that of 2012: in fact, the total rate amounted to 26.4% as the previous year. However, in 2013 it involved a larger share of customers, equal to 9%. In 2013, the percentage of domestic customers that changed supplier amounted to 7.4%, corresponding to a share of energy that almost reached 10%.

Analysing **market shares** as regards sale to final customers, it is clear that the standard offer market remains strongly concentrated, despite 136 companies operate in said market. Enel Servizio Elettrico remains the main operator with a market share equal to 85.7%; following, there is Acea Energia (4.3%), A2A Energia (3.7%) and Iren Mercato (1.3%). The other operators' shares are lower than 1%; together, they cover less than 5% of the protected categories market. The Enel Group – which, as mentioned, absolutely dominates in the standard offer regime - is certainly less important in the free market, although it maintains the first position even here. In fact, in 2013, its sale share to free customers touched again a point of relative minima (17.7%), even lower than the value in 2010 (19%), up to now registered as the lowest. Moreover, last year the distance with the second group, Edison, shortened, whose incidence instead grew compared to 2012, passing from 9% to 9.9%. The same happened to the Eni Group, which from 5% in 2012 increased to 5.5%. Therefore, as a whole, the level of national concentration in the free market has decreased: the share of the first ten groups in term of volumes sold decreased by 4.5 percentage points, dropping to 56.9% from 61.4% in 2012. In the retail market, the company groups that in 2013 reached a market share higher than 5% were two: Enel with 34.9% (37.9% in 2012) and Edison with 7.3% (6.4% in 2012). Following, Eni Group with a 4.1% market share, and Acea (3.9%). The first ten operators (company groups) cover 66% of total sales.

From 1 January to 31 December 2013, **complaints, information requests** and **reports** concerning the electricity sector amounted to 27,524 (equal to 63% of the total). There has been an increase

compared to 2012, when the same communications amounted to 55% of the total. The most frequent issues regarding the communications received in 2013 were as follows: invoicing 7,163 (28%), market 5,507 (19%), bonus 4,791 (14%), contracts 5,710 (19%), technical quality 700 (8%), connections and works 1,388 (5%).

Developments in the gas market

Main regulatory developments

In 2013, as provided for by the Community and national legislation, the Authority certified the transmission system operators: Snam Rete Gas and Società Gasdotti Italia as TSOs in separated ownership regime, and Infrastrutture Trasporto Gas as an independent TSO.

In October 2013, the evolution of the balancing market was completed. From the previous simplified structure - which envisaged the storage managed by the company Stogit as the only useful resource upon the closing of the operators' positions -, a new regulation was provided in which further resources - in particular, other storage resources, importations and regasification - can contribute in balancing the grid. Moreover, the regulation defines new methods for setting imbalance prices, applied to users starting from the date of activation of the new balancing session, which is carried out the day prior to the flow session (locational market session). The setting of imbalance prices and the structure chosen for the locational market keep into account, on one hand, the principles expressed in the European Balancing Network Code, and on the other hand, the actual situation of the markets and competition, as well as the necessary gradualness in introducing new measures.

The regulations established by the Authority are based on "regulatory periods," meaning that for each aspect being regulated there are not only rules, but also a specific time frame for their validity, after which there is the overall review of the rules established. In 2013, many regulatory periods expired in the gas sector and precisely those concerning: transportation quality, distribution and measure services quality (both technical and commercial), criteria for setting transport and dispatch tariffs, criteria for setting LNG regasification tariffs, criteria for setting distribution and measure services tariffs. As regards all these aspects, throughout 2013 the Authority placed its orientations under consultation (often in several phases) with reference to the review of the regulations in force, in some cases even submitting it to the AIR methodology. At the end of the consultation, the Authority adopted the new regulation which mainly confirmed the previous one, however resolving the main criticalities emerged.

Among the novelties introduced in the regulation it is important to mention in particular the measures as regards calls for tenders for appointing natural gas distribution services and for the assessment of tenders, which the Authority adopted implementing the measures of a Decree of the Ministry of Economic Development.

International coordination

In 2013, the Authority's international activity in the gas sector – in collaboration with the Ministry of Economic Development and with the other international institutions involved – first of all concerned the exemption procedure as regards the access of third parties to the TAP pipeline, which for Italy represents an important opportunity for the security of supply, for the diversification of sources and for further competition development. Moreover, the new connection with Greece and Albania, and therefore with the Balkans, will give access to new and

emerging markets, owing to the possibility to handle gas, through capacity bookings, also in counter-flow.

With Decree dated 25 June 2013, the Ministry of the Economic Development implemented the integrations of the European Commission's requests, concerning the granting of the exemption as regards the access regulation of third parties in favour of TAP AG. In the Final Joint Opinion, the acceptance of TAP AG's exemption request was subjected to a series of conditions. In October 2013, upon expressing favourable opinion to the Ministry as regards the confirmation of the exemption issued in favour of TAP AG, the Authority approved TAP AG's Tariff Code proposal together with the Albanian (ERE) and Greek (RAE) National Regulatory Authorities.

Moreover, as in the electricity sector, the Authority continued to collaborate with the other European regulatory authorities both on a multilateral level - through ACER, CEER and regional initiatives - and through *ad hoc* bilateral meetings so as to carry out further in-depth analyses on issues of common interest.

Wholesale and retail markets

Despite the first signs of recovery in the economy, last year the economic conditions remained very difficult in Italy, especially for the smaller companies and for those operating in the services sector. Throughout the whole year, the decrease in consumptions and productions caused difficulties for all energy sectors, including the gas sector. According to provisional balance data provided by the Ministry of Economic Development, last year the **gross domestic consumption** stopped at 70.1 G(m³), thus registering another decrease - the third consecutive - of 6.5% compared to the previous year, returning to the values of years 1999/2000.

With the final demand in net reduction, it is no surprise that **domestic production** in 2013 remained low: in fact, after three years of slight increases, last year it stopped at 7.7 G(m³), a value 10% lower than that of 2012. About 85% of the overall domestic production is obtained by the companies belonging to the Eni Group, which remains the dominant operator of this segment with a majority share and a wide distance from the second company group.

The contraction of consumptions contributed in the further and relevant decrease in **imports** (-8.5%), with a drop of 5.8 G(m³). Whereas, although still negligible, exports evidenced another good increase, passing from 139 M(m³) to 228 M(m³). Therefore, net imports amounted to 61.7 G(m³). Differently from the previous three years, in 2013 there was no increase in stock: actually, 0.6 G(m³) were withdrawn from storage. Keeping into consideration system consumptions and grid losses, the value of domestic consumptions in 2013 amounted to 68.2 G(m³), 6.5% lower than in 2012 and similar to what registered from 1999 to 2000. For the first time in years, Italy's level of dependence on foreign supplies (measured as ratio between gross imports and gross domestic consumption) dropped by two points percentage, decreasing to 88.4% from 90.4% in 2012. A relevant drop in volumes was registered as regards almost all of the Countries of origin of imported gas in Italy: in particular, the most evident drop was registered in the amounts coming from Algeria, which were in part compensated by the larger flows coming from Russia. 4.6% of the overall gas obtained abroad, that is 2.8 G(m³), was purchased on the European Stock Exchange.

As in the past years, the groups that have a share higher than 5% of the overall gas supplied (that is, produced or imported) are Eni, Edison and Enel. Together, the first three importers, imported 81.5% of the gas entered in the Italian market. Considering also the quantities produced within national borders, the three groups account for 82.5% of all the gas supplied. As in the past, said share is increasing (77.7% in 2012), due to the increase in Eni's and Edison's shares not compensated by the reduction of Enel's share. These three groups possess even more than 5% of the gas available, with a share analogous to that of the gas supplied. As always, Eni ranks first

among the importing companies. In fact, in 2013 – in countertendency compared to the national average – it imported an extra 6.2% of the gas purchased in 2012, that is 30.8 G(m³). Therefore, its market share rose to 49.9% (49.7% if calculated on the Ministry's import value), once again higher than what registered the previous year. Since 2011, that is from the end of the effectiveness of the antitrust thresholds established by Legislative Decree n. 164 dated 23 May 2000, Eni's incidence in gas supplying has been increasing every year and it is almost back to half of the entire market, from the all-time low of 39.2% in 2010. The analysis of the importation contracts active in 2013 according to the entire duration highlights a structure which is still rather long, even if in a market which is contracting. Therefore, with the passing of time, the volumes are increasingly lower. From the viewpoint of residual life, the importations contract in force in 2013 are as a whole still rather long, but the contractual structure is slowly shortening: 60% of the agreements will expire in the next ten years and 27% of them will expire within the next five years. Moreover, there is the zeroing of the share of contracts with residual duration included between 10 and 15 years.

In 2013, the **total demand** of the gas sector, meant as total gas volumes sold on the wholesale market (including reselling) as well as retail, plus self-consumptions, resulted to be in slight increase (1.3%), reaching 180.6 G(m³). The wholesale market handled 106.8 G(m³) with a 5.6% increase compared to 2012, the retail market handled 63.3 G(m³) registering a 1.9% drop compared to 2012, while self-consumptions amounted to 10.5 G(m³). There are five operators with a share in this market higher than 5%. More precisely, the industrial groups and related shares, indicated in brackets, are: Eni (21%), Edison (10.9%), GdF Suez (10.8%), Royal Dutch Shell (8.1%) and Enel (7.1%). The first three groups together cover 42.7% of the total demand, a share higher than 1.2 points percentage compared to last year's.

The launching of the natural gas **spot market**, with the Gestore dei mercati energetici (GME) which carries out a central counterpart role, occurred in October 2010, with the establishment of the M-GAS. On this market, operators can purchase and sell amounts of natural gas to ready subjects. Currently, it is organised as follows: MGP-GAS (day-ahead gas market), in which negotiations take place with sale and purchase offers concerning the following gas-day; MI-GAS (intraday gas market), in which negotiations take place for gas concerning the actual gas-day – since September 2013 – MT-GAS (end gas market). In fact, with Decree dated 9 August 2013, the Ministry of Economic Development established 2 September 2013 as the date for the launching of the end market managed by GME (MT-GAS). This market, which was placed next to the existing markets to ready subjects, operates according to continuous negotiation modalities with many negotiation books, one for each typology of negotiable product and referred to different delivery periods, which show the gas purchase and sale offers selected. As regards MT-GAS's operativeness, from the launching date of 2 September 2013 to date no transactions have been registered with reference to the different typologies of negotiable products: thermal year and calendar year, six-month period, three-month period, monthly, Balance of Month (product which includes the days of the month in course not delivered yet).

In 2013, on the MGP-GAS, the continuous negotiation modality phase had only four sessions, over 364 available, with at least a matching for a total of 13,300 MWh exchanged, with a 90% decrease compared to 2012. The average price registered was equal to 26.80 €/MWh, this too in decrease compared to the previous year by 6.6%. Also as regards MI-GAS, year 2013 was characterized by a reduced number of exchanges with four useful sessions against 15 in 2012. The average price registered was equal to 27.52 €/MWh, with a 5.3% decrease compared to the previous year with volumes passed equal to 3,800 MWh, against the 36,120 MWh in 2012.

As of the end of 2011, the **gas balancing platform (PB-GAS)** has become operative, managed by the GME. The platform launched the passing from a "storage" balancing system - based on a set

tariff regime and updated by the Authority - to a “market” balancing system, in which the resource price is established by the intersection between demand and supply relevant to the stored gas. The obligatory participation of the owners of the stock capacity, together with the presence of Snam Rete Gas as balance responsible entity, enabled a definitively larger handling of gas compared to the other markets managed by the GME. In 2013, the PB-GAS highlighted its preponderant and central role in the gas markets, confirming the positive indications already emerged in 2012 in terms both of registered and active operators (74 and 73), and in terms of total volumes exchanged equal to 40.9 TWh (with a 17% increase compared to 2012), that is at about 6% of what delivered by Snam. The volumes negotiated on this platform represent 98.3% of what negotiated as a whole on the gas markets managed by the GME. Despite the obligation for the operators to participate, a certain dynamism is registered by the latter, as evidenced by the upswing of the related volumes outside the balancing requirements (6 TWh equal to about 15%). The average price registered on the PB-GAS in 2013 results to be in slight decrease compared to 2012, setting at 27.86 €/MWh (-2.3%), a little less than the average price of the *Punto di scambio virtuale* or PSV (Virtual Trading Point) equal to 27.99 €/MWh, -3% compared to 2012. Throughout the various months, the quotations result to be substantially in line with those at PSV where, as mentioned, the negotiations are bilateral and private, in the sense that Snam Rete Gas, which manages the PSV, does not act as main counterpart. It is important to highlight that on 14 November 2013 the Comparto G-1 was inserted, an actual day-ahead market where, on voluntary basis, various flexible resources, among which the GNL and Edison’s stocking, can be called to answer to possible offers from Snam. However, this market has proved to be scarcely liquid.

The provisional outcomes of the annual investigation on the electricity and gas sectors highlight that, in 2013, 63.3 G(m³) were sold to the **end market**, which is 1.2 less compared to 2012. Therefore, the contraction was 1.9%, lower than those realized in the two previous years that had exceeded 5%. Whereas, the number of active sellers in this segment further increased by 17 units: in fact, from 313 operators present in 2012, the number has increased to 330. Similarly to what observed in the electric energy market, also the number of gas sellers has been in constant increase for many years now, despite the fact that the market has no longer expanded since 2006. In 2013, the level of the **concentration in the end sale market** has slightly decreased, compared to 2012, but it remains quite high: the first three groups control 46.9%, while in the previous year the share was equal to 49.3%. Considering the first five groups, the portion of market served rises to 56.5% (against 58.8% in 2012). Herfindahl-Hirshmann’s index calculated on the sale market is equal to 991, a level which is very close to the threshold of 1,000, under which concentration is normally considered scarce. Compared to 2012, Eni’s weight has diminished by about one percentage point, but it remains more than double compared to Edison’s, which – as in 2012 - is the second operator.

Last year, 21.6 million customers (redelivery points) absorbed 73.8 G(m³), 10.5 of which were destined to self-consumption and, as mentioned, 63.3 to sale. In general, the amounts of gas have decreased compared to 2012 on almost every type of market: self-consumptions, which mostly concern the thermoelectric sector, have registered a 17.3% decrease, while the loss in sales was more contained, equal to 1.9%. The number of customers that purchased gas for self-consumption decreased by 21%, vice versa the customers of the sale market increased as a whole by about 95,000 units. The market with a reference price underwent a drastic drop, -17.9% in terms of volumes and -7.7% in terms of customers, and this at least for three reasons: the persisting of the economic crisis, which for sure induced consumers to reduce the quantity of consumption in order to spend less; the switching on the free market, in the attempt to find more favourable purchase prices and purchase conditions; and, especially, the gradual expulsion – *ope legis* – from the

safeguard of all the non-domestic customer categories.⁷ Given that the new contracts for non-domestic customers can no longer benefit from the reference price, those who on that date were in the standard offer regime, without having such right, were subject to the modalities of cessation of the implementation of that regime established by the Authority. This enabled the final customer to have appropriate informative elements and a right time frame for assessing the various offers present on the market. Therefore, as of the second half of 2013, non-domestic customers have been exiting the market with a reference price, and the data collected give evidence of this. On the basis of what said, it is not surprising that the free market shows both a very positive rise in terms of customers, with an overall increase of 1.5 million redelivery points (+34.8%), and a positive advancement of the sale volumes, although more contained, improved in average by 4.2% compared to 2012. The data of the end sale market (net of self-consumptions) per consumption sector and customer size confirm the analysis already mentioned: with the increasing of the customers' size, the free market acquires greater weight.

On the basis of the data provided by the operators of natural gas transportation and distribution, the percentage of **switching**, that is the number of customers that changed supplier in the solar year 2013, amounted to 5.9%, that is 45.2% if assessed on the basis of the consumptions of the customers that switched. Even in this case, both percentages are higher than those observed the previous year, even if the data of 2013 probably are affected, as regards the non-domestic customers, by the switching to the free market driven by the regulatory modifications mentioned above. The non-domestic customers' supplier switchings in 2013 are once again not particularly high, but certainly spontaneous and in constant increase (as it has been occurring now since 2008): in fact, the portion of customers that switched at least once resulted equal to 5.5%, corresponding to a share of volumes of 7.4%. The percentage of central heatings that switched supplier was higher by one point, which in terms of volumes corresponds to 11.9% within the relevant consumption sector. The public institutions that chose to switch to a new supplier amounted to 15.2% (equivalent to 27.5% in terms of volumes); it is a rather high rate, but this is one of those categories that in compliance with the law must exit the protected market, for which therefore the contract change was solicited. Lastly, the "other users" that modified their supplier were as a whole 9.9% and 8.2% of the total in terms of customers, as well as 58.5% in terms of volumes. As always, and as it is logical for it to be, research for better contractual conditions and more favourable prices is becoming more intense with the widening of the consumption volumes, that is when the expenditure for purchasing gas takes on relevant levels.

The provisional analysis of the data collected in the investigation carried out by the Authority concerning 2013 highlights that last year the **average gas price** (pondered with the quantities sold), net of taxes, set by sellers or wholesalers that operate on the end market, was equal to 44 c€/m³. Said price in 2012 was equal to 45.5 c€/m³. Therefore, the overall average cost of gas in Italy presents a 3.3% decrease. The customers of the market with a reference price paid the gas in average 59 c€/m³, while 39.4 c€/m³ was the average price paid by the free market customers; the global price differential between the two markets is therefore equal to 19.6 c€/m³, with an increase of 2.6 c€/m³ compared to what registered the previous year. This price differential is obviously affected by the repartition of the sale volumes within each one of the two markets among the various consumption classes. The average size of the customers on the free market is larger; this is accompanied, in this market, by the higher presence of customers connected directly

⁷ On the basis of what established by Decree Law n. 69 dated 21 June 2013, from the moment of its entering into force (22 June 2013) the offer obligation of the reference prices concerns only the final domestic customers and no longer also customers with different uses and limited consumptions or those related to public service activities.

to the transportation grid, that do not pay the distribution and storage components, as well as the presence of a system with more flexible prices, in which the index formulas answer more quickly and more intensely to the structural variations of the international markets, even if the modifications inserted as of 2012 in the updatings of the economic conditions of reference established by the Authority tend toward the same direction.

From 1 January to 31 December 2013, **complaints, information requests and reports** concerning the gas sector amounted to 15,648 (about 36.8%). Compared to 2012, the amount of communications has increased by 18%; this increase has motivations similar to those already illustrated for the electricity sector. The most frequent issues regarding communications for the gas sector submitted to the Help-Desk in 2013 and susceptible to classification are as follows: bonus 4,506 (29%), invoicing 5,754 (37%), market 2,005 (13%), contracts 1,854 (12%), connections and works 627 (4%).

Consumer protection

The Italian Authority's regulatory measures as regards consumer protection, as highlighted in the past Annual Reports, is particularly developed also owing to the specific protection tasks with which the Regulator has already been appointed by the institutional law (law n. 481/95) and following integrations covering good part of the measures provided for by the directives.

The novelties occurred in 2013 concern, as mentioned, the regulatory intervention of Decree n. 69 dated 21 June 2013; art. 4, paragraph 1, which provides for the Authority to continue temporarily to set the prices of reference which the sale companies include in their commercial offers *«only for domestic customers»*. At the same time, in the past two years, the Authority has adopted measures aimed at reducing the dependence of the economic conditions of supply of the protection service on long-term importation contracts (the so-called "riforma gas"), gradually introducing a ponderation among the above mentioned contracts and the prices that form on the short-term gas markets (spot markets), characterized by a condition of excess offer for a long time now, due to the availability of non-conventional gas and the decrease in the demand. With the fourth quarter of 2013, the reform process concerning the methodology for calculating the supply conditions of the protection service was fully established. The reference to long-term contracts was completely eliminated and substituted 100% with the price that forms on the short-term market. While waiting for the Italian end-market to become fully operative, the reference to the quotations that form on the TTF Dutch market was kept. However, besides modifying the quotations of reference, the reform also changed the structure of the calculation mechanism, modifying items and content. In terms of repercussions on the typical domestic customer, the completion of the reform in the fourth quarter of 2013 turned out a reduction of 2.2 c€/m³ in the total price, equal to -2.5% compared to the previous quarter. From the launching of the reform to date there has been a decrease of about 10 c€/m³ (more than 10%) in the total price.

In 2013, there were novelties also concerning the perimeter of the vulnerable customers that have right to the **servizio di ultima istanza** (FUI) ("last resort supply"). Those having right to the FUI are as follows: non-connectable final customers, that is domestic customers, including condominiums with consumption not above 200,000 S(m³) per year and other customers with a consumption not above 50,000 S(m³) per year that, due to causes independent of their own will, do not have a supplier; non-connectable final customers, that is consumers that carry out public service activities that, for whatever reason, do not have a supplier. The addresses for competition procedures as regards the selection of enterprises providing the FUI service are contained in the Ministerial Decree dated 7 August 2013. The Authority implemented the measures, regulating the addresses

of the Acquirente unico (Single Buyer) for the selection of FUI enterprises, by selecting the subjects and publishing the outcomes of the identification procedure of the FUI enterprises for the thermal year 2013-2014. In particular, the list was published for each macro-area with the name of the companies identified as FUI and the relevant annual quantitative of gas offered.

Against the increasing number of reports received in the past years from final customers and their associations, the Authority deemed necessary to intervene in order to contain the phenomenon of **non-requested contracts**, which refers to cases in which the final customers are induced to enter into electricity and/or natural gas supply contracts, against their will, due to unfair commercial conducts. The regulation in this matter was defined in April 2012. In June 2013, the Authority launched a proceeding so as to complete the monitoring of non-requested contracts and to define the criteria, information and modalities for publishing the list of non-requested sellers. At the same time, it presented its orientations concerning the further indicators to develop in the field of monitoring, as well as the general characteristics of the list of the non-requested sellers, and the indicators to use for building the final points and relevant weight.

Always in the month of June, the Authority launched preliminary investigations concerning the transparency of invoicing documents. On this issue the Authority provided for specific interventions in the natural gas sector on the basis of the reform of the relevant economic conditions which it modified, eliminating and adding several components applied to the final customers of the protection service. In this regard, the Authority intervened to define the modalities concerning the stating in the bill of the various components, modifying the structure and terminology of the items of the bill's so-called "*Quadro di dettaglio*" ("Details").

Moreover, the **Glossary** was updated as regards the main terms used in the invoicing documents.

Security of supplies

Pursuant to Legislative Decree n. 93/11, implementing the Third energy package, the Ministry of Economic Development is responsible as regards the functions and competences of the security of supplies.

3 THE ELECTRICITY MARKET

3.1 Regulation of infrastructures

3.1.1 Unbundling

After a first consultation phase, in which many subjects participated, in February 2014 the Authority published a second consultation document,⁸ which illustrated the final directions as regards the review and simplification of the laws in force since 2007⁹ with reference to the separation of the book-keeping of the electricity and gas sectors. The final directions contained in the document dated February 2014 provide for as follows:

- the review of the structure and of the content of activities and sections, as regards the electricity and gas sectors, in the light of the novelties contained in the regulatory framework of reference, of the need for new regulations and of the need for improvement in the quality of the information provided concerning the separation of the book-keeping.
- the simplification of the informative obligations as regards the separation of the book-keeping through the review of the thresholds for implementing the ordinary and the simplified regimes¹⁰, as well as the exemption from the obligation to prepare and send separate annual accounts;
- the simplification of the schemes concerning the handling of fixed assets;
- the amendment of several regulations concerning accounting issues, aimed both at simplifying the separation process of the book-keeping, and at improving the quality of information obtained;
- lastly, the envisagement to introduce a regulatory accounting guide with rules concerning the implementation of the regulations for the separation of the book-keeping, object of publication and updating by the Authority's Offices.

Moreover, in April 2013, the Authority enacted¹¹ the final regulations concerning the obligations of the separation of the book-keeping for the Gestore dei servizi energetici (GSE) – the public controlled company in charge of incentivising and developing renewable sources and energy efficiency in Italy¹² – and concerning communication obligations. The regulations, which came into effect as of fiscal year 2013, are aimed at guaranteeing:

⁸ Consultation dated 6 February 2014, 36/2014/R/com.

⁹ Resolution dated 24 January 2007, n. 11/07.

¹⁰ The simplified regime is implemented to smaller sized companies (for example, in case of distribution of electricity and natural gas less than 5,000 consumption points served) and it is characterised by less detailed separated book-keeping statements.

¹¹ Resolution dated 18 April 2013, 163/2013/R/com.

¹² The GSE carries out the technical-engineering qualification and the inspection of the plants powered by renewable sources and high performance cogeneration; it recognises the incentives for the electricity produced and input in the grid by said plants; it collects and places on the electricity market the energy produced by the incentivised plants and certifies that the electricity input in the grid comes from renewable sources. Moreover, the company assesses and certifies the savings obtained by the projects of

- the correct attribution of the costs borne by the GSE in managing the activities;
- the absence of discriminations and crossed transfers of resources among the activities carried out by the GSE;
- the availability of information useful for the quantification of the capital invested by the GSE for carrying out the activities object of remuneration at the system's expense;
- a sure, homogeneous and detailed informative flow concerning GSE's economic and patrimonial situation in the various activities in which it operates, also in order to adopt an incentivising regulation for the GSE based on long-term efficiency recovery aims.

Certification of the transmission system operator

On the basis of the opinion issued by the European Commission pursuant to art. 3 of Regulation (EC) 714/2009, in April 2013, the Authority adopted¹³ the final resolution concerning the certification of the company Terna in quality of operator of the electricity transmission system in separated ownership. The certification procedure of the operator aimed at assessing the company's compliance with the obligations provided for by the ownership unbundling model, pursuant to art. 9, paragraph 1, of Directive 2009/72/EC, and by Legislative Decree n. 93 dated 1 June 2011 implementing the Directive, among which:

- the operator's stakeholders' independence from any interests in the production or supplying of electricity or gas;
- the carrying out of all the duties provided for by the mentioned Directive as regards the management of the grid;
- the ownership of the transmission grid;
- the independence of the components of the company's administrative bodies;
- the compliance of the owners of portions of the national transmission grid with the obligations to collaborate and invest in the system as provided for by paragraph 9 of article 36 of the mentioned Legislative Decree n. 93/11; .
- the decisional capacity and autonomy as regards the preparing of the Ten-year plans for the development of the grid [*Piani decennali di sviluppo della rete*];
- the secrecy of the sensitive commercial information treated, that is the non-discriminatory putting at disposal of non-reserved information;
- non-disclosure restrictions, including contractual clauses provided for the company's personnel and collaborators.

energy efficiency within the ambit of the mechanism of white certificates, also known as "*Titoli di Efficienza Energetica*" (TEE), and promotes the production of thermal energy from renewable sources (*Conto Termico*).

¹³ Resolution dated 5 April 2013, 142/2013/R/eel.

3.1.2 Technical regulations

Dispatching services

In 2013, the Authority continued to work toward increasing the efficiency of the dispatching services. The measures undertaken in this ambit are as follows:

- in December 2013,¹⁴ a consultation took place illustrating the Authority's final directions as regards the review of the dispatching regulations in force, with specific reference to the selection and remuneration of the flexibility services, as mentioned under art. 34, paragraph 7-bis, of Decree Law n. 83 dated 22 June 2012, converted by law n. 134 dated 7 August 2012;
- the introduction of a new mechanism for measuring and enhancing the contribution to the primary regulation of frequency provided by the production units;¹⁵
- important amendments¹⁶ to the regulation concerning actual imbalances with the aim to minimise the risk that, upon the occurrence of situations of vulnerability of the system, operators may find convenient to adopt non-efficient behaviours, with consequent charges for the system. At the same time, the Authority launched an organic review of the regulation of actual imbalances, whose main criteria were illustrated in a consultation document in August 2013;¹⁷
- the examination and approval¹⁸ of the amendments and integrations to the Network Code proposed by Terna in its consultation launched in July 2013.

Selection and remuneration of flexibility services

In the consultation document dated December 2013, the Authority expressed its final directions concerning the modalities for selecting and remunerating the flexibility services introduced by Decree Law n. 83/12, «*in order to guarantee greater efficiency of the national energy infrastructures and to contain indirect expenses due to the development of non-programmable renewable sources*». The document follows the first consultation carried out in November 2012.¹⁹ It provides a summary of the most significant outcomes of Terna's analysis on flexibility services and of the Authority's following in-depth analyses, with particular reference to:

- the effects of the growing penetration of non-programmable renewable sources on the dispatching activity;
- the characteristics of the flexibility services necessary for a safe management of the electricity system in the changed context characterised by the high penetration of non-programmable renewable sources;
- the analysis of the technical parameters of the production units that constitute the Italian plant park, in order to appreciate the compliance of the same with Terna's requisites functional for a safe management of the system.

¹⁴ Consultation dated 5 December 2013, 557/2013/R/eel.

¹⁵ Resolution dated 30 May 2013, 231/2013/R/eel.

¹⁶ Resolutions dated 9 May 2013, 197/2013/R/eel and 28 June 2013, 285/2013/R/eel.

¹⁷ Consultation dated 7 August 2013, 368/2013/R/eel.

¹⁸ Resolution dated 31 October 2013, 483/2013/R/eel.

¹⁹ Consultation dated 29 November 2012, 508/2012/R/eel.

The last section illustrates the Authority's solutions for the review of the dispatching regulations, in the light of the evolution of the market context. The main innovations proposed can be summarised as follows:

- in order to enable operators to formulate offers capable of reflecting as faithfully as possible the structure of the costs associated to the various levels of flexibility with which the switching tertiary reserve system is provided, the Authority proposed the introduction of the *warming*²⁰ offer and the hot starting, aimed at incentivising production units to reduce the starting time, enabling operators to reflect more faithfully the structure of the costs underlying the services provided;
- in order to guarantee the availability of the resources necessary for providing adequate decreasing margins, in particular in the periods of low voltage, the Authority proposed to extend the participation in the Dispatching Service Market (MSD) – on a voluntary basis – to all production units with power comprised between 10 MVA and 1 MVA (both those powered by programmable renewable sources, and those powered by non-programmable renewable sources) and that comply with the requisites currently provided for by the Network code for the provision of services in the MSD;
- in order to preserve the security of the system through a greater coordination between the Intraday market (MI) and the MSD, also in consideration of the possible displacement of the gate closure of the MI closer to the real time, the Authority proposed the introduction of capacity offers in the programming phase of the MSD structured in the form of options.

Mechanism for measuring and enhancing the contribution to the primary regulation

Currently, the quantities of energy associated to primary regulation of frequency²¹ (provided obligatorily by production units) are not measured and are thus assimilated to imbalances. Therefore, they are subject to the prices – and possible related implicit penalties²² – provided for by the regulation of actual imbalances.²³ In the consultation held in November 2012, the Authority proposed the introduction of a new mechanism for measuring and enhancing the contribution to the primary regulation of frequency, aimed at sterilizing imbalance expenses caused by the use of the primary reserve of power. This mechanism provides for as follows:

- the precise recording of the local value of frequency and of the contribution to the primary regulation of frequency of each production unit;

²⁰ The presentation of a warming offer implies the producer's availability to keep its plant "hot" without inputting electricity in the grid, in order to carry out the starting procedure, if required by Terna, in a quicker time frame (<120 minutes) compared to a cold starting. The use of systems that enable a plant to remain "hot" without inputting electricity in the grid implies an extra consumption of fuel in the time frame in which the plant has to be able to carry out the "quick" starting procedure upon Terna's request, despite the fact that the service is actually requested (that is, despite the fact that it may receive a starting order).

²¹ The primary regulation of frequency, implemented through the use of the primary reserve of power (that is, through the putting at disposal of a prefixed share of productive capacity, not object of market negotiation), is an essential service for the system. It is characterised by a use of electricity which is: a) continuative and symmetric as regards the work point, for the absorption of the system's frequency variations (for the maintenance of the balance between inputs and collections); b) directional in increase or decrease, for the control of the under-frequency and over-frequency transits respectively, following system events (for example, breakdowns of the generation groups).

²² Implicit penalties refer to the dual imbalance prices for the certified units. For the non-certified units imbalance prices are not penalising.

²³ As mentioned under resolution n. 111 dated 9 June 2006.

- the inclusion, in the input programme of each production unit, of the contribution to the primary regulation of frequency that these may provide;
- the application, only to the share of energy concerning the contribution to the primary regulation of frequency, of a price such to remunerate, or at least not penalize, the production units.

Keeping into consideration the observations submitted by the operators, in May 2013 the Authority appointed²⁴ Terna to modify the Network Code so as to allow the implementation of the new mechanism for measuring and remunerating the contribution to the primary regulation within 1 April 2014. Moreover, in October, the amendments to the Network Code proposed by Terna aimed at defining the technical specifications of the mentioned mechanism were evaluated positively.²⁵ During January 2014, however, Terna reported to the Authority that, in consideration of the supplying and implementation time necessary for the adoption in the informative systems of the modifications for enabling the launching of the mechanism, it will be possible to guarantee the full operativeness of the same only starting from 1 November 2014, and not from 1 April 2014, as established by the Authority.

On the basis of Terna's report, in February 2014 the Authority provided for²⁶ the introduction of a transitory mechanism for measuring and enhancing the contribution to the primary regulation. This because the mere postponement of the date of the regular operativeness of the mechanism and the consequent non-recognition of the remuneration of the contribution to the primary regulation in the period April-October 2014, would result as an unjustifiable penalizing factor for those operators that already carried out investments necessary for requesting the qualification to the regular operativeness of the mechanism.

Review of the regulations of actual imbalances

In July 2012, while monitoring the electricity markets, the Authority found in Sardinia, with reference to the first months of 2012, a systematic and substantial positive difference between the energy programmed to be collected as outcome of the Day-Ahead Market (MGP) by the totality of users of the dispatching in collection and the energy measured in collection concerning the same users. This difference represented a systematic imbalance unlikely referable to inevitable errors in the programming of consumptions.

Moreover, the analysis highlighted that the imbalance price applied to the consumption units is established also considering the prices and quantities relevant to the use of the secondary reserve, whose entity at most depends only partially on the dimension and sign of the aggregated imbalance of the electric system in a specific area. In a system that enhances demand imbalances (and production from non-certified plants) and that tends to reward an imbalance with a sign equal to that which characterises Terna's net handling of the resources in the same area,²⁷ the fact of taking into consideration for determining the sign of the net handling of resources (and related enhancement imbalance prices) also the handlings that could not be saved with imbalances (and

²⁴ With resolution 231/2013/R/eel.

²⁵ With resolution 483/2013/R/eel.

²⁶ Resolution dated 20 February 2014, 65/2014/R/eel.

²⁷ Therefore, assuming that said imbalance reduces Terna's need for handlings thus providing a benefit to the system.

whose dimension thus does not depend on the latter) risks to generate a wrong structure of incentives and to leave space to dangerous behaviours for the system.

On the basis of said findings, the Authority launched²⁸ a preliminary investigation on the dynamics of the electricity market in Sardinia and at the same time it intervened with urgent measures aimed at preventing similar behaviours and at mitigating their effects on the system's expenses. In particular, the Authority identified as main cause of what mentioned the fact of including, when calculating the sign of the zonal aggregated imbalance and the imbalance price, handlings carried out in the Dispatching Service Market (MSD) that do not depend on the zonal aggregated imbalance. Therefore, the Authority ordered the immediate exclusion of the quantities and related prices, as regards the use of the secondary reserve, from the mechanism for determining imbalance prices. The preliminary investigation was closed²⁹ in May 2013 and at the same time a procedure was launched for an organic amendment of the regulation of the actual imbalances, aimed at a correct attribution of costs and benefits produced on the electric system.

Before the closing of said procedure, the Authority intervened with urgency to correct several elements that continued to distort the process concerning the setting of imbalance prices in the main Islands. In particular, in June 2013, it resolved³⁰ the exclusion, limitedly to the macro-zones of Sicily and Sardinia, of all the handlings carried out during the programming of the MSD (MSD *ex ante*) from the calculation of the sign of the zonal aggregated imbalance. This because, from the analyses carried out, it is clear that in the main Islands almost the totality of the handlings carried out in the MSD *ex ante* does not depend on the zonal aggregated imbalance.

In August, a deliberation was launched³¹ concerning the limits of the current regulation of actual imbalances, identifying interventions useful for organising a stronger and more efficient regulatory framework. The main intervention proposals submitted for overcoming the criticalities of the regulation in force can be summarised as follows:

- in order to guarantee the forming of price signals for the enhancement of imbalances that reflect the correct value of electric energy in real time, the proposal consisted in introducing imbalance prices calculated on a key basis. This would enable to keep into account the actual geographical ambits in which Terna purchases and sells energy for the balancing of the grid in real time;
- in order to strengthen the regulation of actual imbalances as regards the need to guarantee the safety of the electric system, the proposal consisted in extending to all physical units the obligation to define the input programmes (collection) using the best estimates of the quantities of electric energy actually produced by said units, in compliance with the principles of diligence, prudence, skilfulness and security;
- in order to enable the possibility of arbitration between the prices registered in the energy markets and the real time prices without prejudicing the system's security, the proposal consisted in introducing the possibility to submit virtual offers in the energy markets, as already provided for by the plan of the United States' main markets (for example, PJM and New England).

²⁸ Resolution dated 2 August 2012, 342/2012/R/eel.

²⁹ With resolution 197/2013/R/eel.

³⁰ With resolution 285/2013/R/eel.

³¹ Consultation 368/2013/R/eel.

Amendments and integrations to the Network Code

An integral part of the process for making the dispatching service efficient includes the examination and approval³² of the amendments and integrations to the Network Code proposed by Terna in its consultation launched in July 2013. In particular, the Authority gave its positive assessment to the following improvements of the Network Code:

- the definition of the technical characteristics concerning the optional mechanism for remunerating the contribution to the primary regulation of frequency introduced³³ in May 2013;
- the completion of the rules concerning the remuneration for the structure change measure, introduced in February 2013;³⁴
- the relaxation of the maximum values as regards several technical parameters of the production units, valid for the electricity market (ramp, de-ramp and stop time frame).

Regulation of grid security and reliability

The essential structures for the security of the electricity system are those technically and structurally indispensable for the resolution of grid congestions or for the maintenance of adequate levels of security of the national electricity system, for relevant periods of time. These structures are substantially paid through the ordinary regime (that is, through the tariff system), or through the reintegration of variable costs (in this case, the company owning the structure can also ask for a down payment). On the basis of the outcome of the preliminary investigations on the requests for cost reintegration submitted by operators for year 2011, the Authority established³⁵ as follows:

- to simplify the methodology for defining the quantitative profile relevant for the calculation of the figurative revenues that are attributed to structures in regime of cost reintegration on the days in which they are not indispensable and are not offered on the Day-Ahead Market;
- to modify the modalities for calculating the six-monthly down payment for the cost reintegration with reference to the years from 2013 included, so as to keep more into account the financial exposure to which the users of the dispatching are subject in the period comprised between the beginning of the year to which the down payment refers and the allocation date of the same;
- to apply to the quantities of offers accepted on the Intraday Market - and strictly necessary to enable the technical implementation of the offers accepted on the Dispatching Service Market - the criterion for enhancing the quantities strictly necessary to make the indispensability programmes realizable on the energy markets; this measure has been implemented since 2013 included and with reference to the relevant periods in which and the quantities for which the production units admitted to the reintegration regime are not singularly essential.

³² With resolution 483/2013/R/eel.

³³ With resolution 231/2013/R/eel.

³⁴ Resolution dated 7 February 2013, 46/2013/R/eel.

³⁵ Resolution dated 7 August 2013, 360/2013/R/eel.

The last measure mentioned above aims at diminishing the risk that there may be an increase in the expected imbalances and/or there may be a reduction in the reintegration remuneration so as to carry out the programmes on the Intraday Market strictly finalized – on the basis of the technical restrictions of the production unit – at carrying out the commitments required by Terna on the Dispatching Service Market.

Moreover, granting a request submitted by several users, the Authority established that Terna must make known the reasons of the essentiality of the essential capacity production for the security of the electricity system, together with the notification of the minimum groups of essential structures.

In order to keep into account the evolutions as regards the regulation of the economic conditions for the supply of natural gas with reference to the protection service, on 1 October 2013 the reform of the criteria for the enhancement of natural gas entered into force within the ambit of the implementation of the regulation for the remuneration of the essential production structures,³⁶ according to which the value of natural gas is relevant both for establishing the variable cost recognised of the essential units powered by natural gas and subject to typical regimes, and for setting prices to apply in contracts provided for by alternative regimes.

As of 1 October 2013, the value of natural gas fuel is equal– net of excise taxes – to the sum of the following factors:

- the value of the component concerning the supplying of natural gas in the wholesale markets (CMEM);
- the value of the component covering the expenses and risks of the activities connected with the supplying modalities of the wholesale natural gas (CCR), net of the elements pertaining the risks to which the users of the dispatching being input - unlike gas sellers - do not result exposed;³⁷
- the share of the national logistics value up to the production plant, not included in the CMEM component.

The new methodology, which enables to better reflect the price signals provided by the natural gas markets, was object of consultation.³⁸

Lastly, through various measures,³⁹ the Authority:

- defined, for year 2014, the standard performance, standard emission and standard disposal of each essential unit;
- updated the values of the components of the recognised variable cost related to several essential production units for year 2014, on the basis of motivated requests submitted to Terna by the users of the dispatching;

³⁶ Resolution dated 26 September 2013, 413/2013/R/eel.

³⁷ This is the risk deriving from the current criterion for attributing pro-die consumptions. Said criterion entails, for gas sellers, a difference between revenues - established on the basis of the quantities invoiced to final customers with pro-die criterion – and costs - established on the basis of the quantities supplied - that depend on the actual consumptions of said customers.

³⁸ Consultation dated 7 August 2013, 369/2013/R/eel.

³⁹ That is, with resolutions dated: 21 November 2013, 530/2013/R/eel; 28 November 2013, 546/2013/R/eel; 27 December 2013, 635/2013/R/eel; 13 February 2014, 55/2014/R/eel.

- established the implementation of essential capacity remuneration regimes only to structures for which the Authority considered advisable, from an economic viewpoint, said implementation.

Immediate blocking and emergency services

In 2010, the Authority regulated⁴⁰ the immediate interruptibility and emergency services (the so-called “interruptibility services”) for the three year period 2011-2013. In this regard, the Authority intervened at the end of December 2013,⁴¹ with the following measures:

- it started a procedure aimed at providing one or more measures having as object the defining of a new regulation for the “interruptibility services” entering into force as of 1 July 2014;
- it postponed until 30 June 2014 the expiry of the long-term contracts in force, without prejudice to the owner’s right to rescind unilaterally not beyond 10 January 2014 and ensuring that Terna continues to carry out monthly biddings for the months of February, March, April, May and June of year 2014, in order to guarantee the continuity of the service.

Within the ambit of the mentioned procedure, a consultation document⁴² was published in which the Authority illustrated its directions as regards the reform of “interruptibility services.” On the basis of the state of the biddings for appointing the “interruptibility services” in the three-year period 2011-2013, and on the basis of the analysis of the current and future needs of the “interruptibility services”, the document provides for new modalities and criteria for appointing the “interruptibility services”, to be implemented starting from the second semester of 2014 onward (that is, without limits of duration of the new regulation). Said modalities and criteria can be summarised as follows:

- a) for the share of annual requirements that Terna prudentially deems may extend to a long-term period without entailing risks of over-supply: supply of the “interruptibility services” through long-term bidding, organised in the month of December, for a product lasting no more than 36 months starting from the month following that of the bidding and outlined according to the monthly coefficients published by Terna; this product would guarantee to the assignee a certainty of revenues on a long-term basis, but it would entail, at the same time, the undertaking of a medium-term commitment;
- b) for the remaining share of the annual requirements: supply of the “interruptibility service” through annual bidding, organized in the month of December, for a product lasting 12 months of the year following the year of the bidding and outlined according to monthly coefficients published by Terna;
- c) the right to repurchase from Terna (the so-called “alienation”) the totality or part of the power appointed through long-term biddings, in each year – excepting the first – of the period for which the service was appointed;
- d) the reappointing of the “interruptibility service” on the power purchased by Terna pursuant to point c), through annual biddings as mentioned under letter b) and intra-annual biddings as mentioned under letter f);

⁴⁰ Resolution dated 28 October 2010, ARG/elt 187/10.

⁴¹ Resolution dated 28 December 2013, 634/2013/R/eel.

⁴² Consultation dated 27 December 2013, 642/2013/R/eel.

- e) the right to repurchase from Terna (the so-called “alienation”) the totality or part of the power appointed through annual bidding, in each month – excepting the first – of the period for which the service was appointed;
- f) the reappointing of the “interruptibility service” on the power repurchased by Terna pursuant to point e) through intra-annual biddings, organised from January to October (10 intra-annual biddings) for products lasting the remaining 12-*n* months of the year of the bidding (where *n* is the month in which the bidding takes place) and outlined according to monthly coefficients published by Terna;
- g) the right to repurchase from Terna (the so-called “alienation”) the totality or part of the power appointed through intra-annual biddings, for all or part of the months – excepting the first – of the period for which the service was appointed;
- h) the reappointing of the “interruptibility service” on the power purchased from Terna pursuant to point g), through the remaining intra-annual biddings as mentioned under point f);
- i) the obligation to pay Terna, for each MW of power repurchased from Terna, the highest value between:
 - the monthly unitary remuneration established in the bidding in which said MW was originally appointed;
 - the monthly unitary remuneration in the bidding (annual or intra-annual) in which said MW was reappointed;
- j) the right to reduce temporarily the contractual power on monthly basis (the so-called “releasing”) excepting the first month of the period for which the service was appointed;
- k) the reappointing of the power given to Terna through monthly biddings, organised from January to December (12 monthly biddings) for products lasting the month following that in which the bidding was carried out;
- l) the obligation to pay Terna, for each MW of power given to Terna, the highest value between:
 - the monthly unitary remuneration established in the bidding in which said MW was originally appointed;
 - the monthly unitary remuneration established in the monthly bidding in which said MW was reappointed;
- m) the setting of an annual threshold and of a monthly threshold to the non-available hours: the monthly threshold can be exceeded without prejudice to the fact that the monthly remuneration must be recognised as down payment only on the hours corresponding to the monthly threshold, with possible settlement at the end of the year for the hours exceeding the monthly threshold, upon the condition that the annual threshold was respected and the contractual power was guaranteed until the expiry of the contract;
- n) the down payment of the monthly remuneration net of the variable part (1/12 of the product between the unitary remuneration for the interruption and the standard number of annual interruptions).

Excluding what mentioned above, the document confirmed the criteria and modalities in force in the three-year period 2011-2013.

Pilot project experimentations of electric energy accumulation systems

The Authority carried out activities for an experimental introduction on the National Transmission Grid [*Rete di Trasmissione Nazionale (RTN)*] of accumulation systems [*sistemi di accumulo (SdA)*] with the aim to facilitate the dispatching of non-programmable plants (SdA, the so-called energy intensive) and to increase the characteristics of security and defence capacities of the grids (SdA, the so-called power intensive).

As regards the energy intensive accumulation systems, in 2012 the procedure and the selection criteria of the SdA pilot projects on the RTN to be admitted to the incentivising treatment were defined;⁴³ at the beginning of 2013, the projects selected among those falling within Terna's 2011 Development Plan were approved⁴⁴ (the Development Plan being approved by the Ministry of Economic Development). Therefore, during the year, Terna started the various activities envisaged for the realization of the SdAs approved; in particular, Terna:

- identified the sites for the realization of the six projects authorized;
- carried out the authorization *iters*;
- chose the technology (through public biddings) and carried out tests at the plant's premises;
- started the works by carrying out civil activities.

As regards the power intensive accumulation systems, in February 2013 two SdA power intensive pilot projects were admitted⁴⁵ to the incentivising treatment, inserted in Terna's 2012 Defence Plan, approved by the Ministry of Economic Development. Said projects are different compared to the energy intensive ones for technology but especially for functional needs and aims, and they are inserted in the Development Plan. On the basis of the problems identified in the electricity systems of the main Islands, Terna proposed to develop SdAs for a total power (in regime) of 40 MW, with power intensive characteristics characterised by ultra-rapid performance, located in Sardinia and Sicily, where the main criticalities were found due to the increasing penetration of non-programmable renewable sources which entail security issues, such as low inertia typical of island systems and the limited regulation capacity available due to the low contribution of renewable source to the regulation.

On the basis of what mentioned above, the Authority proceeded with the approval of two SdA pilot projects with maximum capacity equal to 8 MW each, provided for by the 2012-2015 Defence Plan approved by the Ministry of Economic Development, which entail the installation of electrochemical SdAs with power intensive characteristics in Sicily and Sardinia, postponing to a following establishment by the Director of the Infrastructure Directorate, unbundling and certification the defining of:

- the operative modalities of the experimentation;
- the monitoring indicators;
- the informative obligations.

⁴³ With resolution dated 12 July 2012, 288/2012/R/eel and with establishment dated 19 October 2012, 8/2012 - DIEG.

⁴⁴ Resolution dated 21 February 2013, 66/2013/R/eel.

⁴⁵ Resolution dated 7 February 2013, 43/2013/R/eel.

First regulations for the installation and use of accumulation systems

At the end of 2013, the Authority placed under consultation⁴⁶ the first directions aimed at enabling the accumulation systems to be managed within the ambit of the public service supply, with particular reference to the conditions for accessing and using the grids. Said regulations do not concern the accumulation systems realized by grid operators within the ambit of the pilot projects for which the Authority defined the selection criteria, but only the accumulation systems installed by subjects different from singular grid operators, or at a consumption centre or an electric energy production plant.

In particular, the Authority resolved as follows:

- accumulation systems must be treated, from a regulatory viewpoint, as actual electric energy production plants (or new groups within the ambit of already existing plants);
- connection requests for accumulation systems must be submitted pursuant to the active connections code [*Testo integrato delle connessioni attive*⁴⁷ (TICA)] and, transitorily, the economic and procedural conditions to be implemented must be those provided for as regards high performance cogeneration;
- should electric energy collections be destined to power exclusively accumulation systems, transmission and distribution tariffs shall not be applied, as well as general system expenses, analogously to what already provided for as regards the collections of pumping plants;
- production units characterized by accumulation systems shall be considered, in general, programmable production units; moreover, transitorily and up to the completion of assessments as regards the modalities of installation and use of accumulation systems also for the supplying of grid services, production units characterized by various generation groups, among which at least an accumulation system, shall be considered programmable or non-programmable production units depending on the typology of the other generation groups of which they are composed;
- the measure service of the electric energy collected and input in the grid by accumulation systems must be provided in compliance with what provided for by the electricity metering code [*Testo integrato di misura dell'energia elettrica*⁴⁸ (TIME)]; moreover, the measure service of the electric energy absorbed and released by the accumulation systems must be provided, for affinity, in compliance with what provided for by the regulations in force as regards the measure of electric energy produced by generation plants,⁴⁹
- the measure devices of the electric energy absorbed and released by accumulation systems and/or the electric energy input in the electricity grid and collected from the electricity grid must be installed only if said measures are necessary for accessing the markets of the single electric energy production units, or if the accumulation systems are installed in presence of an electric energy production plant that benefits from incentivising tools or special commercial regimes;

⁴⁶ Consultation dated 19 December 2013, 613/2013/R/eel.

⁴⁷ Enclosure A to resolution dated 23 July 2008, ARG/elt 99/08.

⁴⁸ Enclosure B to resolution ARG/elt 199/11.

⁴⁹ Enclosure A-bis to resolution n. 88/07.

- in the presence of incentivised plants, or that have access to special commercial regimes (dedicated withdrawal) or of high performance cogeneration, the *Gestore dei Sistemi Energetici* shall develop, when necessary, special algorithms aimed at implementing said incentives or special regimes only to the electric energy produced by plants admitted to benefit from them and not also the electric energy collected, converted in various cumulative forms and then re-input in the grid.

Connection time to the grids

The service quality code [*Testo integrato della regolazione della qualità dei servizi di distribuzione e misura dell'energia elettrica* (TIQE)] currently in force for the regulatory period 2012-2015, sets specific standards for the connections with the electric energy distribution grids in medium voltage and low voltage. In particular, the regulation provides for as follows:

- a maximum budgeting time for the execution of works on the low voltage grid equal to 20 working days and on the medium voltage grid equal to 40 working days;
- a maximum time for the execution of simple works equal to 15 working days for the low voltage grid and 30 working days for the medium voltage grid;
- a maximum time for the implementation of the supply equal to 5 working days;
- a maximum time for the deactivation of the supply upon the final customer's request equal to 5 working days for the low voltage grid and 7 working days for the medium voltage grid;
- a maximum time for the reactivation of the supply following a suspension for default equal to 1 working day.

Hereafter, data are provided concerning the connections of active and passive users. The former are those requested by electric energy production plants to the transmission grid or distribution grids, mainly to enable said plants to input energy in the electric system; the latter, instead, are those requested by final customers to transmission or distribution grids to enable collections of energy from the electricity system. The data concerning the connection of active users with the transmission grid, mentioned in these pages, refer exclusively to the activities carried out by Terna, whereas the data concerning the connections of active users with distribution grids refer exclusively to activities that were carried out by distribution enterprises with more than 100,000 customers.

Lastly, the connections of passive users were collected by Terna and by distribution enterprises within the ambit of the usual Investigation on the regulated sectors, carried out every year by the Authority.

In 2013, Terna received 168 connection requests for electric energy production plants, corresponding to a total power of about 6.4 GW, and in the same year it put at disposal 123 estimates, corresponding to a total power of about 4.5 GW, with an average time for the putting at disposal of the estimates, net of the interruptions allowed, equal to 46 working days. Within the ambit of the estimates put at disposal, 75 of these were accepted in 2013, corresponding to a total power of about 2.6 GW; for three of these, corresponding to 39 MW, the request was submitted for the putting at disposal of the Minimum detailed technical solutions [*Soluzioni Tecniche Minime di Dettaglio* (STMD)], which were put at disposal, net of the interruptions allowed, with an average time equal to 60 working days. All of the STMDs were accepted by those requesting the

connection. In 2013, Terna carried out two connections, corresponding to 24 MW, concerning connection requests for electric energy production plants submitted in 2013.

As regards the connection of electric energy production plants with distribution grids, in 2013 distributing enterprises received a little less than 114,000 connection requests with low and medium voltage grids for electric energy production plants, corresponding to a total power of a little less than 3.3 GW; in the same year, about 107,000 estimates were put at disposal, corresponding to a total power of a little more than 2.6 GW, with an average time for the putting at disposal of the estimate, net of the interruptions allowed, equal to:

- 17 working days, for inputting powers requested up to 100 kW;
- 35 working days, for inputting powers requested above 100 kW and up to 1,000 kW;
- 45 working days, for inputting powers requested above 1,000 kW.

About 91,000 estimates over the total of those put at disposal were accepted in 2013, corresponding to a total power a little less than 1.5 GW.

In 2013, almost 73,000 connections were realised, corresponding to about 600 MW, with an average time for the realization of the connection, net of the interruptions allowed, equal to:

- 7 working days, in case of simple works;⁵⁰
- 43 working days, in case of complex works.⁵¹

In 2013, the only distributing company that received connection requests with high voltage grids for electric energy production plants was Enel Distribuzione with 27 connection requests, corresponding to a total power of a little more than 700 MW; in the same year, Enel Distribuzione put at disposal 16 estimates, corresponding to a total power of a little less than 520 MW, with an average time for the putting at disposal of the estimate, net of the interruptions allowed, equal to 46 working days. Within the ambit of the estimates put at disposal, ten of these were accepted in 2013, corresponding to a total power of about 225 MW, and for none of these the request for the putting at disposal of the STMD was submitted; consequently, in 2013 no connection was carried out with high voltage grids of electric energy production plants having submitted the request in the same year.

As regards the trend of the connections of passive users in 2013, on the basis of preliminary estimates, the data collected show that about 362,000 connections with distribution grids were carried out, almost all of which in low voltage. The average time for carrying out said connections resulted to be equal to 10.2 working days. In particular, the average time for the realization of the connections in low voltage was equal to 7.7 working days. Terna carried out a single connection of a passive customer, with a realization time of the intervention, requiring complex works, equal to about 270 working days, including the time necessary for the issuing of the Minimum general technical solution [*Soluzione tecnica minima generale*] and of the STMD, besides the completion of the works for the realization of the grid plant, excluding both the time necessary to obtain possible

⁵⁰ Simple works are the professional realization, modification or substitution of the grid operator's plant carried out with an intervention limited to the measure and possibly the group measure.

⁵¹ Complex works are the professional realization, modification or substitution of the grid operator's plant, with reference to all those cases not included in the definition of simple works.

authorizations, and the time necessary for the customer to complete the works falling within the customer's competence.

Table 3.1 Number of connections of passive users with distribution grids and the average connection time in 2013^(A)

VOLTAGE LEVEL	NUMBER OF CONNECTIONS	AVERAGE TIME (WORKING DAYS) ^(A)
Low voltage	360,672	7.7
Medium voltage	1,815	19.1
TOTAL	362,487	10.2

(A) Value calculated without keeping into account who does not have connections, excluding the time necessary to obtain possible authorizations and/or the time necessary for the final customer's fulfilment of possible obligations.

Source: Annual investigation on the regulated sectors.

Regulations for the technical quality of services

The electricity quality code (TIQE) regulating the commercial quality of electricity distribution and metering for the regulatory period 2012-2015,⁵² promotes the improvement of the quality and the continuity of the distribution service of electric energy through the following main mechanisms:

- regulation incentivising the reduction of the duration and number of interruptions;
- individual standards for users in Medium Voltage, divided by typology of grid and incentive to reduce those with an excessive number of interruptions;
- individual standards on the maximum time of re-establishment of power for Medium Voltage and Low Voltage users;
- launching of a monitoring system of voltage drops.

In July 2012, as provided for by the TIQE, the aims for the annual improvement were established⁵³ (tendential levels) as regards the continuity of the electric energy distribution services for the period 2012-2015, the territorial ambits subject to special incentives (additional bonus for ambits distant from the objective level at the beginning of 2012 and that will reach it within 2015) and the territorial ambits subject to the deceleration of the incentive (reduction of bonuses for the period 2012-2015 for the ambits with a level of continuity better than the objective level for the whole period 2008-2011). The aims for improvement concern Enel Distribuzione and 28 other electric energy distribution enterprises.

As regards the electric energy transmission service, after the consultation phase⁵⁴ occurred in summer 2012, at the beginning of 2013 the following were introduced:⁵⁵

- indicators of non-availability and availability of elements of the National Transmission Grid (RTN);

⁵² Approved with resolution dated 29 December 2011, ARG/elt 198/11.

⁵³ Resolution dated 26 July 2012, 311/2012/R/eel.

⁵⁴ Consultation dated 21 June 2012, 256/2012/R/eel.

⁵⁵ Resolution dated 31 January 2013, 28/2013/R/eel.

- an indicator of the average time necessary for repairing breakdowns and serious anomalies of the elements of the RTN, to be classified according to homogeneous groups of the elements of the RTN, as well as to causes and consequences of unavailability.

The new regulation entered into force on 1 January 2014 and it provides for Terna's publishing obligations starting from June 2015.

Regulation of the commercial quality of services

The electric energy quality code (TIQE) also regulates the commercial quality of the distribution and metering services with reference to the performance requested by users. The regulations provide for general and specific quality standards, with automatic compensations, obligatory for distributing enterprises, aimed at protecting and promoting the overall average improvement of the services provided at national level.

In 2013, no amendments were carried out on the commercial quality regulation.

Protection measures of the electricity system

As regards the protection measures of the electricity system, there are no novelties compared to what illustrated in last year's Annual Report, to which it is possible to refer.

Regulatory framework for renewable energies

As regards the regulatory framework for renewable energies, the novelties compared to what illustrated in last year's Annual Report concern: the regulation of the connection, transmission, distribution, measure and dispatching services in case of Simple production and consumption systems and in case of private grids; the defining of the value of the minimum prices guaranteed for plants powered by renewable sources up to 1 MW for which access to the dedicated withdrawal is allowed; new interventions for distributed generation plants in order to guarantee the security of the national electricity system.

Regulation of connection, transmission, distribution, measure and dispatching services with reference to Simple production systems

Legislative Decree n. 115 dated 30 May 2008 (as amended by Legislative Decree n. 56 dated 29 March 2010), law n. 99/09 and the Decree of the Ministry of Economic Development dated 10 December 2010 introduced in the national legislation, among other things, the Users' Efficient Systems [*Sistemi Efficienti di Utenza* (SEU)], systems equivalent to these and the Users' Internal Grids [*Reti Interne d'Utenza* (RIU)], appointing the Authority with the task to define the criteria and conditions for the supplying of the connection, transmission, distribution, measure and dispatching services.

The Authority published two consultation documents,⁵⁶ followed by its resolution dated 16 December 2013, 578/2013/R/eel.

In particular, with the first consultation document, published at the beginning of the month of May 2013, the Authority presented a reconstruction of the regulatory evolution that involved, in the years, the regulation of the distribution and self-supplying services of electric energy. In the introductory part of the document, the Authority highlighted the need for the Parliament and the Government to evaluate the advisability to modify the regulation where it provides for, as regards the SEUs, the equivalent systems and the RIUs, tariff benefits correlated to the grid configurations adopted and the company structures. In fact, said provision does not allow for a selective implementation of said benefits keeping into account the various typologies of productive activities carried out by the benefitting parties. Moreover, total expenses being equal, the presence of tariff exemptions entails the increase of the unitary average value of the tariff components for the users that do not fall within the concessional regimes.

In the second consultation of 2013, without prejudice to the defining framework already submitted in the first consultation document, the Authority presented the final directions as regards the regulation of the connection, measure, transmission, distribution, dispatching and sale services in the case of plant configurations falling within the category of the SSPCs, including the SEUs.

Resolution 578/2013/R/eel, in force as of 1 January 2014, followed the previous consultation documents, defining and regulating the self-supplying activity and therefore that of the SSPCs, postponing to a following measure the regulation of the SDCs (including the RIUs).

In particular, with resolution 578/2013/R/eel:

- as regards the SSPCs and compatibly with the regulations in force, the definitions of plant configurations and admissible company structures were rationalised, which therefore can be realised;
- a priority order was established in the implementation of said definitions, so that the systems falling within more cases can be classified within the ambit of the typology that enables greater benefits for the operators;
- the modalities with which the regulation in force finds implementation for the SSPCs were defined, clearly expressing the contractual schemes that can be applied, with particular reference to the case in which a final customer and a producer different between each other operate with regard to the same connection point;
- the implementation modalities were clearly expressed as regards the transmission and distribution tariffs, as well as the system's general expenses in the cases of SSPCs, distinguishing the cases for which the regulation in force provides for tariff exemptions, that is SEUs and Existing systems equivalent to users' efficient systems [*Sistemi esistenti equivalenti ai sistemi efficienti di utenza* (SEEU)], from those in which the system's general expenses find implementation on the overall consumptions of electric energy;
- the regulations as mentioned under Legislative Decree n. 115/08 were implemented in the parts in which they appoint the Authority with the possible extension of the overall SEEU admitted to benefit from the tariff treatment envisaged for the SEUs, in order to provide for

⁵⁶ Consultations dated 2 May 2013, 183/2013/R/eel and 16 May 2013, 209/2013/R/eel

protection mechanisms for the realizations started the day before the entering into force of the Decree, as well as the defining of the various typologies of SESEUs;

- the qualifications from which tariff exemptions are derived shall be appointed by the GSE which, besides having the condition of being a third party with reference to the customer/producer and the grid administrator, it results to be the subject capable of carrying out said task in the most efficient and less onerous way for the system, already being in possession of part of the necessary data.

Definition of the value of the minimum prices guaranteed for plants powered by renewable sources with power up to 1 MW which are allowed access to the *ritiro dedicato (simplified purchase and sale agreements)* From the very first implementations, in defining the economic conditions of the *ritiro dedicato* of electric energy provided for by art. 13, paragraphs 3 and 4, of Legislative Decree n. 387 dated 29 December 2003, and by paragraph 41 of law n. 239 dated 23 August 2004, the Authority deemed advisable to keep into account the peculiarities of small sized plants characterised by high running and maintenance costs, as well as a limited annual production (plants with annual productions of few millions of kWh). To this end, the Authority provided for the introduction of a form of protection for plants powered by marginal or residual renewable sources which, otherwise, would not be able to cover their management costs, guaranteeing the economic survival to smaller plants regardless of the trend of the electricity market. Said form of protection was carried out through the introduction of minimum prices guaranteed to be applied to production plants powered by renewable sources up to 1 MW. Said prices are correlated only to plant management costs, and as such, subject to variability in time. Initially, in the first implementation phase, not having at disposal all the data necessary for a correct definition, the minimum prices guaranteed were not differentiated by source (with the exception of the hydroelectric source), whereas, in 2011 the Authority had defined,⁵⁷ with effects starting from 2012, the values of the minimum prices guaranteed differentiated by source on the basis of the operational costs of the plants powered by renewable sources up to 1 MW, as collected and analysed by the Energy Department of the Politecnico of Milan. The same provision, in order to provide for a gradual transition from the minimum undifferentiated prices per source to those correlated to specific operational costs for each single source, maintained a basis minimum guaranteed price, not strictly correlated to operational costs and set conventionally at 76.2 €/MWh, that is equal to the value of the last progressive bracket applied in 2011 and in line with the average market price expected.

In October 2013, the Authority indicated⁵⁸ the directions as regards the completion of the path already started, aimed at setting the minimum prices guaranteed correlated only to the mentioned management and fuel costs. At the same time, the latter data concerning costs were reviewed and updated, on the basis of a further study carried out by the Energy Department of the Politecnico of Milan.

Upon the conclusion of the consultation, the Authority defined⁵⁹ the new structure and the new values of the minimum prices guaranteed differentiated by source, to be applied starting from 2014. In particular:

⁵⁷ Resolution dated 28 July 2011, ARG/elt 103/11.

⁵⁸ With the consultation document dated 31 October 2013, 486/2013/R/efr.

⁵⁹ Resolution dated 28 July 2011, 618/2013/R/efr.

- the basis minimum price guaranteed correlated to the average electric energy market prices in the year in which the redefinition is carried out was eliminated, because said price is not representative of operational costs;
- a new structure and new values of the minimum prices guaranteed were defined differentiated per source reflecting running and fuel costs;
- the values of the minimum prices guaranteed shall be updated on annual basis, for the years following 2014, applying to the values in force in the previous solar year, the annual variation rate of the consumption prices for the families of workers and employees identified by Istat. Exception is made for the values of the minimum prices guaranteed envisaged for the hydroelectric plants for which the part of values of minimum prices guaranteed is not updated, in increase, for the covering of the fees concerning the hydroelectric concessions, as well as the costs concerning taxes on the immovable property (equal to 25 €/MWh);
- the implementation of the minimum prices guaranteed was allowed to all plants powered by renewable sources that have the right to access the *ritiro dedicato*, even if they choose to destine their own electric energy input to a trader or by accessing the electric energy organized markets directly.

New interventions concerning distributed generation plants in order to guarantee the security of the national electricity system

In March 2012, the Authority intervened⁶⁰ approving the Technical Regulation of the distributed generation's system requisites (Enclosure A70 to Terna's Network Code) and defining advisable time frames for a quick implementation, distinguishing between plants of new realization and existing plants. In particular, the characteristics of the new inverters were defined, that is the new rotating machines, as well as those of the new interface protection systems so as to be installed on the new electric energy production plants to be connected with the low and medium voltage grids; moreover, retrofit interventions were defined on existing plants of power above 50 kW connected with the medium voltage grids for the adjustment to some of the mentioned characteristics of the inverters, that is rotating machines, and of the interface protection systems already installed.

In June 2013, the Authority intervened again⁶¹ integrating the previous regulation. In particular, retrofit interventions were provided for also on existing plants up to 50 kW connected with the medium voltage grids and on plants with power above 6 kW connected to low voltage grids, for the adjustment of the inverters and of the interface protection systems already installed, so that the mentioned plants may remain connected with the grid at least within the frequency interval of 49 Hz – 51 Hz.

⁶⁰ Resolution dated 8 March 2012, 84/2012/R/eel.

⁶¹ Resolution dated 6 June 2013, 243/2013/R/eel.

3.1.3 Tariffs for connection and access to grids

The state of incentives for renewable sources and assimilated

In 2013 the progressive worsening of economic requirements was confirmed as regards the Account for new renewable and assimilated energy plants (Account A3), already highlighted during the previous year. Moreover, similarly to 2012, in 2013 the demand for electric energy recorded a further negative dynamic compared to the previous year, with a consequent reduction of the yield of the tariff components directly applied to consumption.

Therefore, in 2013 the Authority implemented the gradual and programmed adjustment⁶² of the tariff component A₃, with the aim to guarantee the covering of the expenses falling within the competence of 2013 and to obtain a yield capable of compensating the deficit accumulated in the period before 2012 (equal to about 1.5 billion Euros). In the second part of the year, said path was defined keeping into account also the expenses that could be estimated in that moment, at the expense of Account A₃, for the following year (2014), in the perspective of a tendential stabilization in the middle-term of the share of the same tariff component.

Table 3.2 Evolution of expenses for new plants powered by renewable sources and assimilated

EXPENSES	2012		2013	
	VALUE	% SHARE	VALUE	% SHARE
Trading of renewable electric energy CIP6	406	4.1	387	3.2
Withdrawal of green certificates	1,392	14.0	1,409	11.8
Photovoltaic	6,161	61.8	6,616	55.4
<i>Ritiro dedicato</i>	80	0.8	338	2.8
All-inclusive tariff	786	7.9	1,521	12.7
FER incentives administrated pursuant to Legislative Decree n. 28/11	0	0.0	62	0.5
Functioning GSE and other	26	0.3	10	0.1
On-the-spot-trading	93	0.9	104	0.9
TOTAL RENEWABLES	8,944	8.7	10,447	87.4
Trading of assimilated electric energy CIP6	724	7.3	633	5.3
Expenses CO ₂ assimilated	198	2.0	85	0.7
Covering green certificates assimilated	43	0.4	113	0.9
Resolution CIP6	64	0.6	456	3.8
TOTAL ASSIMILATED	1,029	10.3	1,287	10.8
Settlements CIP6 due to litigations and proxies			218	1.8
TOTAL EXPENSES A₃	9,973	100.0	11,952	100.0

In total, during 2013, the share of the tariff component A₃ increased by about 16% (share of the fourth quarter 2013 compared to share of the fourth quarter 2012). The share envisaged starting from the fourth quarter 2013 was dimensioned in order to obtain an annual yield of more than 13 billion Euros. To these levels, the tariff component A₃, in the annual expenditure of the typical

⁶² Launched with resolution dated 27 September 2012, 383/2012/R/com.

domestic user, is more expensive of the sum of all the remunerations for the transmission, distribution and measure service.

The increase of the component A_3 enabled the progressive reabsorption of the past deficit of the Account A_3 during 2013, thus enabling the gradual restitution, by the Account, of the anticipations obtained by other management accounts in order to guarantee the ordinary supply of the anticipations.

The following table summarises the charges at the expense of the Account A_3 in 2013 (provisional balance data), compared to those in 2012.

Tariffs for the transmission service

During the updating of the transmission tariffs for 2013, the Authority confirmed⁶³ also for said year the monomial structure of the tariff, contextually launching in-depth analyses concerning the criticalities reported by Terna as regards the possibility to establish in a homogeneous and unequivocal way the power available in the interconnection points.

On the basis of said in-depth analyses, with consultation document 455/2013/R/eel,⁶⁴ stating *Extraordinary adjustment interventions of the tariff regulations concerning the electric energy distribution and transmission services*, the Authority, with reference to the transmission service, suggested as follows:

- the maintenance, also for the remaining years of the fourth period of regulation (2014 and 2015), of the monomial structure of the tariff component covering the costs concerning the transportation service on the national transmission grid for the distributing enterprises (CTR), confirming at the same time the guarantee mechanism for transmission revenues⁶⁵ in force;
- the introduction of the binomial structure in the tariff component covering electric energy transportation costs on the national transmission grid collected by final customers (TRAS) connected in AT/AAT, on the basis of the criterion of invariance of transmission costs, totally referable to said category of customers.

The tariffs for the supply of electric energy transmission, distribution and measure services, as well as the economic conditions for the supply of the connection service, were updated⁶⁶ for year 2014, on the basis of tariff regulation criteria approved in Enclosure A, Code *concerning the Authority's regulations as regards electric energy and gas for the supply of electric energy transmission and distribution services* (TIT),⁶⁷ for the regulatory period 2012- 2015.

As regards the transmission service, in particular the Authority resolved as follows:

- to confirm the maintenance of the monomial structure of the tariff component covering the costs related to the transportation service on the national transmission grid for the distributing enterprises (CTR);

⁶³ Resolution dated 20 December 2012, 565/2012/R/eel.

⁶⁴ Consultation dated 17 October 2013.

⁶⁵ As mentioned under art. 4 of resolution dated 19 December 2008, ARG/elt 188/08.

⁶⁶ Resolution dated 19 December 2013, 607/2013/R/eel.

⁶⁷ Resolution dated 29 December 2011, ARG/elt 199/11.

- in order to improve the cost reflectivity of the tariff structure and provide the final customers with cost signals connected with the actual commitment of the grid, to introduce, starting from 2014, the TRAS component in binomial form for the typologies of users connected in AT/AAT, on the basis of the criterion of invariance of the transmission costs, totally referable to said typology of users, envisaging in particular that the power component (TRASP) be defined in function of the power used by the final customers;
- to re-establish, for the updating of the CTR component, the volumes of reference, taking into account the final balance data relevant to the last twelve months available, in order to keep into account the minor volumes of energy handled on the RTN;
- to recognise to Terna the investments concerning the work of interconnection between Italy and Montenegro, through a specific tariff component (increase of the UC₃ component) that guarantees a separated aspect of the yield associated to said investments, firmly conditioning the efficacy of said recognition to a possible negative opinion of the Council of State on the legal value of the intergovernmental Agreement between Italy and Montenegro for the tariff recognition of the expenses connected to works beyond national borders;
- to establish the remuneration rate of the net capital invested for the two-year period 2014 and 2015 for an amount equal to 6.3%.

At the beginning of 2013, the Authority identified⁶⁸ the interventions for the development of the National Transmission Grid (RTN), strategic for the national electricity system, for the period 2012-2015, included in the typology I=3,⁶⁹ and related milestones and objective dates, consistently with the principle of selectivity with particular reference to the interventions aimed at resolving the main congestions present in the Italian electricity system.

In October 2013, the reaching of the milestones of the strategic investments for the development of the RTN was ascertained⁷⁰ with reference to the first six-month period of year 2013, and the operator of the transmission system was recognised⁷¹ the incentive for the acceleration of investments on the immobilizations in course, concerning the investments included in the typology I=3, to be considered for the transmission tariffs 2014.

Tariffs for the distribution service

As regards the distribution service, at the end of 2011 the Authority defined⁷² the framework of the tariff regulation for accessing and using the electric energy distribution grids for the regulatory period 2012-2015, confirming, consistently with the previous regulatory periods, the “decoupling” between the single tariff paid by final customers (obligatory tariff) and the tariffs earned by distributors for covering the costs of the service. The latter are paid back on the basis of the tariff

⁶⁸ Resolution dated 31 January 2013, 40/2013/R/eel.

⁶⁹ Category I=3 includes the investments for the development of the transportation capacity aimed at reducing congestions among market zones, intra-zonal congestions and investments aimed at increasing the Net Transfer Capacity (NTC) on electricity borders (paragraph 19.6 Integrated transport text, TIT).

⁷⁰ Resolution dated 24 October 2013, 469/2013/R/eel.

⁷¹ Consistently with the resolutions as mentioned under art. 29 of the Integrated transport text (TIT) and paragraph 4 of Resolution 40/2013/R/eel.

⁷² With resolution ARG/elt 199/11.

of reference which is calculated according to uniform criteria, but differentiated by company – because each distributor bears different costs for carrying out the service. There is also an equal distribution system that takes care of rebalancing the revenues for each company (collected through the obligatory tariff) with the costs actually born (covered by the tariff of reference).

The level of the obligatory tariff is updated yearly by the Authority according to a logic for guaranteeing budget restriction for each typology of contract (domestic, non-domestic).

In particular, tariffs concerning the distribution service are updated providing for as follows:

- the reduction, in actual terms, of the part of tariff that remunerates operational costs, according to a price cap mechanism;
- the adjustment of the remaining part of the tariff covering amortizations and the remuneration of the capital invested, to keep into consideration the new investments realized, in favour of safety, competition and quality of the service.

As regards the updating of the obligatory tariffs, also the remuneration rate of the net capital invested was updated for the two-year period 2014 and 2015, set at 6.4%.

Moreover, the Authority resolved⁷³ concerning the updating for year 2014 of the remunerations and economic conditions for the supply of the connection service on the basis of tariff regulatory criteria approved in 2011.

Review of domestic tariffs and tariff experimentation for heat pumps used as single heating system

In May 2013, the Authority launched⁷⁴ a procedure for creating a series of measures as regards tariffs for the supply of electric energy transmission, distribution and measure services with reference to domestic use in low voltage, as well as the review of the articulation of the tariff components destined to cover the general expenses of the electricity system. The general aim of said procedure was to align tariffs to costs, to rationally use resources and promotion of initiatives for energy efficiency and to develop renewable sources; the procedure also envisaged the possibility to activate specific measures already as of 2014, in order to guarantee the gradual implementation of the objectives outlined, in the defaults of the definition of the tariff regulation for the following regulatory period (2016-2019).

Within the ambit of the mentioned procedure, the Authority provided for⁷⁵ a tariff experimentation from 1 July 2014 at national level aimed at domestic customers that use, in their house of residence, electric heating pumps as the only heating system for their houses. The customers that adhere to the tariff experimentation shall benefit from a grid tariff D1, characterised by the absence of kWh cost progressiveness as regards the annual total consumptions, which instead characterises grid tariffs D2 and D3, currently applied to domestic customers.

The key elements of said tariff experimentation shall be as follows:

⁷³ With resolution 607/2013/R/eel.

⁷⁴ Resolution dated 16 May 2013, 204/2013/R/eel.

⁷⁵ With art. 8 of resolution 607/2013/R/eel.

- the customers' voluntary adhesion;
- limited only to domestic customers that use electric heating pumps in their houses of residence as the only heating system;
- implementation of the D1 tariff as defined under art. 30 of the electricity transmission and distribution code [*Testo integrato delle disposizioni per l'erogazione dei servizi di trasporto e distribuzione dell'energia elettrica* (TIT)];
- no need to install a new collection point for the heating pump (unlike what envisaged up to now for those who require the implementation of the tariff "low voltage for other uses" for the consumptions of the heating pump);
- implementation, by the distributing companies, of a monitoring system of the electricity consumptions of the customers involved;
- end of the experimentation set at the end of the current tariff regulatory period (31 December 2015), because from the following regulatory period new grid domestic tariffs will be applied, defined on the basis of the outcomes of the procedure 204/2013/R/eel.

Implementing said resolution, the Authority thus submitted⁷⁶ its first directions as regards the exact delimitation of the domestic customers that will be allowed to access the experimentation, the defining of the monitoring modalities to be implemented at the participating customers' premises and the setting of the criteria for calculating the shares of the components A and UC (system's general expenses) applicable to the participating customers.

Exclusion of crossed transfers among chains' activities

Resolution 11/07 stating "*Obligations of administrative and accounting separation for companies operating in the electricity and gas sectors*" was introduced in the Italian legislation so as, among other things, to exclude that companies operating in the electricity and gas sectors can carry out crossed transfers of resources among the chains' various activities. In 2013, the Authority did not launch or conclude any procedures in the electricity sector aimed at ascertaining infringements of the regulation as regards the obligations of administrative and accounting separation.

3.1.4 Regulation and international cooperation on across-the-border infrastructures

Access to infrastructures and management of congestions

Within the ambit of the elaboration of the Target Model for the European electricity market, the Italian Authority was appointed in collaboration with the German Authority with the task to coordinate activities for preparing the roadmap concerning the implementation of the Day-Ahead Market coupling with the final aim to reach the Day-Ahead Market coupling at European level within 2014.

⁷⁶ Through the publication on 13 February 2014 of the consultation document 52/2014/R/eel.

The strategy adopted by ACER for reaching the coupling of all the European Stock exchanges consists in initially realising the coupling in an area made of Countries whose markets are already in an advanced state of integration, to then extend the model to other Countries. The area identified as initial nucleus of aggregation is represented by the Centre-West region (CWE), composed by Belgium, France, Germany and the Netherlands that already adopt the market coupling among their respective markets. In the path leading toward the final aim, intermediate objectives were inserted, the first of which (NWE Project) was the realization of the market coupling in the North-West Region (NWE), made of Countries in the CWE region plus Great Britain and Scandinavia; initially envisaged within the end of 2012, the path was completed on 4 February 2014 due to the difficulties encountered during the implementation phase.

The Authority concentrated the activities of the Centre-South region (CSE) - coordinated by the Authority and composed by Italy, Austria, France, Germany, Slovenia, Greece and Switzerland as observing Country - on priority areas, identified by the Target Model, where particular attention is devoted to the Day-Ahead Market coupling with bordering Countries. In December 2013, the grid and market administrators of the region, gathered in the Pre and Post Coupling Project (PPC), completed the planning phase of the project with success and asked and obtained from the regulators the invitation to proceed in the direction traced. The integration of the CSE region is envisaged for December 2014, as indicated in the Roadmap elaborated by the TSOs and by the market administrators (PXs) of the region and shared with the regulators. The completion of the integration process will require the Authority and the Ministry of Economic Development to carry out timely amendments to the regulation of the sector. Another important aim reached by the CSE region, in the path of the harmonization of the allocation rules with the CWE region, is the carrying out of biddings for the explicit allocation of the across-the-border transportation capacity. This has been taking place since the end of March 2011 on an annual, monthly and daily basis through CASC (Capacity Allocation Service Company).

Integration of the Italian and Slovenian Day-Ahead Markets: market coupling on the Slovenian-Italian border

The market coupling between the Day-Ahead Market managed by the Italian electricity Stock Exchange (Gestore dei mercati energetici - GME) and the Day-Ahead Market managed by the Slovenian electricity Stock Exchange (BSP), for the implicit appointing of the rights of daily transit on the Italian-Slovenian interconnection, became operative on 1 January 2011.⁷⁷ The mechanism of market coupling on the interconnection Italy-Slovenia is structured on the basis of what agreed upon in the Master Agreement (MA) and in the Pentalateral Agreement (PA). The MA establishes the main aims and criteria with which the market coupling model must comply with the Italian-Slovenian interconnection, and the minimum conditions according to which the signing parties of the MA are ready to fulfil their respective commitments for the implementation of the mentioned model. The PA sets the rules and procedures aimed at the effective and efficient implementation of the market coupling model on the Italian-Slovenian interconnection, as well as the mutual rights and obligations of the TSOs and Stock Exchanges in the implementation of the mentioned rules and procedures.

⁷⁷ Resolutions: 13 September 2010, ARG/elt 143/10 and 16 December 2010, ARG/elt 243/10.

The Italian-Slovenian initial agreement lasted one year, but it was extended several times until 31 December 2013 when the Authority approved⁷⁸ the agreements for the continuation of the market coupling on the Italian-Slovenian interconnection from 2014 onward.

As regards the agreements signed for year 2013, those approved with this provision provide for as follows:

- BSP's taking over (the Slovenian Stock Exchange) in place of ELES (the Slovenian TSO) in the role of Central Counter Party (subject that acts as central counterpart for the importations/exportations of energy resulting from the market coupling) for Slovenia;
- the enhancement of energy importations/exportations resulting from the market coupling at the average value between the hourly prices identified in the importing and exporting zone, for the following reasons:
 - in case of importation from Slovenia, this enables BSP to enter in the availability of the share of congestion income falling within ELES's competence, starting from the second working day following the day on which the transaction was concluded;
 - in case of exportation from Italy, this enables GME to enter in the availability of the share of congestion income falling within Terna's competence, starting from the second working day following the day on which the transaction was concluded;
- the automatic renewal of the MA and PA up to the operational completion of the regional project Italian Borders Working Table (IBWT), which envisaged the integration of the Italian electricity market with those of the bordering Countries through the market coupling mechanism. However, the parties have the right to rescind from the agreement should the regional project IBWT not be completed within 2016 and upon the authorization of the cognizant Regulatory Authorities.

The launching of the market coupling has had an increasing positive impact on the economic efficiency in the allocation of the across-the-border capacity. First of all, the market coupling produced energy commercial flows, on the Italian-Slovenian border, consistent with the price differentials between the respective electricity Stock Exchanges. This is also due to the exponential increase in the average capacity share appointed through annual and monthly explicit biddings which, not being used by purchasers, is resold on a daily basis through market coupling (Use-It Or Sell-It: UIOSI): 20% in 2011, 95% in 2012 and 98% in 2013. This means that currently the allocation of the capacity on the Italian-Slovenian border takes place entirely through market coupling. Likewise, also the average capacity allocated at daily level increased: 126 MW in 2011, 404 MW in 2012 and 418 MW in 2013. Lastly, a non-negligible number of hours of price convergence was registered, equal to 20% and 12% of annual hours, respectively in 2012 and 2013.

Investments in new grid infrastructures and consistency with the Community Development Plans

Pursuant to art. 36 of Legislative Decree n. 93/11, implementing directive 2009/72/EC in the national legislation, the transmission system operator, within 31 January of each year, organises a

⁷⁸ Resolution dated 9 December 2013, 609/2013/R/eel.

ten-year Development Plan of the RTN; the Authority is called to carry out a public consultation on said Plan, making the results public and communicating the outcomes to the Ministry of Economic Development.

The Authority adopted⁷⁹ specific measures as regards the modalities for the public consultation of the scheme of the ten-year Development Plan of the RTN, pursuant to art. 36, paragraph 13, of Legislative Decree n. 93/11; this in consideration of the fact that the topics object of the consultation are extremely complex and of strategic relevance for the development of the electricity system.

In May 2012 and after consistency verifications, the Authority made available on its website for consultation the scheme of the ten-year Development Plan of the RTN, concerning year 2012. Within the ambit of consultation, the Authority organised two public sessions for Terna's presentation of the 2012 scheme of the Plan, with the participation of the subjects involved, representing the electricity system (operators and consumers, and their associations). Moreover, all the subjects interested were given the possibility to submit to Terna specific questions on the 2012 scheme of the Plan, the answers to which were elaborated by Terna and published on the Authority's and Terna's websites.

The Authority's evaluation procedure of the 2012 scheme of the ten-year Plan concluded with the adoption of the opinion dated 22 May 2013, 214/2013/l/eel. Said opinion was submitted to the Ministry of Economic Development and to Terna, and it will be published on the Authority's website after the approval of the RTN's 2012 ten-year Development Plan by the Ministry of Economic Development.

International coordination with other Regulators and with ACER

In 2013, the Regulatory Authority for Energy, Gas and Water continued to collaborate with the other European Regulators at multilateral level - through the Agenzia per la cooperazione fra i regolatori nazionali dell'energia (ACER), the European Council of Energy Regulators (CEER) and Regional initiatives - and through bilateral meetings organized ad hoc to carry out in-depth discussion on issues of common interest.

This activity was aimed at defining transparent and efficient rules for promoting an integrated energy European market, competitive and efficient, as requested by the Third energy package⁸⁰ with reference to the electricity system. With regard to this past year, it concerned the following ambits of intervention:

- capacity allocation and congestion management (CACM);
- grid connection;
- secure management of electricity systems.

⁷⁹ Resolution dated 22 March 2012, 102/2012/R/eel.

⁸⁰ The Third energy package, published in the *Official Gazette* of the European Union on 14 August 2009, is composed of five regulatory measures: regulation (EC) 713/2009 establishing ACER, directives 2009/72/EC and 2009/73/EC for the electricity and natural gas sectors, and regulations (EC) 714/2009 and (EC) 715/2009 for accessing transmission/transportation infrastructures.

Moreover, the Authority took on the leadership, together with ACER and the French Regulator, as regards the writing of the *Guidelines* on the integration of the balancing markets.

Always within the ACER ambit, it is important to highlight the intense activity carried out in 2013 with reference to the Infrastructure Package. To this regard, it is important to mention the Authority's relevant contribution, together with that of other European regulators, in preparing the regional lists containing infrastructural projects of community interest converged in ACER's opinions of 18 July 2013, on the basis of which the European Commission adopted a first list of 248 infrastructural projects of community interest, on 24 October 2013. Moreover, the Authority participated actively in ACER work groups committed in defining the across-the-border allocation rules for the costs of the selected PCIs (ACER's recommendation of 25 September 2013), as well as in assessing the analysis of the costs-benefits criteria proposed by the ENTSOs (for the electricity sector, ACER's opinion of January 2014).

The European legislation appoint national regulators with important responsibilities as regards consumer protection, promotion of fair prices and introduction of simple tools for carrying out the right to choose one's own supplier and for resolving controversies. For this reason, in 2013, the Authority collaborated with the other European Authorities within the CEER, with the aim to have further in-depth understanding of consumers' current and future needs and to develop a view of the challenges up to 2020 articulated on four fundamental principles: accessibility, reliability, simplicity, protection and "capacitation."

Collaboration with Third Countries of the European Union

The Authority's collaboration with Third Countries of the European Union mainly took place through proper institutions and cooperation structures among European and non-European regulators in the Balkans and Mediterranean areas to which the Authority actively contributed from the very beginning.

In 2013, the Authority contributed in implementing the Treaty that establishes the Energy Community of South-East Europe (EnCT)⁸¹ through its direct and continuative participation in meetings organised by the Energy Community Regulatory Board (ECRB) and in its work groups: Electricity Working Group (EWG), Gas Working Group (GWG) and Customer and Retail Market Working Group (CRWG), as well as in the *fora*⁸² on electric energy (Greece) and on gas (Slovenia),

⁸¹ The Inclusive Treaty of the Energy Community of South-East Europe was signed on 25 October 2005 in Athens and it entered into force on 1 July 2006. The general aim of the EnCT is the creation of a macro-regional regulatory context, stable and harmonized, in view of a complete implementation of the community *acquis* as regards energy, of the creation of a regional energy market and of its integration in the European Union's internal market. To this end, the EnCT identifies among the main aims: to attract investments, to facilitate energy exchanges, to increase competition among operators, to guarantee safety in energy supplying and to improve the environmental conditions of the supporting Countries. The parties of the EnCT Treaty are: Albania, Bosnia Herzegovina, former Yugoslavia Republic of Macedonia, Kosovo, Moldavia, Montenegro, Serbia, Ukraine. Croatia, having become a member of the European Union as of 1 July 2013, starting from that date is no longer a contracting party of the EnCT Treaty. The main institutions, regulated in the Treaty, are: Ministerial Council (MC), Permanent High Level Group (PHLG) – both governmental bodies – and ECRB. The latter in particular gathers the representatives of eight Regulatory Authorities of the signing Countries of the EnCT (Contracting Parties), of the European Commission (in the role of Vice-president) of the ACER and of the Countries of the European Union supporting the EnCT on voluntary basis (Participants), which to date are 16, among which Italy. The Regulatory Board's main task is to provide opinions and recommendations to the stakeholders and political institutions of the Treaty on aspects concerning the regulatory framework and other related issues. Moreover, the ECRB carries out a role of reference for the regulation in the Balkans' energy market.

⁸² The *fora* of the electricity and gas sectors are annual meetings among all the institutions of the Energy Community, which see the participation of the regulatory representatives, as well as industrial and consumer groups, financiers, the academic world. The conclusions of the *fora*, adopted by *consensus*, are communicated to the ministers of the supporting States.

that aim at sharing decisions made at institutional level with stakeholders of the sector and at leading the regional integration process. In said contexts, the Authority represented at the highest levels participated in three ECRB plenary meetings, during which documents elaborated by the work groups were discussed and approved.

Moreover, the Authority carried out a connection role between the EWG group and ACER, limitedly to information concerning the progress of European regional initiatives.

During this past year, the Authority kept its international commitment in the Mediterranean basin, in particular through MEDREG, of which it is founder and supporter. During the latest General Assembly, held on 18 and 19 November 2013 in Grasse (France), after the approval of several amendments to the statute and internal regulation, the Authority was appointed with the role of Permanent Vice-President, confirming the Secretariat's seat at the Authority's Offices in Milan; the Secretariat avails itself of a representative from the Authority's structure in quality of General Coordinator. Moreover, the Authority was appointed, through a proxy from MEDREG's President, to support the Secretariat's administrative and legal management.

MEDREG is the institution of reference for energy regulation in the Mediterranean basin and has among its aims the support of the development and integration of energy markets, considering it preparatory for the creation of an energy community in the Mediterranean. MEDREG's role has been long-recognised by the European Commission with which it signed, on 1 October 2013 (after two consecutive renewals, 2008-2009 and 2010-2012), a new service contract (ENPI/2013/329-093) entitled "Support to cooperation between the European Mediterranean Energy regulators" (MEDREG III), valid until 30 September 2016 and of the value of about 3 million Euros. The Authority coordinated with success the first service contract and currently supports the Secretariat also in the management of the new contract.

In confirmation of the need of dialogue among regulators and grid operators, on 30 September 2013 in Algeri, a cooperation agreement was signed between MEDREG and Med-TSO (Mediterranean Transmission System Operators), the homologous association of the electricity transmission grid operators in the Mediterranean, with seat in Italy. MEDREG and Med-TSO's main aim is to develop a common view for the integration of the Mediterranean electricity markets, encouraging the adoption of harmonised rules and strengthening the technical cooperation in areas of common interest.

The Authority promotes the diffusion of national and European regulatory culture on a bilateral level, through meetings, cooperation agreements and collaboration meetings with national regulators, governments and enterprises of European and non-European countries interested in becoming acquainted with the Italian energy regulatory model. Last year, the Authority entered into contact with Saudi Arabia, China, Egypt, Georgia, Japan, Israel, Indonesia, Montenegro, Singapore and Turkey.

3.1.5 Compliance with community regulations

In this past year, the Agency and the Commission did not adopt legally restrictive resolutions to which the Authority had to give implementation pursuant to article 37.1.d) of the directive 72/2009/EC. As regards the Regulator's competences and powers, pursuant to the laws in force, it is possible to refer to what mentioned in the 2013 Report and to the regulatory novelties mentioned under paragraph 2.

3.2 Promotion of competition

3.2.1 Wholesale markets

The provisional data provided by Terna show that in 2013 the consumptions of electric energy decreased by 3.4%, passing from 307 TWh in 2012 to almost 297 TWh in 2013. The reduction in consumptions was much higher than the GDP decrease, which in the same period recorded a 1.9% contraction.

Table 3.4 shows the production and the uses of electric energy in the past two years, highlighting that, also in 2013, the net production covered 87.5% of the national requirements with 44.3 TWh of imports that enabled to cover the remaining part of the demand. In decrease by 5.5% also exports, which this year stopped at 2,178 GWh. An analysis of the data concerning uses enables to highlight how consumptions decreased in all sectors, in particular in the industrial sector (-4.7%), and in the domestic sector (-4.3%).

Power requirements reached their peak at the end of July, reaching 53.9 GW.

Table 3.3 Aggregated electric energy data in Italy, in 2012 and in 2013

GWh

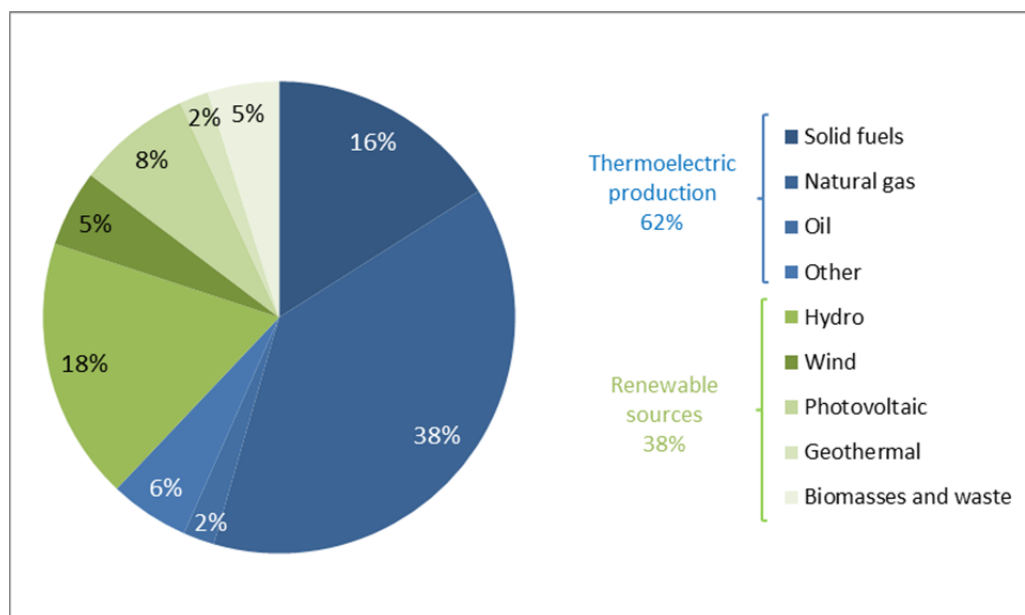
	2012	2013 ^(A)	VARIAT. %
Gross production	299,276	287,830	-3.8
Auxiliary services	11,470	10,450	-8.9
Net production	287,806	277,380	-3.6
Received from foreign suppliers	45,408	44,331	-2.4
Provided to foreign customers	2,304	2,178	-5.5
Destined to pumping	2,689	2,389	-11.2
Availability for consumption	328,220	317,144	-3.4
Losses	21,000	20,394	-2.9
Consumptions net of losses	307,220	296,750	-3.4

(A) Provisional data.

Source: AEEGSI's elaboration on Terna's data.

Always on the basis of Terna's provisional data, in 2013 the gross national production amounted to 287 TWh, in decrease by 3.8% compared to last year. Therefore, it registers a drop for the second consecutive year, the strongest since the 2008-2009 crisis, after -1% in 2012.

In particular, in 2013 the thermoelectric production reported a -13% drop, corresponding to the drastic reduction in the production of electric energy from natural gas (-15%), but also, for the first time since 2008, to a decrease in the production from coal (-7%). Also the decrease in the production from oil products continues (13%), by now reduced to a 2% share over the total production (as a comparison, 15 years ago the share amounted to 40%). In the case of production from gas, the related share amounted to 38% in 2013, against 43% in 2012 and 50% five years ago.

Figure 3.1 Gross production per source in 2013

Source: Terna, provisional data.

In a context of sensitive reduction in the overall production, the increase in renewable sources remains stable (+17% between 2012 and 2013), owing to the increase in wind generation (+12%), photovoltaic (+19%) and biomasses and waste (+12%), but especially for the remarkable contribution, between 2012 and 2013, of the hydroelectric production (+21%). The latest annual increases in wind and photovoltaic appear sensitively lower compared to last year (when they registered respectively +36% and +75%), but they concurred in maintaining the production from these two sources respectively at 14% and 20% of the renewable national production. The two sources represented, in 2013, more than 13% of the gross national production, the renewables in the whole 38%, leaving the remaining share of 65% to the thermoelectric production (it was 68.5% in 2012) (Fig. 3.1). Alone, gas and renewables guarantee 76% of the production.

Always on the basis of Terna's provisional data, the net importations of electric energy in Italy in 2013 amounted to 42,153 GWh, with a 2.2% reduction compared to the previous year, due to a reduction both in gross imports (-2.4% compared to 2012), and exports (-5.4% compared to 2012). In 2013, the foreign total covered 13.3% of domestic requirements (it was 13.2% in 2012). The concentration of imports is connected to the decrease in energy coming from Switzerland and Greece. The total reduction in imports was affected by the greater amount of energy produced from renewable sources at national level, as well as Terna's need, in various cases, to modulate imports in order to guarantee a safe management of the system. As regards exports, the contraction is due to the decrease in flows toward France and Greece, in part compensated by the increase toward Switzerland.

Taking into consideration the contribution of the main groups to the gross generation in 2013, it is clear how, after years of constant decrease, Enel's share on electricity production is stabilized at a value equal to that of the previous year (25.2% against 25.1% in 2012). Among the large operators, also A2A and Erg (both at 3.1%) maintain a stationary share or a slight increase. A more significant increase of the relevant share is recorded by Iren, that passes from 2.2% in 2012 to 3.1% in 2013. Whereas, Eni is in decrease (from 9.4% in 2012 to 8.5% in 2013), as well as Edison (from 7.1% to

6%). The share of the other smaller sized producers passes from 32% to 35%, confirming a tendency toward an increase already recorded since 2000.

The dynamics of the gross generation are in part explained also by mergers and incorporations recorded in 2013. In particular, Edipower's relevance, which last year held significant shares both of generation and capacity installed, decreased due to the restructuring that the company underwent at the end of 2013. In fact, Iren Energia exited from the social capital, however taking with it a series of Edipower's plants, while its shares were redistributed among the remaining stakeholders. The exit of Iren Energia made the A2A share increase from 56% to 71% in Edipower's social capital.

However, the Herfindahal-Hirschman index on the gross generation results to be in decrease for the umpteenth year, with a value of 830 for 2013 (it was about 860 in 2012). The gross thermoelectric power installed by the first three operators covers 52% of the capacity installed, in slight decrease compared to 2012 (53%).

Table 3.4 Development of the wholesale market

	REQUEST ^(A) (TWh)	PEAK DEMAND (GW)	NET CAPACITY INSTALLED (GW)	N. COMPANIES WITH SHARE > 5% IN NET GENERATION	% SHARE OF THE 3 MAIN COMPANIES IN NET GENERATION
2001	304.8	52.0	76.2	4	70.7
2002	310.7	52.6	76.6	3	66.7
2003	320.7	53.4	78.2	4	65.9
2004	325.4	53.6	81.5	5	64.4
2005	330.4	55.0	85.5	5	59.4
2006	337.5	55.6	89.8	5	57.1
2007	339.9	56.8	93.6	5	54.7
2008	339.5	55.3	98.6	5	52.0
2009	320.3	51.9	101.4	5	50.6
2010	326.2	56.4	106.9	5	48.2
2011	332.3	56.5	118.4	4	44.0
2012	325.5	54.1	124.2	3	43.0
2013	314.8	53.9	124.3	2	41.2

(A) Net of the energy destined to pumping and gross of grid losses.

Source: AEEGSI's elaboration on Terna's data and Annual investigation of the regulated sectors.

The maximum net generation capacity installed at 31 December 2013 amounted to 124.3 GW (Table 3.5), whereas the net capacity available (for at least 50% of the hours) was equal to 98.6 GW.

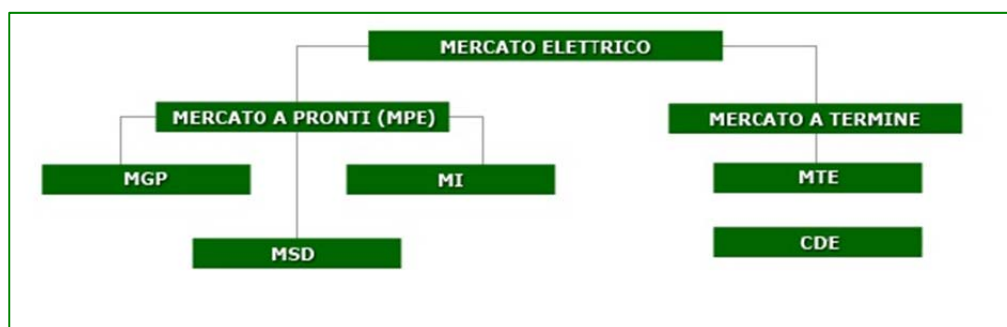
With reference to the net capacity installed, the operators with a market share above 5% are two: Enel (31.1%) and Edison (5.2%). The percentage of the capacity held by the first three operators is equal to 41.2% in decrease by almost 2 points percentage compared to 2012. The HHI index concerning the net capacity installed highlights a decrease in the market concentration compared to 2012; in fact, the value in 2012 was equal to 1,101, whereas the previous year it was equal to 1,121.

As regards the net capacity available (for at least 50% of the hours), the operators with a market share above 5% are four: Enel (32.2%), Edison (6.1%), Eni (5.8%) and Edipower (5.1%). On the basis of these data, the percentage of the capacity held by the first three operators amounts to 44.1%. The HHI index concerning the net capacity available with reference to 2013 is equal to 1,226, in decrease compared to 2012 (1,477).

The structure of the electricity market

The Gestore dei mercati energetici (GME) [Electricity Market Operator] takes care of managing the energy markets, divided between the Spot electricity market (MPE) - in turn articulated in the Day-ahead market (MGP), the Intraday market (MI) and the Dispatching service market (MSD) - and the Forward electricity market (MTE) with the obligation to actually deliver energy. Moreover, the GME manages the platform for the actual delivery of the financial contracts concluded on the IDEX (platform for the Delivery of energy by-products - CDE), segment of the by-products market of the Italian Stock Exchange for the negotiation of financial futures on energy.

Figure 3.2 Articulation of the Italian electricity wholesale market



Source: GME.

The MGP has as object energy negotiation with reference to the 24 hours of the delivery day; the negotiation is managed through hourly biddings at system marginal price and offers can be carried out starting from the ninth day before the delivery day. While the sale offers are enhanced every hour at the relevant zonal price, the purchase offers are enhanced at every hour at National single price [*Prezzo unico nazionale di acquisto (PUN)*] defined as the average of the zonal prices calculated for the value of the total purchases. In this market, the GME acts as main counterparty.

The MI is carried out between the closing of the MGP and the opening of the MSD and enables operators to update the sale and purchase offers as well as their commercial positions as regards the negotiations on the MGP. The MI was established with law n. 2 of 28 January 2009, and it was launched in November 2009 in substitution of the Adjustment market (MA). As of January 2011, said market has been articulated in four sessions (MI1-MI2-MI3-MI4), with different closing hours and in succession; it is a bidding market with a balance price where, unlike the MGP, both the sale offers and the purchase offers are enhanced at zonal price. Even in this case, the GME market acts as main counterparty.

The MSD has as object Terna's supplying of the resources necessary for the management and control of the system, for the resolution of intra-zonal congestions, the creation of energy reserves and the balancing in real time; unlike the other markets, it is Terna that in this case acts as central counterparty. The MSD is articulated in programming phase (MSD *ex ante*) and Balancing market

(MB). The MSD *ex ante* and the MB take place in several sessions, according to what provided for in the dispatching regulations. The MSD *ex ante*, in particular, is articulated in three programming sub-phases (MSD1-MSD2-MSD3), while the MB is organized in five sessions in which Terna selects offers referred to groups of hours of the same day in which the relevant session takes place and does not envisage the presentation of new offers but only the possibility for Terna to accept offers already presented in the MSD *ex ante*. The negotiation modality is a discriminatory bidding, that is the accepted offers are enhanced at their own offer price (pay-as-bid), therefore providing a key model (and not zonal as in the MGP and in the MI) for the grid.

The MTE is the seat for the negotiation of time contracts with the obligation to deliver and collect energy. Negotiations are carried out in a continuous manner and concern two kinds of contracts, baseload and peakload, negotiable with monthly periods of delivery (three products), quarterly (four products) and annual (one product).

In November 2008, the Italian Stock Exchange launched the Italian market of electricity by-products (IDEX), devoted to the negotiation of financial by-product tools having as underlying the average purchase price (PUN). In implementation of the Decree of the Ministry of Economic Development of 29 April 2009, the GME signed a collaboration agreement with the Italian Stock Exchange in order to enable the operators participating in both markets to regulate, through actual delivery, the financial contracts concluded on the IDEX. Lastly, it is important to highlight that operators can sell and purchase energy not only through GME's organized market, but also entering into trading contracts signed outside the system of the offers. Starting from May 2007, the Energy Accounts Platform [*Piattaforma conti energia* (PCE)] entered into force as further element of flexibility of the system. The platform registers the quantities recorded in bilateral time contracts (mostly negotiated on brokering platforms) and the quantities of contracts on the CDE platform.

As regards the participation in the market, also in 2013 there was an increase in the number of operators registered in GME's electricity markets compared to the previous year. In particular, the subjects registered passed from 200 units in 2012 to 223. The increase concerned the spot markets: in particular, the MGP resulted to be 159 (+10 compared to 2012) and on the MI 122 (+8 compared to 2012); the participants in the Forward market (MTE) instead registered a slight decrease, passing from 25 operators in 2012 to 23 in 2013. Finally, the participation on the Registration platform for bilateral contracts [*Piattaforma di registrazione delle contrattazioni bilaterali* (PCE)] increased from 259 in 2012 to 287 in 2013.

Negotiation in the Stock Exchange and bilateral negotiation

In 2013, the quantity of electric energy purchased in the Sistema Italia amounted to 289.2 TWh, in decrease by 2.9%⁸³ compared to 2012 (298.7 TWh), thus prolonging the decreasing trend started in 2010 and reaching the all-time low from the beginning of the market. This decrease is due to the strong contraction of volumes purchased in almost the totality of the zones, in particular in Sardinia (14.1%), in the Centre-North (-9.8%), in the Centre-South (-7.1%) and in Sicily (-3.4%), whereas in the North consumptions underwent a more contained decrease equal to -1.1%. The only macro-zone with a recovery in purchases is the South which, compared to 2012, increased by

⁸³ The variation compared to the previous year is calculated on the average hourly purchases taking into account that 2012 was leap year.

2.7%. In decided recovery also purchases in the foreign zones (+17.3%), whose volumes however continue to remain contained.

Despite the decrease in purchases, Stock exchanges recorded a steady increase in 2013 compared to 2012, setting at about 207 TWh (+16.1%). The increase in Stock Exchange volumes roused market liquidity that passed from 59.8% in 2012 to 71.6% in 2013.

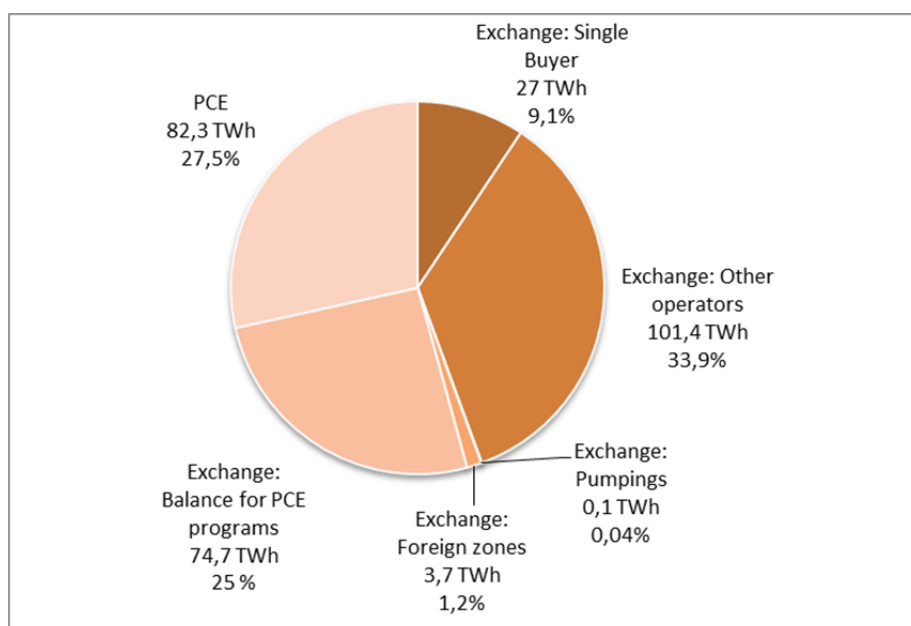
Table 3.5 Electricity energy market

TWh

YEAR	NEGOTIATIONS ON THE MGP		
	Total	of which Stock Exchange	of which bilateral
2002	-	-	-
2003	-	-	-
2004	231.6	67.3	164.3
2005	323.2	203.0	120.2
2006	329.8	196.5	133.3
2007	330.0	221.3	108.7
2008	337.0	232.6	104.3
2009	313.4	213.0	100.4
2010	318.6	199.5	119.1
2011	311.5	180.4	131.1
2012	298.7	178.7	120.0
2013	289.2	206.9	82.3

Source: AEEGSI's elaboration on GME's data.

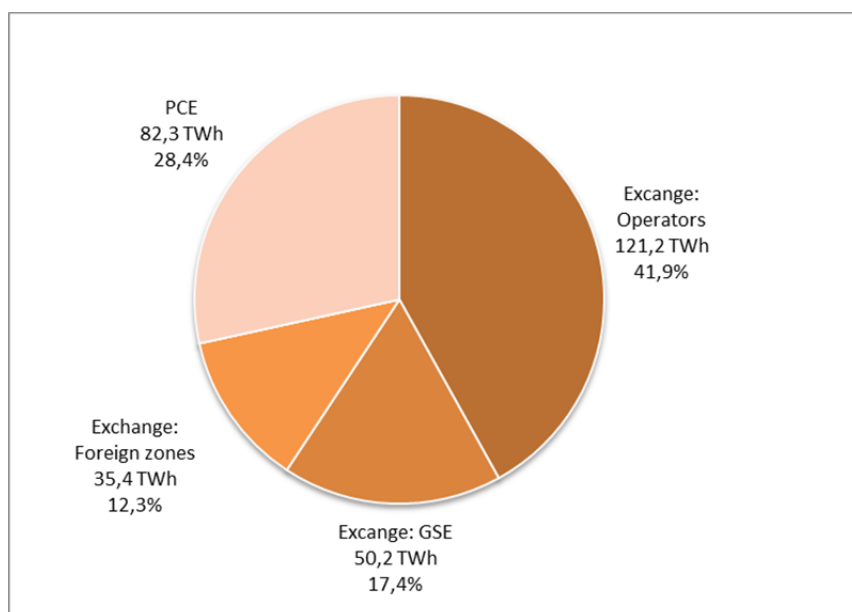
Figure 3.3 Composition of electricity demand in 2013



Source: AEEGSI's elaboration on GME's data.

An important contribution toward the reduction in purchases is referable, for the second consecutive year, to the Acquirente unico (AU) [Single Buyer] that, with about 27 TWh purchased, recorded a 31% decrease. Important decreases in purchases were recorded also for operators different from AU that reduced the demand by 6%, bringing it to 101.4 TWh. Also the demand underlying bilateral agreements recorded a strong contraction setting at 82.3 TWh (-31%).

Figure 3.4 Composition of electricity supply in 2013



Source: AEEGSI's elaboration on GME's data.

The increase in the volumes sold on the Stock Exchange in 2013, amounting to 16%, is mainly due to the increase in operators' supply, different from the Gestore dei Servizi Energetici (GSE), whose sales, after two years of decrease, set at 121.2 TWh, with a 28.5% increase. In increase also the sales of the foreign zones that recorded a 7.8% increase setting at 35.4 TWh. In countertendency, GSE's supply that, although remaining in line with the levels reached in 2012 when growth was 30% compared to the previous year, they recorded a slight decrease setting at about 50.2 TWh (-1.4%). Lastly, on the PCE there is a firm contraction of the recorded volumes that dropped to 82.3 TWh (-31.3%).

Table 3.6 Bilateral contracts on MGP

TWh

CONTRACTS	2011	2012	2013
Bilateral contracts	131.1	120.0	82.3
National	148.8	146.9	156.8
<i>of which Acquirente Unico</i>	36.8	38.8	43.9
<i>of which other operators</i>	112.0	108.1	112.9
Foreign	0.4	0.5	0.1
Balance PCE programmes ^(A)	-18.1	-27.4	-74.6

(A) In each relevant period, it is the difference between the sum of the input programmes and the sum of the collection programmes, coming from the Energy Accounts Platform, recorded on MGP. The balance PCE programmes is also equal to the algebraic sum of the actual balances of the energy accounts (in input and collection).

Source: AEEGSI's elaboration on GME's data.

Concentration operations in the electricity sector in 2013

As mentioned in the previous pages, at the end of 2013 the group Iren transferred its participation in Edipower's social capital, and its shares - amounting to 21% - were redistributed among the remaining stockholders. Owing to Iren's exit, the share of A2A in Edipower's social capital increased from 56% to 71%. The other important stockholders, although with extremely lower shares, are: Dolomiti Energia and Sel (both with 8.5%) and three financial institutes of national relevance: Mediobanca (5.1%), Fondazione Cassa di Risparmio di Torino (4.3%) and Banca Popolare di Milano (2.6%). However, the company operation re-dimensioned Edipower's productive power, because before transferring its participation, Iren Energia acquired the plants of Turbigio, Tusciano, Calore, Bussento, Tanagro, Santa Maria Avigliano, Picentino and Grotta dell'Angelo.

Always at the end of the year, A2A Ambiente incorporated Partenope Ambiente (100% A2A), the company that in February 2013 purchased the activity of the Waste to energy plant in Acerra from the Dipartimento Protezione Civile.

An inner reorganization involved the group Eni, that in part purchased the electric energy production activity that Enipower used to carry out: from now on, the plants will be devoted to self-production.

Between the end of 2013 and the beginning of 2014, Sorgenia Solar, company of the group Sorgenia, transferred a part of the photovoltaic plants and the entire photovoltaic plant in Vibo Valentia to two companies of the group Ecoenergy PV Italy. The operations fall within the sale programme of non-strategic assets, that aims, among other things, at focusing the activities of the group Sorgenia on the wind sector.

In July 2013, A2A transferred five small water flowing hydroelectric plants, for an installed power of about 8 MW to Chi.na.co.

Many other operations involved smaller electric generation companies.

3.2.1.1 Price monitoring in the wholesale market

The day-ahead market

In 2013, the Italian electricity Stock Exchange recorded an average energy purchase price equal to 62.99 €/MWh, with a 16.6% flexion compared to 2012. The decrease resulted to be particularly relevant especially in the peak hours, when the PUN dropped to the all-time low (70.97 €/MWh, -17.7% compared to the previous year). Also in the non-peak hours the flexion of the prices was remarkable, even if less consistent, with prices that decreased in average to 59.40 €/MWh (-14.9% over the previous year). The highest average monthly price was recorded in December, reaching 69.28 €/MWh, while the peak of monthly demand was confirmed in July with 26.6 TWh, in decrease by 5.4% compared to the same month in 2012.

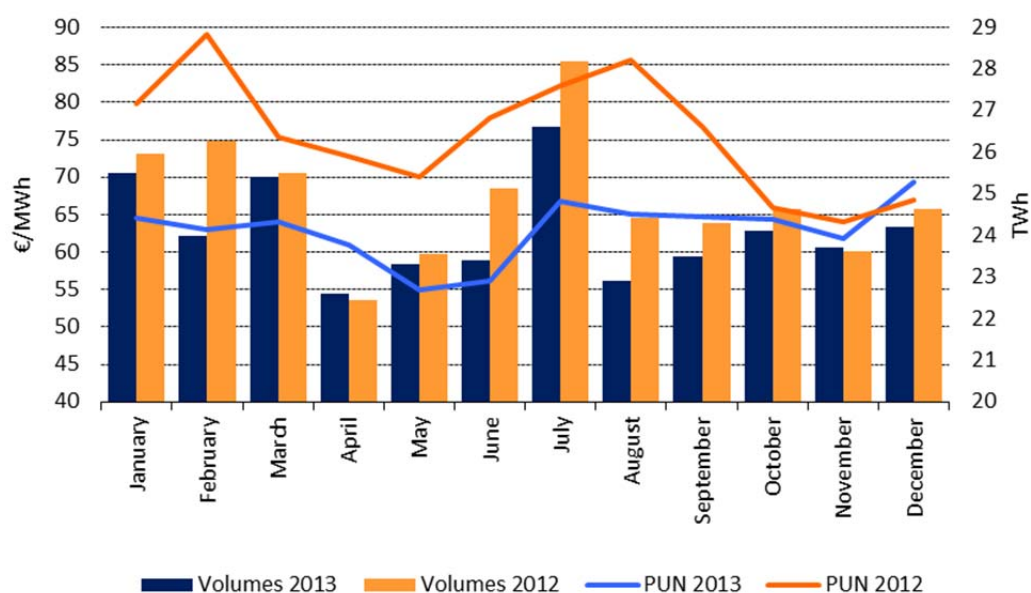
The contraction of electricity consumptions, together with the strengthening of the supply coming from sources at null variable cost, favoured a slight reduction in the concentration and market power, as highlighted by an improvement of the competitiveness indicators taken into consideration.

However, a strong diversification remains of the level of concentration at zonal level, showed by the Herfindahl-Hirschmann index (HHI) calculated with reference to energy sales. The North zone

is confirmed as the most competitive (HHI equal to 1,285), followed by the South zone (HHI equal to 2,050) and the Centre North zone (HHI equal to 2,810); all the other zones show high concentration levels and in average above 3,000; the highest value is recorded in Sardinia with an average HHI equal to 4,141. In actual fact, the HHI below the threshold of competitiveness was confirmed only in the North, while it remained on higher values in the other zones; relevant drops were observed only in the Centre North and in Sicily (respectively about 400 and 90 points).

Figure 3.5 Trend of the National single price (PUN) and volumes exchanged in 2012 and in 2013

€/MWh; TWh



Source: AEEGSI's elaboration on GME's data.

The marginal market participating index (IOM), calculated with reference to volumes, highlighted a remarkable improvement: in fact, it results to have decreased by 11 points percentage compared to 2012. In particular, the percentage of the total volumes exchanged on which the first operator (Enel) set the price dropped to 14% in 2013, while said share was 25.1% in 2012; this owing to strong reductions spread on the whole national territory and to the corresponding growth of E.On's datum that set the price on a share of volumes almost equivalent to that of the former monopolist (13%, +3 points percentage compared to 2012). Clear improvements were recorded at zonal level for all the zones, and in particular in Sardinia, where the percentage dropped to 18.2% against 26.3% in 2012. A slight progress was recorded also in Sicily, that however remained the zone presenting the most criticalities: in fact, here the value of the IOM decreased to 72.2% from 81.6% in 2012.

Intraday market

In 2013, the four sessions of the Intraday market (MI) confirmed their traditional anchoring to the shares of the MGP, even if in the presence of a greater volatility. In particular, after the increases that characterized the first years of activity, in 2013 the purchase prices on the MI highlighted a clear standstill – with drops comprised between 14% and 18% - setting at all-time lows. The

average price in the four sessions varied between 61.08 €/MWh of MI2 and 71.11 €/MWh of MI4. As in the previous years, in 2013 the prices in the four sessions of the MI resulted constantly lower compared to the PUN calculated in the same hours, which is consistent with the general inclination to the fall expected in a long market.

In 2013, the volumes of the total energy exchanged in the four sessions of MI, after a three-year period (2010-2012) of constant growth – at the end of which they actually duplicated those exchanged in average in the previous Adjustment market - recorded a 7.1% decrease setting at 23.3 TWh, a level which however is lower only compared to the all-time peak of 2012.

The Energy Accounts Platform

On the Futures Energy accounts Platform (PCE) the transactions recorded, with delivery/collection in 2013, amounted to 370.6 million of MWh, with a 7.4% increase compared to the previous year. Although the rhythms of growth highlighted a progressive slackening in the past years (+36.5% in 2010, +25.3% in 2011 and +16.5% in 2012), a constant increase in the transactions recorded on the platform are confirmed, which every year, since the launching in 2007, have registered a new record.

In 2013, the transactions deriving from contracts concluded on the Forward electricity market (MTE) recorded a new all-time peak at 45.9 million of MWh (+29.0% compared to the previous year), equal to 12.4% of the total recorded (10.3% in 2012). As in the two previous years, also in 2013 no transaction deriving from the Energy Derivatives Delivery Platform (CDE) was recorded. The remaining 87.6% of the transactions recorded was originated by contracts concluded by operators outside the organized market (bilateral contracts), equal to 324.7 million of MWh (+4.9% in 2012). Among these, the non-standard contracts, set at 213.5 million of MWh were the most used by operators (57.6% of the total) also in 2013, and highlighted a greater dynamism (+7.6%). Among the standard contracts, basically stable (+0.1%), there has been an increase only of the baseload (+5.5%).

Forward electricity market

The MTE managed by the GME was established in November 2008 with the aim to provide operators with a more flexible management of their energy portfolio. On the MTE, 16 products are negotiable; baseload and peakload contracts with delivery periods equal to a month (three products), quarterly (four products) and a year (one product). Once the negotiation phase is over, the monthly delivery contracts are registered in corresponding transactions on the PCE, upon inspections of congruity provided for in the platform's regulations. For contracts with quarterly or annual delivery periods, the "waterfall" mechanism is provided for.⁸⁴

In 2013, 41.1 TWh of energy were exchanged, against the 54.1 TWh exchanged in 2012, recording on an annual basis a drop near 14 TWh. The latter includes a reduction in the Stock Exchange volumes (8 TWh, -22%), only partially compensated by the bilateral contracts concluded OTC and

⁸⁴ Procedure through which the quarterly and annual time contracts (futures, forward and contracts for differences) at the moment of expiry are substituted with an equivalent number of contracts with a shorter duration. The new positions are opened at a price equal to the final liquidation price of the original contracts.

registered for clearing (33.1 TWh, +8.5%), which by now represents a predominant share (81%) of the energy passed on the MTE. The drop of volumes passed on the MTE platform involved especially the baseload contracts (36.7 TWh, -30%), in particular the monthly and quarterly ones, which decreased respectively to 0.2 TWh and 0.3 TWh (-91% and -95%); whereas, the flexion was more contained per the annual products: 36.1 TWh, -15%. In countertendency, the peakload products that increased in 2013 to 4.4 TWh (+63%), with a concentration of volumes negotiated on the annual product (4.3 TWh, +65%).

The scarce liquidity of the MTE market, in terms of contracts concluded and temporal distance among the various couplings, complicates the analysis on the price signals provided in 2013 for year 2014. Focusing the attention only on the annual product - baseload and peakload – that represents 74% of the couplings – a decreasing dynamic can be observed that characterised the first months of 2013 and a following stabilization starting from the month of April, with an average price of 61.6 €/MWh for the baseload and 69 €/MWh for the peakload. As regards the baseload product, the last coupling price in the month of December results to be about 63 €/MWh, a definitively high value compared to the spot shares of the first quarter 2014, confirming the situation of great uncertainty, which leads the operators to prefer forward positions rather than conservative which often underestimate the lowering trends in action, tending to reproduce for the following year intra-year levels and trends in act in the negotiation period.

Table 3.7 Volumes exchanged on the Forward market in 2013

MWh		
DURATION	BASELOAD PRODUCTS	PEAKLOAD PRODUCTS
Monthly	233	6
Quarterly	341	75
Annual	36,144	4,297
TOTAL	36,718	4,379

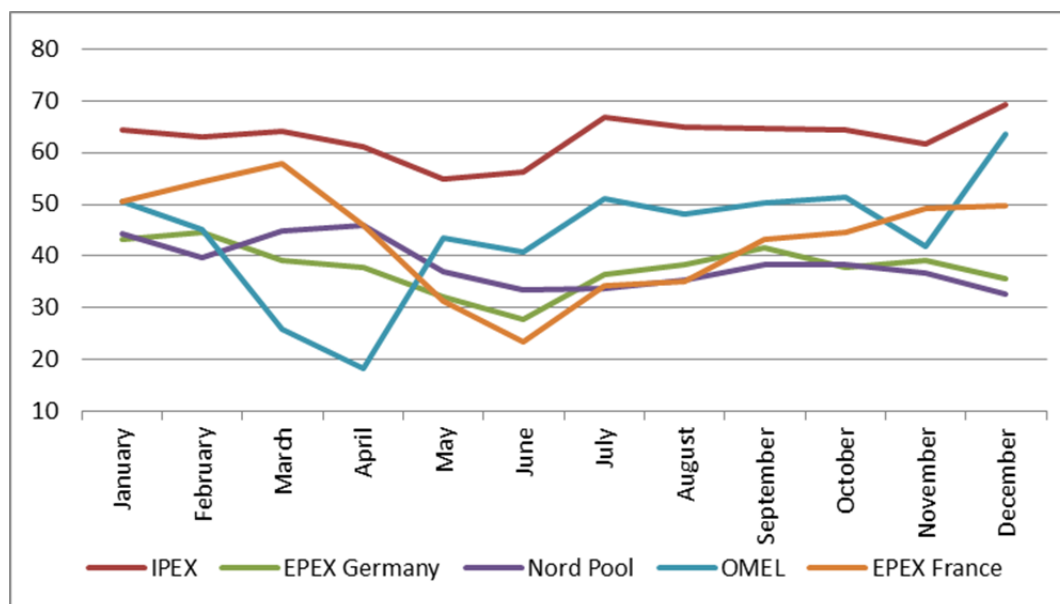
Source: AEEGSI's elaboration on GME's data.

The Italian market's level of integration in the European context

At European level, the duration of the economic crisis during 2013 confirmed several tendencies already emerged on the main Stocks Exchanges during 2012. The average annual prices decreased everywhere and set around 38 €/MWh (Germany) and 44 €/MWh (Spain). In this context, the Italian electricity Stock Exchange, although confirming to be a market with its own dynamics, recorded the most important flexion among the main European Stock Exchanges (-16.6%). This decrease translated into an increasing convergence between the prices in Italy and those of the other main Stock Exchanges, even if there is still a relevant distance among the correspondent levels of price. In detail, the differential of the Italian price with Germany dropped to 25.21 €/MWh (-23%), that with France to 19.75 €/MWh (-31%) and that with Spain to 18.72 €/MWh (-34%), as shown in Figure 3.6.

Figure 3.6 Trend of the average monthly price in the Main European Stock Exchanges in 2013

Average baseload values; €/MWh



Source: AEEGSI's elaboration on the data of the European electric Stock Exchanges.

3.2.1.2 Monitoring of transparency levels, including compliance with transparency obligations as well as obligations concerning the level and efficiency of the opening of the market and competition

The monitoring activity of the spot electricity market and forward electricity market is carried out by the Authority on a periodical basis (weekly or monthly), with the guaranteed support of GME's and Terna's Offices. Said activity⁸⁵ is based on the analysis of a weekly/monthly report, organised by the above mentioned Offices on the basis of methodologies defined by the Authority, that enables to identify possible anomalies and trigger further in-depth analyses, propaedeutic to the possible launching of preliminary investigations.

Moreover, several reports and informative documents are envisaged *ex lege*, mainly technical, that the Authority prepares and submits to the cognizant Parliamentary Commissions and to the Ministry of Economic Development so as to provide information concerning the state of the markets.

In particular, in the report submitted to the Ministry of Economic Development of 25 July 2013,⁸⁶ as provided for by art. 11, paragraph 1, of the Decree of the Ministry of Economic Development dated 29 April 2009, the Authority carried out in-depth analyses on many issues concerning the electricity market. Specifically, a quantitative analysis is provided carried out on the basis of the monitoring data relevant to years 2011 and 2012 with regard to:

⁸⁵ Provided for by resolution dated 5 August 2008, ARG/elt 115/08.

⁸⁶ Report dated 25 July 2013, 331/2013/l/eel.

- the evolution of the national generation park, with particular reference to the levels of adequacy of the electricity system in the Continent and the two main Islands;
- the evolution of the RTN, with particular reference to the infrastructural interventions necessary for reducing the congestions present on the relevant grid;
- the evolution of the market structure, with particular reference to the level of competitiveness present in the different market zones;
- the price trends of the Day-Ahead Market and the Dispatching Service Market, with particular reference to the situation of the two main Islands and the effect of the increasing penetration of the non-programmable renewable sources on the market outcomes and on the dispatching activity.

Regulation (EU) 1227/2011 of the European Parliament and of the Council dated 25 October 2011, concerning the integrity and transparency of the Wholesale electricity market (REMIT), defined the European regulations aimed at preventing abusive conducts in the wholesale electricity and natural gas markets. In particular, the REMIT introduces specific rules that:

- prohibit market abuses, specifically market manipulation and insider trading;
- establish a monitoring system of the wholesale electricity markets by the *Agenzia per la cooperazione dei regolatori per l'energia* (ACER), in close collaboration with the National Regulatory Authorities, in order to identify and prevent the above mentioned abusive conducts;
- envisage for each Member State to provide its National Regulatory Authority with investigative and executive powers necessary for carrying out said functions, in order to control the implementation of the prohibition of market abuses.

In the defaults of the national attribution of investigative and executive powers, necessary for controlling the prohibition of market abuses, the Authority⁸⁷ created an inter-directional work group with the aim to launch activities within its competence in view of the complete operativeness of the European regulations. In particular, the Authority provided for the work group:

- to update the systems for collecting information and recording operators, maximising the synergies with the personal data and the various information collected;
- to cooperate with ACER and the other national Regulatory Authorities, as well as with the financial authorities and the Competition Authorities, consistently with the modalities provided for by the REMIT;
- to evaluate criteria and modalities for implementing the market operators' obligation to publish privileged information.

In carrying out the activities provided for, the Authority intends to promote measures for the effective implementation of REMIT's regulations, identify the main implications on the operators'

⁸⁷ With resolution dated 11 July 2013, 301/2013/A.

activities, collect information and assessments of the subjects involved concerning the many aspects connected to the implementation of the European regulation in the Italian context.

In particular, the Authority has recently started⁸⁸ a debate with the market operators subject to the obligation to publish privileged information, so as to identify the main implications of said obligation on the operators' activities, in order to possibly transfer them to the cognizant European institutions. The consultation is also aimed at presenting several hypothesis concerning the use of centralised platforms for the publication of privileged information.

3.2.2 Retail markets

On the basis of the provisional data published by Terna, the total consumptions (net of the losses) in 2013 amounted to about 297 TWh, a little more than 10 TWh less than those consumed in 2012 (-3.4%). Table 3.9 describes the division of the latter per final sector of use.

Table 3.8 Division of national consumptions per final sector

TWh			
PRODUCTIVE SECTOR	2012	2013 ^(A)	VARIAT. %
Domestic	69,457	66,450	-4.3
Agriculture	5,924	5,800	-2.1
Industry	130,801	124,700	-4.7
Tertiary	101,038	99,800	-1.2
TOTAL	307,220	296,750	-3.4

(A) Provisional data.

Source: AEEG's elaboration on Terna's provisional data.

On the basis of the Authority's Registry of operators, 136 subjects in the standard offer market stated to have sold electricity in 2013 (also for a limited period of the year), 3 in the safeguarded categories market and 386 in the free market. In 2012, the sellers amounted to 136 in the protected categories market, 3 in the safeguarded categories market and 336 in the free market. The number of electricity sellers therefore grew in 2013 by 50 units, all on the free market. This number has been in constant expansion since 2007 - year of complete opening of the market – due to the entrance of new actors coming from contiguous sectors (reportedly the sale of gas), but also others. The trend of growth did not interrupt even in the most recent years, despite the total volumes sold have been instead in decrease since 2008, even if the collection point have been increasing.

Of the 272 active sellers that responded to the Annual investigation, 16.9% (that is 46 subjects) serve customers throughout the whole national territory, that is in all 20 regions; almost half of the sellers (48.1%) sold electricity to a number of regions comprised between 1 and 5; the remaining 95 companies operated in a number of regions comprised between 6 and 19.

The company composition of the social capital of the sellers of electricity at 31 December 2013, limited to first level direct participations, shows a scarce foreign presence: only 9 companies (over

⁸⁸ With consultation document 101/2014/E/com dated 13 March 2014.

257 that provided these data) have a non-Italian majority stakeholder. The foreign participants result to be mostly Luxembourg or Swiss companies.

Table 3.10 presents the division of the total sales and of the total number of customers (approximated by the number of collection points) per typology of market, established on the basis of the data of the Authority's Annual Investigation provided by electricity operators: producers, shopkeepers of the standard offer market and safeguarded categories market, wholesalers and sellers of the free market.⁸⁹ The sale data collected by the Authority (considered together with self-consumptions) are representative of a population that reflects 95%⁹⁰ of the final consumptions estimated by the administrator of the electricity grid ("Terna").

The results of the Annual investigation (provisional for 2013) show that last year 257 TWh were sold to about 37 million customers on the end market. In all, the consumptions of energy decreased by 2.7% compared to 2012, while consumers increased by almost one point percentage. Despite the persisting of the economic crisis has produced a further general decrease in consumptions, the free market "has resisted" better than the standard offer market. Unlike the recent years, consumptions in the domestic sector have suffered as those of the productive uses, actually slightly more.

More precisely, the domestic sector purchased in the whole 59.5 TWh against the 61,3 TWh in 2012, therefore recording a 2.8% decrease, while the energy purchased by the non-domestic sector – this year almost 198 TWh instead of the previous 203 TWh – highlighted a 2.6% reduction compared to 2012. As in the past, the share of the standard offer regime over the total market decreased both in terms of energy, and in terms of customers, while the share of the free market further increased in terms of customers, despite it substantially sold the same amounts of energy of the previous year.

In the standard offer regime, the sale volumes decreased by almost 9% compared to 2012. The reasons of said decrease fall within the current economic situation which in 2013 remained substantially negative, driving consumers to save on energy costs in part through the reduction of consumptions, but in part also through the shifting in the free market, in search of more favourable price conditions. As highlighted in the Table, the loss of customers in this market, quantifiable in about 1.2 million collection points, together with what observed in the safeguarded categories (-20,000 collection points compared to 2012), was more than compensated by the increase in the number of customers on the free market, increased by more than 1.5 million units. Also the net reduction of the average consumptions on all the typologies of customers (with the sole exception of the safeguarded categories, for various reasons) seems to be a further confirmation of this hypothesis: consumers increase and the new ones enter directly in the free market, where also the "old" ones move always more in the attempt to find better conditions; however, they all consume always less, perhaps because the possession of the durables changes progressively and/or always more attention is placed on environmental matters, but – very likely – also to reduce energy expenditure.

In 2013, the energy sold in the safeguarded categories decreased by almost 15%, and number of customers served dropped by almost 18%. The contraction of collections seems almost entirely

⁸⁹ This year, the sellers that responded to the Investigation amounted to: 134 for the standard offer market, 3 for the safeguarded categories and 326 for the free market.

⁹⁰ In order to obtain the percentage indicated, it is necessary to add to the final consumptions of the Investigation shown in Table 3.10 the data collected in the Investigation at title of personal and group self-consumptions, besides the sales to final customers not connected to distribution grids that are not included in the table.

due to the reduction of the users served in this market that, after absorbing peaks caused by the companies' economic crisis, seems to have gone back to more physiological levels.

Vice versa, as seen, the electricity provided in 2013 on the free market underwent a very slight contraction (-0.1%), despite the strong increase (+17.3%) of the customers served. The substantial stability of the volumes sold on the free market is integrally due to the remarkable growth that the domestic sector registered in this market: in fact, the energy sold to domestic customers on the free market increased by 15.6% (+22.5% the number of points served). Still in 2013, the non-domestic consumptions instead registered a decrease in all the markets: 8.7% in the standard offer, 14.6% in the safeguarded categories and -2.6% in the free market. Therefore, in the whole, in 2013 the standard offer acquired 25% of all the energy sold to the final market (26% in 2012), the safeguarded categories absorbed 2% (the same as in 2012) and the free market purchased 73% (against 72% in 2012).

Table 3.9 Final electricity sale market

Net of self-consumptions and losses

	VOLUMES (GWh)			COLLECTION POINTS (thousands) ^(A)		
	2012	2013	% VAR. 2013/2012	2012	2013	% VAR. 2013/2012
Standard offer regime	69,850	63,832	-8.6%	27,821	26,608	-4.4%
Domestic	46,664	42,657	-8.6%	23,173	22,204	-4.2%
Non-domestic	23,186	21,176	-8.7%	4,648	4,404	-5.3%
Safeguarded categories	5,161	4,407	-14.6%	113	93	-17.7%
Free market	189,486	189,225	-0.1%	8,713	10,224	17.3%
Domestic	14,597	16,872	15.6%	5,798	7,100	22.5%
Non-domestic	174,889	172,354	-1.4%	2,915	3,124	7.2%
FINAL MARKET	264,497	257,465	-2.7%	36,647	36,925	0.8%

(A) Collection points are calculated with the criterion *pro die*.

Source: Annual Investigation on the regulated sectors.

The place list of the first twenty groups as regards sales to the end market for year 2013 (Table 3.10) presents several interesting novelties compared to last year, especially for the alternation of the sellers in the various positions.

The group Enel remains the dominant operator in the segment of final sale, despite the constant erosion of its market shares in various segments; in 2013, its weight in the total market decreased to 34.9%, against 37.8% in 2012. Enel's importance is maximum in the domestic segment, to which it still provides 76% of the energy consumed, and remains very relevant also in the non-domestic segment connected in low voltage, for an amount equal to 43%. Compared to 2012, however, Enel has lost the first position in the other two segments, that is the segment of sales to non-domestic customers connected in medium and high/very high voltage, in favour in the first case of the group Edison and in the second of the group Green Network Luce & Gas. The energy sold by Edison to non-domestic customers in medium voltage substantially has reached the quantity sold to them by Enel (9.9% and 9.8% are the respective market shares toward these customers), and it has exceeded – by more than two point percentage – Enel's sales to customers connected in high or very high voltage. With 7.3% in all, the group however ranks solidly second in the general place list. The group Green Network Luce & Gas ranked first for sales to customers connected in high or very high voltage, providing 17.5% of all the energy consumed in this segment. Owing to this

performance (obtained also through the acquisition of the group Modula and other companies) this group, which in 2012 was not among the first twenty, ranked sixth in the general place list in 2013. Especially owing to important sales to non-domestic customers, the group Eni ranked third in the total list in 2013 with a 4.1% share. In 2012, this position was held by Acea, which became fourth with 3.9%. Lastly, 2013 saw the entrance among the first twenty of groups Gala, C.V.A. and GdF Suez, and the exit of Modula (incorporated in Green Network Luce & Gas), Alpiq Holding and C.I.E.

The level of market concentration decreased compared to 2012: the first ten operators (company groups) cover 64% of the total sales (the share was 70% in 2012), while it is necessary to have 16 (13 last year) in order to exceed 75%. The first three groups, however, still dominate half of the market (46.2%).

Table 3.10 First twenty groups with reference to sales to the end market in 2013

GWh

GROUP	DOMESTIC CUSTOMERS	NON-DOMESTIC CUSTOMERS			TOTAL
		BT	MT	AT/AAT	
Enel	45,483	31,824	9,179	3,397	89,884
Edison	1,735	3,554	9,337	4,083	18,709
Eni	2,070	1,916	4,262	2,193	10,441
Acea	2,188	2,209	3,520	2,023	9,940
Hera	815	2,899	4,431	270	8,415
Green Network Luce & Gas	8	377	2,050	5,271	7,706
A2A	1,493	2,342	2,667	379	6,879
Sorgenia	705	2,254	3,491	371	6,821
E.On	177	1,567	3,679	462	5,885
Axpo Group	0	721	1,818	3,279	5,818
GALA	4	1,603	3,852	142	5,602
Iren	1,010	1,239	2,117	527	4,892
C.V.A.	130	1,677	2,725	1	4,533
Energetic Source	72	1,586	2,230	210	4,099
Repower AG	0	1,861	1,652	1	3,514
Egea	22	379	2,843	252	3,496
Dolomiti Energia	436	1,232	1,619	82	3,370
GdF Suez	685	228	559	1,743	3,216
Exergia	0	1,032	1,711	118	2,861
Metaenergia	42	263	2,407	109	2,821
Other operators	2,451	13,113	27,776	5,222	48,562
OPERATORS TOTAL	59,528	73,875	93,927	30,135	257,465

Source: Annual Investigation on the regulated sectors.

Standard offer regime

The standard offer regime is aimed at domestic customers and small enterprises⁹¹ connected in low voltage that do not have a trading contract in the free market. The service is guaranteed by specially devoted sale companies or by distributing companies with less than 100,000 customers connected to their grid, on the basis of economic conditions and commercial quality indicated by the Authority.

In 2013, a little less than 64 TWh were sold in the standard offer regime to almost 27 million collection points. Compared to 2012, when the volumes sold almost reached 70 TWh and the number of the collection points served came close to 28 million, consumptions dropped by 8.6%, while the collection points served decreased by 4.4%. The reduction in volumes was very high and almost uniform for all uses: almost nine points percentage less compared to 2012 for the domestic (-8.6%) and for other uses (-8.7%), while the drop in consumptions for public lighting was lower by one point and a half percentage, but however very wide (-7.3%). The almost analogous drop in consumptions did not change the shares of the various uses on total consumption, compared to 2012. Domestic users purchased 67% of the volumes (a little less than 43 TWh) which, in terms of numerosness (22 million collection points), represents 83% of the total protected categories market (decreased to a little less than 27 million collection points). As regards the domestic market served in the standard offer regime, 89% concerns resident customers; about 87% of the latter is represented by customers with power up to 3 kW. The percentages corresponding to collection points are, instead, respectively equal to 72% and 93%.

The main economic conditions in the standard offer regime are the obligatory bi-hourly and the multi-hourly, which together count for 94.8% of the collection points. Almost all the domestic customers (94.7%) pay the obligatory bi-hourly tariff, that is the economic condition that varies depending on the time of the day and that, as of 1 July 2010, is applied automatically to customers with reprogrammed smart meter; a very modest share, equal to 1.9%, pays the voluntary bi-hourly tariff, that is the one requested explicitly from customers even before 1 July 2010; the old mono-hourly tariff is still applied to the remaining 3.4% of the domestic collection points.

As expected in time of crisis, the average consumption of the domestic customer further decreased, dropping to 1,921 kWh a year (Table 3.11), that is 100 kWh below the 2,014 kWh registered in 2012. Slightly higher, equal to 2,049 kWh, but this too decreased by 100 kWh compared to last year, is the average consumption of residents with power up to 3 kW; equal to 4,025 kWh is the average consumption of residents with power above 3 kW, which last year reached 4,231 kWh; while the average consumption of the non-residents was less than half, that is 982 kWh against the 1,058 kWh in 2012.

The first three consumption classes are composed of 68.6% of resident consumers (that is collections points) up to 3 kW of power (consumptions lower than 2,500 kWh/year), which together represent half of all the domestic customers. About three fourths of the resident consumers above 3 kW power belongs to higher consumption classes (consumptions from 2,500 to 15,000 kWh/year); however, these three classes represent 4.1% of all the domestic customers. As regards instead non-resident consumers (second houses), 69% falls within the first class (consumptions lower than 1,000 kWh/year) and the consumptions of 83.6% of said customers does not exceed 1,800 kWh/year.

⁹¹ Pursuant to Decree Law n. 73 dated 18 June 2007 (converted with amendments by Law n. 125 dated 3 August 2007) "small enterprises" are final customers different from domestic customers with less than 50 employees and a yearly turnover or a total budget not above 10 million Euros.

Table 3.11 Domestic customers in the standard offer regime divided by typology and consumption class in 2013

Volumes in GWh; number of collection points in thousands; average consumption in kWh

TYPOLGY OF CUSTOMER AND ANNUAL CONSUMPTION CLASSES	VOLUMES	% SHARE	COLLECTION POINTS ^(A)	% SHARE	AVERAGE CONSUMPTION
0-1,000 kWh	2,676	6.3%	6,441	29.0%	416
1,000-1,800 kWh	7,135	16.7%	5,058	22.8%	1,411
1,800-2,500 kWh	9,154	21.5%	4,280	19.3%	2,139
2,500-3,500 kWh	11,278	26.4%	3,836	17.3%	2,940
3,500-5,000 kWh	7,851	18.4%	1,928	8.7%	4,071
5,000-15,000 kWh	4,161	9.8%	646	2.9%	6,440
> 15,000 kWh	402	0.9%	14	0.1%	28,519
DOMESTIC TOTAL	42,657	100.0%	22,204	100.0%	1,921
OF WHICH					
Domestic residents up to 3 kW	32,938	77.2%	16,077	72.4%	2,049
Domestic residents above 3 kW	4,897	11.5%	1,217	5.5%	4,025
Domestic non-residents	4,821	11.3%	4,910	22.1%	982

(A) Collection points are calculated with the *pro die* criterion.

Source: Annual investigation on the regulated sectors.

Table 3.12 Non-domestic customers in the standard offer regime divided by typology and consumption class in 2013

Volumes in GWh; number of collection points in thousands; average consumption in kWh

TYPOLGY OF CUSTOMER AND ANNUAL CONSUMPTION CLASSES	VOLUMES	% SHARE	COLLECTION POINTS ^(A)	% SHARE	AVERAGE CONSUMPTION
0-5 MWh	4,184	19.8%	3,528	80.1%	1,186
5 – 10 MWh	2,834	13.4%	404	9.2%	7,011
10 - 15 MWh	1,917	9.1%	157	3.6%	12,222
15 - 20 MWh	1,510	7.1%	87	2.0%	17,310
20 - 50 MWh	5,094	24.1%	167	3.8%	30,421
50 - 100 MWh	2,966	14.0%	44	1.0%	67,834
100 - 500 MWh	2,618	12.4%	16	0.4%	160,462
500 – 2,000 MWh	52	0.2%	0	0.0%	711,739
2,000 – 20,000 MWh	0.4	0.0%	0	0.0%	2,217,400
NON-DOMESTIC TOTAL	21,176	100.0%	4,404	100.0%	4,808
OF WHICH					
Non-domestic up to 16.5 kW	11,217	53.0%	4,087	92.8%	2,745
Non-domestic above 16.5 kW	9,561	45.1%	297	6.8%	32,160
Public lighting	398	1.9%	20	0.5%	19,677

(B) Collection points are calculated with the *pro die* criterion.

Source: Annual Investigation on the regulated sectors.

Table 3.12 shows the division of volumes (21.2 TWh) and collection points (about 4.8 million) with reference to non-domestic uses served in the standard offer regime per consumption class. 80% of

customers falls within the first consumption category for a volume corresponding to about one fifth of total consumptions. Collection points with power lower than 16.5 kW represent 92.8% of the total and absorb more than half of the consumptions. About 2% is absorbed by public lighting and the rest by customers with power above 16.5 kW.

Safeguarded categories

All customers that, even temporarily, do not have an electricity trading contract in the free market, but do not have the right to access the standard offer regime are admitted to the safeguarded categories. As of 1 May 2008, the service is provided by sale companies selected through biddings.⁹²

The companies that were selected through competition procedure for carrying out the safeguarded categories service in years 2011, 2012 and 2013 were Enel Energia, Exergia and Hera Comm. In November 2013, the competition procedure was concluded for carrying out the safeguarded categories service in the next three years, that is 2014, 2015 and 2016. From 1 January 2014 and up to 2016, the companies appointed to carry out the safeguarded categories service are Enel Energia (for eight regions) and Hera Comm (for the remaining 12 regions).

In 2013, 93,000 collection points were served in safeguarded categories regime. These customers collected a total of 4.4 TWh, that is 14.6% of energy less than what consumed in 2012. Also the number of collection points served in said regime has remarkably decreased compared to 2012: in that year, in fact, they were 113,000; therefore, the reduction amounts to almost 18%, higher than that of volumes. Said phenomenon occurred for all the typologies of customers, with the exception of other uses connected in low voltage, for which the drop in the energy consumed resulted to be substantially analogous to that of the collection points.

Therefore, the collection contraction seems almost entirely due to the reduction of the users served in this market. In fact, the average consumption increased for all the typologies of customers, except for the other uses in low voltage, where it remained almost unvaried. The drop in consumptions and purchasers served in this market constitutes, for certain aspects, a positive signal on the economy's trend, because the safeguarded categories service is also the regime that holds the users of the free market that persist in a default condition.⁹³ Probably, the economic difficulties faced in the past years by industrial and commercial customers made the number of default users increase and, consequently, also that of the users served in said regime; their reduction could therefore be the signal of a return to more normal numbers, so to say.

The safeguarded categories service concerns almost exclusively industrial and commercial uses, that collect 90.6% of all the energy sold on this market. For the most part, these customers are connected in medium voltage (60.5%), but a non-negligible share of these (27.4%) is connected in low voltage. The remaining 9.4% of the energy is supplied to public lighting.

Given the typology of customers that access this market, the average collection is rather high, higher than 47 MWh. Of course, said average value is the result of three very different numbers depending on the type of voltage: the value of the average consumption for users connected in low voltage, in fact, is equal to 19 MWh, that of customers in medium voltage goes up to 280 MWh, and reaches the peak of 2.7 GWh in case of high voltage users.

⁹² As established by the Decree of the Ministry of Economic Development dated 23 November 2007.

⁹³ It is here reminded that, pursuant to resolution dated 5 January 2008, ARG/elt 4/08, when a final customer of the free market persists in a default condition, the seller can rescind the contract and the customer is thus admitted to the safeguarded categories.

Free market

As already highlighted in the previous pages, in 2013 the free electricity market experienced a new expansion in terms of customers and number of operators, even if the same did not occur in terms of quantity. According to what emerged by the Annual investigation on the regulated sectors (whose results concerning 2013, as mentioned, are still preliminary), last year the number of active sellers⁹⁴ increased by about another 40 units, but the energy sold remained substantially unvaried or, more precisely, it decreased by 0.3 TWh. Therefore, the average unitary sale volume of sales further decreased by 15.5%, setting slightly below 700 GWh, the lowest value registered up to now, equal to about half the one in 2007, year of the complete opening of the market.

Almost half, 48.1% to be precise, of the 272 active sellers that responded to the Annual Investigation serve customers in a number of regions comprised between 1 and 5; 46 companies, equal to 16.9%, sold electricity throughout the whole national territory; the remaining 95 companies operated in a number of regions comprised between 6 and 19.

In table 3.13, the data collected by the Authority are divided by typology of customers and voltage; the customers served in the free market increased in a generalized manner, in some cases with very high variation rates.

Table 3.13 Free market by typology of customer

TYPOLOGY OF CUSTOMER	VOLUMES (GWh)			COLLECTION POINTS (thousands) ^(A)		
	2012	2013	VAR. % 2013/2012	2012	2013	VAR. % 2013/2012
Low voltage	64,119	67,982	6.0%	8,619	10,121	17.4%
Domestic	14,597	16,872	15.6%	5,798	7,100	22.5%
Public lighting	4,854	4,857	0.0%	199	218	9.7%
Other uses	44,667	46,253	3.6%	2,623	2,803	6.9%
Medium voltage	91,607	91,225	-0.4%	93	103	10.6%
Public lighting	275	339	23.4%	0.6	0.9	61.5%
Other uses	91,333	90,886	-0.5%	92	102	10.3%
High voltage and Very high voltage	33,760	30,018	-11.1%	0.8	1.0	25.3%
Other uses	33,760	30,018	-11.1%	0.8	1.0	25.3%
TOTAL	189,486	189,225	-0.1%	8,713	10,224	17.3%

(A) Collection points are calculated with the *pro die* criterion.

Source: Annual Investigation on the sectors regulated.

In the domestic sector – in which the collection points increased by 22.5% compared to 2012 – public lighting stands out for connections in medium voltage and for non-domestic customers connected in high or very high voltage. The same cannot be said for sale volumes: in this case, there are very positive variation rates only for low voltage uses, especially due to the increase of

⁹⁴ Of the 326 sellers on the free market that responded to this year's Investigation, 54 stated to have remained inactive throughout all of 2013. Therefore, the number of sellers that provided data concerning the free market mentioned in these pages is of 272 subjects.

more than 2 TWh in the domestic sector, and public lighting connected in medium voltage, that is in sectors that starting from reduced quantities tend to record higher growth rates with increases in absolute value relatively contained. Whereas, productive uses connected in high or very high tension decreased by almost 4 TWh, recording a remarkable 11% drop, which follows the already consistent one (-15%) in 2012. From a relative viewpoint, it is possible to observe that 36% of volumes was acquired by consumers connected in low voltage (it was 34% in 2012), 48% from medium voltage (as in 2012) and 16% from high and very high voltage (it was 18% in 2012). Consequently, the share of “other uses” (different from domestic uses and public lighting), which in 2012 amounted to 90% over the entire free market, dropped to 88% in terms of energy and to 28% in terms of collection points (it was 31% in 2012).

Among the **domestic**, the most important class is that with consumptions comprised between 2,500 and 3,500 kWh/year, which counts for 22.9% in terms of numerosness of customers and 28.5% in terms of collections. Also the other two classes (1,000-1,800 and 1,800-2,500 kWh) are just as important in terms of shares of customers, but they are not as wide in terms of consumptions. In each class, the average consumptions that emerge from the data concerning the free market result to be along the same amount, even if slightly higher, to those of the domestic customers served in the protected categories market.

In 2013, 15% of the domestic customers - more than one million - signed a dual fuel contract. The total consumption of these customers is equal to 2.3 TWh, almost 14% of all the energy sold to domestic users on the free market. Also these customers show average consumptions similar to the general ones. The unbundling of customers per tariff applied shows a preference for the bi-hourly contract, which was chosen in more than half (51%) of the cases. 38% of the customers chose the mono-hourly contract and only 11% the multi-hourly one.

As regards **non-domestic** customers, sales in terms of volumes result concentrated in higher consumption classes; about 0.3% of users consume more than 2,000 MWh a year, for a total of 86.6 TWh (50.2% of the total sales in the relevant segment of the market), while more than half the customers (53%) consumes less than 5 MWh a year.

Among the non-domestic customers, the dual fuel contracts are not very much widespread: the collection points that preferred this kind of supply are about 64,000 over more than 3 million in total and almost all connected in low voltage; the energy acquired is about 1.8 TWh over the total 172.

Concentration in the electricity sale market

Analysing market shares with reference to the sale to final customers, it is clear that the **standard offer regime** is strongly concentrated, despite 136 companies work in this market. The company Enel Servizio Elettrico remains the main company with a market share equal to 85.7%; then there is Acea Energia (4.3%), A2A Energia (3.7%) and Iren Mercato (1.3%). The other operators have shares lower than 1%; together, these cover less than 5% of the standard offer regime.

The group Enel, which as mentioned absolutely dominates the protected segment of the electricity end market, is definitively less important in the **free segment**, although it ranks first here as well. In fact, in 2013 its sale share to free customers newly touched a relative minimum (17.7%), even lower than the 2010 value (19%), up to now recorded as the lowest ever. Moreover, last year the distance with the second group, Edison, shortened, the incidence of which though increased compared to 2012, passing from 9% to 9.9%. The same occurred to the group Eni, which

from 5% in 2012 increased to 5.5%. The fourth position is held by the group Green Network Luce & Gas which, as mentioned in the previous pages, sold a great amount of energy to customers connected in high or very high voltage. The level of national concentration in the free market, however, has undergone an overall decrease: the share of the first ten groups in terms of volumes sold decreased by 4.5 points percentage, dropping to 56.9% from 61.4% in 2012.

In the **overall retail market** the company groups which in 2013 reached a market share higher than 5% are 2: Enel with 34.9% (it had 37.9% in 2012) and Edison with 7.3% (6.4% in 2012). Then there is the group Eni, with a market share of 4.1%, and Acea (3.9%). The first ten operators (company groups) cover 66% of the total sales. Table 3.14 shows these data in detail by level of voltage.

Table 3.14 Retail market: market shares of the first three operators by level of voltage in 2013

LEVEL OF VOLTAGE	N. OPERATORS	CUMULATED SHARE
	WITH SHARE >5%	FIRST 3 OPERATORS
Low voltage (domestic)	1	83.6%
Low voltage (non-domestic)	1	51.5%
Medium voltage	2	24.4%
High and very high voltage	7	42.3%
TOTAL	2	46.2%

Source: Annual investigation on the regulated sectors.

3.2.2.1 Monitoring of price levels in the retail market, of the level of transparency, as well as of the level and efficiency of the opening of the market and competition

Monitoring of price levels in the retail market

As regards the surveillance of sale prices in the retail market, the Authority is able to provide two surveys:

- one carried out pursuant to resolution 20 November 2008, ARG/elt 167/08, in which monthly data are collected every three months concerning the prices invoiced by sellers to domestic and non-domestic customers, distinguished by consumption classes and type of market (protected and free);
- one carried out within the ambit of the Annual Investigation on the regulated sectors, in which the data of the previous year are collected and distinguished in detail according to various categories (type of market, sector and consumption classes, typology of contract applied).

With resolution dated 3 November 2011, ARG/com 151/11, the Authority approved the *Code for monitoring the electricity and natural gas retail markets [Testo integrato del monitoraggio dei mercati della vendita al dettaglio dell'energia elettrica e del gas naturale (TIMR)]* which obliges companies in the final electricity sale sector (with more than 50,000 collection points served) to submit to the Authority every three months the data concerning the electricity average monthly prices applied on the end market, together with many other indicators (see following paragraph). In actual fact, starting from January 2012, the average prices collected by the Authority pursuant to resolution ARG/elt 167/08, limitedly to sellers obliged pursuant to TIMR, fall within the ambit of

the retail monitoring system. However, owing to an institutional agreement, all the data collected pursuant to resolution ARG/elt 167/08 are submitted every six months to the Ministry of Economic Development that sends them to Eurostat complying with obligations provided for by directive 2008/92/EC of 22 October 2008 concerning the community procedure on price transparency to the final industrial consumer of gas and electricity.

The data of the second survey, instead, are used for the statistics analyses carried out by the Authority, especially those at the basis of the Annual Report.

As regards the monitoring of the implementation of the bi-hourly prices, art. 6-ter of the Sales Code [*Testo Integrato vendita* (TIV)] provides for each company operating in the standard offer market to communicate every three months to the Single Buyer (with reference to each month of the three-month period considered) the PED consideration applied to each customer served, distinguishing between the collection points for which a differentiated consideration is applied depending on time and the points for which the consideration applied results to be mono-hourly. Moreover, companies operating in the standard offer market must provide the communication submitted to customers before implementing the PED considerations differentiated by time, with reference to the communication of consumptions differentiated by time and months or by groups of months. This information was used by the Authority during its inspections in the first implementation phase of the bi-hourly prices to domestic customers.

On the basis of the provisional data collected by the Authority, in 2013 the average price on the free market for electricity supplying amounted to 110.47 €/MWh. This price was registered asking the operators of the free market to include only the components as regards energy, dispatching, grid losses, imbalances and sale commercialization costs. As in 2012, the datum refers to the total offers of the free market and considers all the typologies of customers served in low voltage.

Whereas, as regards the sales related to the standard offer market, the average price set around 105.52 €/MWh. This price was registered asking the companies operating on the standard offer market to include only the following components (already including grid losses): PED (PE+PD), PCV, DISPBT and PPE, that is the items concerning electricity purchase and dispatching, sale commercialization costs and equal distribution components.

Therefore, also in 2013, as in the previous two years, a higher price for customers served in low voltage in the free market is registered. Unlike the previous years, though, there is a net differentiation between domestic and non-domestic customers. While for the domestic customers the free market is more onerous and with a relevant differential (17.29 €/MWh, equal to +16.7%), for non-domestic customers in low voltage the free market results to be slightly moderate (-2.11 €/kWh, -1.9%).

As emerged in the conclusions of the preliminary investigations on the issue, as mentioned under resolution dated 7 August 2013, 366/2013/E/com, it is necessary to consider that offers on the free market are more articulated and often include additional services (for example, insurance policies or tools for energy efficiency) and that sometimes they are characterised by price structures, such as those with a blocked price, that entail mechanisms for updating the considerations different from that of the standard offer market, which moves on a quarterly basis. In 2013, the average price on the free market for electricity supplying was distributed per consumption class and voltage level, respectively as regards domestic customers and non-domestic customers, as illustrated in tables 3.15, 3.16, 3.17 and 3.18. It is important to highlight that the average non-domestic customer in low voltage in the free market presents an average consumption of 16,900 kWh/year.

The comparison between the prices for dual fuel supply and those for electricity supply highlights, in the whole, a slight advantage for the former. The distance between the two prices, though, is very diversified depending on the consumption classes, probably due to the different commercial policies operated by the dual fuel sellers. However, as regards this specific issue, it is important to highlight the incomplete nature of the data available, because many sellers did not respond to the specific question provided in the Investigation.

Table 3.15 Prices of domestic customers in the free market divided per consumption class in 2013^(A) – supplying cost

€/MWh

CONSUMPTION CLASS	TOTAL DOMESTIC CUSTOMERS		OF WHICH WITH DUAL FUEL SUPPLY	
	VOLUMES (GWh)	PRICE ^(B)	VOLUMES (GWh)	PRICE ^(B)
<1,000 kWh	578	150.69	99	105.74
1,000-1,800 kWh	2,238	125.27	400	110.94
1,800-2,500 kWh	3,341	121.92	539	113.15
2,500-3,500 kWh	4,807	119.76	650	115.60
3,500-5,000 kWh	3,692	118.42	424	119.74
5,000-15,000 kWh	2,038	116.24	203	121.91
>15,000 kWh	177	97.52	13	118.28
DOMESTIC CUSTOMERS TOTAL	16,872	121.03	2,328	115.13

(A) Provisional data.

(B) The price is calculated including the components referred to energy, dispatching, grid losses, imbalances, commercialization costs.

Source: Annual Investigation on the regulated sectors.

Table 3.16 Prices of domestic customers in the free market divided per type of hourly tariffs in 2013^(A) – supplying cost

€/MWh

HOURLY TARIFF	VOLUMES (GWh)	PRICE ^(B)
Mono-hourly	8,576	118.83
Bi-hourly	6,452	123.65
Multi-hourly	1,845	116.51
DOMESTIC CUSTOMERS TOTAL	16,872	121.03

(A) Provisional data.

(B) The price is calculated including the components referred to energy, dispatching, grid losses, imbalances, commercialization costs.

Source: Annual investigation on the regulated sectors.

Table 3.17 Prices of non-domestic customers in the free market divided per voltage level in 2013^(A) – supplying cost

€/MWh

VOLTAGE LEVEL	TOTAL NON-DOMESTIC CUSTOMERS		OF WHICH WITH DUAL FUEL SUPPLY	
	VOLUMES (GWh)	PRICE ^(B)	VOLUMES (GWh)	PRICE ^(B)
Low voltage	51,110	106.99	1,165	111.09
Medium voltage	91,225	88.14	596	86.25
High and very high voltage	30,018	75.86	35	84.82
NON-DOMESTIC CUSTOMERS TOTAL	172,354	91.59	1,796	102.34

(A) Provisional data.

(B) The price is calculated including the components referred to energy, dispatching, grid losses, imbalances, commercialization costs.

Source: Annual Investigation on the regulated sectors.

Table 3.18 Prices of non-domestic customers in the free market divided per type of hourly tariffs in 2013^(A) – supplying cost

€/MWh

HOURLY TARIFFS	VOLUMES (GWh)	PRICE ^(B)
Mono-hourly	60,446	93.99
Bi-hourly	16,712	86.24
Multi-hourly	95,195	91.01
DOMESTIC CUSTOMERS TOTAL	172,354	91.59

(C) Provisional data.

(D) The price is calculated including the components referred to energy, dispatching, grid losses, imbalances, commercialization costs.

Source: Annual Investigation on the regulated sectors.

Monitoring of the level of transparency, as well as of the level and efficiency of the opening of the market and competition

The **monitoring system of the retail markets** is aimed at enabling the Authority to regularly and systematically observe the functioning of retail sale, including the level of opening, competitiveness and transparency of the market, as well as the level of participation of the final customers and their level of satisfaction.

As mentioned, with resolution ARG/com 151/11, the Authority defined the subjects, that is the sale companies or the distributing companies with the necessary characteristics (in terms of number of points served) obliged to submit basic data necessary for the Authority's indicator calculation,⁹⁵ as well as the minimum set of market indicators and relevant calculation modalities. Moreover, the activities for collecting basic data have been identified (such as what data to collect, with what frequency and modalities) as well as the modalities for publishing and updating the outcomes of the retail sale monitoring.

As of 2012, the retail monitoring system also includes the data collected by the Authority as

⁹⁵ Indicators are synthetic formulas representative of phenomena object of retail monitoring.

regards the evolution of the standard offer regime for final customers - defined according to what provided for by law n. 125 dated 3 August 2007, and as confirmed by Legislative Decree n. 93/11 (protected categories market and safeguard service) - and information concerning the default phenomenon.

In January 2012, the Authority started a systematic collection of basic data, which continued for year 2013. This collection is functional for the Authority's publication of the *Retail monitoring report* which indicates the indexes measured, and the analysis concerning the evolution of the functioning of the retail markets, with particular reference to the level of opening and to the levels of competitiveness and transparency, as well as the level of participation and satisfaction of the final customers. Moreover, for year 2013, the Authority identified the subjects obliged to submit the data object of the monitoring starting from year 2014, publishing the list of said subjects on the Internet. More specifically, 121 subjects are obliged to comply with the mentioned publication. As regards the electricity sector, 13 electricity distributors and 53 electricity sellers result to be obliged. Regards the mentioned sellers, only four are mono-suppliers, while the remaining sale both electricity and natural gas. The data collection, referred to relevant information starting from 1 January 2014, started in April 2014.

The Authority publishes on its website the evolution of the customers served in the standard offer market on the basis of the data submitted monthly by the companies operating on the protected categories market. The data published, aggregated quarterly and by geographical zone, concern the number of collection points served in the standard offer regime, the shifting to the free market (for which also the detail of the shifting to companies connected to the operator on the standard offer market is indicated) and possible returns from the free market to the standard offer market. Customers' changes of suppliers among operators of the free market are not mentioned.

As regards the measures adopted to promote real competition it is important to mention the **Trova Offerte**, a system for searching commercial offers by electricity and gas sale companies aimed at domestic customers. Starting from the date of the first publication of the system, the average recorded was of about 1,200 accesses/day on the initial research page, with many daily peaks with more than 5,000 accesses. In particular in 2013, the total amount of accesses to the initial page was 438,478, while the calculations carried out were 631,985. The research carried out in the month of March 2014, using the average consumption profile of the typical domestic customer,⁹⁶ in the main Italian cities, highlights the presence for the electricity service of about 35 offers, in prevalence at a blocked price, with the cheapest offer promoting potential savings, calculated on the annual expenditure gross of taxes per house in Rome, of more than 40 €/year (-8.5%) compared to the supply under the conditions of the standard offer market in force in the first quarter of 2014, and of more than 110 €/year (-19.2%) compared to the less advantageous offer. For the gas service, about 25 offers are visualised, in prevalence with a blocked price, with the cheapest offer promoting potential savings, calculated on the annual expenditure gross of taxes and per houses in Rome, of about 150 €/year (-10.8%) compared to the supply in force at standard conditions, and of more than 390 €/year (-24.5%) compared to the less advantageous offer. The research for joint offers visualises up to six/seven results; the annual expenditure associated to the cheapest joint offer results to be higher, by more than 35 €/year (+2.2%), than that obtained adding the expenditure associated to the most advantageous offers for the single

⁹⁶ Electricity service: house of residence with power equal to 3 kW and consumption equal to 2,700 kWh/year, divided by 33.4% in fascia F1 and 66.6% in fascia F23; gas service: consumption equal to 1.400 m³/year.

supply of electricity and natural gas available in the same place, but however lower by more than 150 €/year (-8.2%) compared to the expenditure obtained adding the expense associated to the standard offer conditions. All the most advantageous offers envisage a blocked price, the signing of the contract through internet, the payment by direct debit and the sending of the bills in electronic format.

In May 2013, the public interface of Trova offerte was renewed, with the aim to make the service simpler and more usable as regards the research engine, the visualization of the results and the terminology used. The intervention was realised keeping into account the indications emerged by the survey carried out in 2012-2013 with the aim to identify the users' expectations and level of satisfaction. A second survey, carried out in the fourth quarter 2013 after the restyling, not only confirmed the users' positive evaluation, but also highlighted a sensitive improvement of the judgments expressed concerning the easiness of its use and of the understand of the information provided.

Lastly, as regards the measures adopted to promote competition, it is important to mention the **Integrated Information System [Sistema informativo integrato (SII)]** for the management of the informative flows concerning the electricity and natural gas markets, whose first implementation phase was launched and concluded in 2012. The system is based on a databank of the collection points and of the personal data of the final customers - the Official Central Registry [*Registro centrale ufficiale* (RCU)] - shared among all the subjects involved: Terna, the distributing companies, the users of the dispatching owners of consumption units and sale companies, in the case of the electricity sector.

In spring 2012, the Authority implemented the preparatory activities envisaged in the initial phase.⁹⁷ In particular, the Authority approved the regulation for the functioning of the SII, it identified the subjects obliged to qualify themselves as users, it established the qualifying procedures and defined the modalities for populating and updating the RCU. In particular, the Authority deemed proper to envisage that the set of data constituting the RCU, at the end of the first populating phase, would constitute the starting point for the following management, by the SII, of all the variations that concern the relationship among a collection point, users interested in the collection point and the final customer owner of the point (for example, owing to the management of the processes concerning the activation and deactivation of points, switching).

At the beginning of 2013,⁹⁸ the modalities concerning the updating of the RCU were defined in detail as well as, with reference to the electricity system, the modalities for implementing the processes concerning the determination and putting at disposal of the SII of relevant data for the settlement. The passing of said processes to the SII, upon carrying out an initial experimentation phase, was completed in the month of June and the execution of the same within the ambit of the system therefore has been taking place officially since July 2013. The management of said processes in the SII enabled to improve the carrying out of the monthly settlement sessions and to promptly correct possible errors, produced by the management modalities adopted within the ambit of the traditional relationship between distributing companies and users.

⁹⁷ With resolutions dated 8 march 2012, 79/2012/R/com and 5 April 2012, 132/2012/R/com.

⁹⁸ With resolution dated 14 February 57/2013/R/com.

In view of the complete management within the ambit of the SII of the processes aimed at the management of final customers, it was resolved⁹⁹ for the content of the RCU to be integrated with information concerning the commercial counterparty, associated to each collection point. This resolution was introduced to enable electricity sellers, even if not owners of the dispatching contract, to carry out an active role in the system, in particular with reference to the commercial processes. In order to ensure that said commercial counterparties be correctly associated to the relevant collection points and final customers, the resolution provides for detailed regulations concerning the matching and updating activities of the mentioned association.

Lastly, in November 2013, the Authority's proposals were defined¹⁰⁰ as regards the following implementation phases of the SII, which envisage the progressive management in the system of further finalized processes. As regards the directions outlined in the document, the Authority established first of all to implement the switching processes and the contractual transfer. Moreover, in the document, the proposals regarding the switching were formulated also with the aim to keep into account forecasts as regards the time frame for changing suppliers, introduced by European Directive 2009/72/EC and with Legislative Decree n. 93/11 implementing said directive.

Switching

Within the ambit of the annual investigation, electricity distributors were asked several questions concerning the switching phenomenon, that is the number of customers that changed their suppliers during the solar year 2013.¹⁰¹

On the basis of the data collected, the overall switching in the electricity market seems to have set around the values of the past years. Actually, in terms of volumes, the value of 2013 retraces exactly that of 2012: in fact, the total rate was equal to 26.4% as the previous year. In 2013, though, it involved a higher share of customers, equal to 9% (Table 3.19).

However, the composition of the overall datum is rather different. While historically it was the volumes of the consumers in average connected and especially in high or very high voltage to register the highest switching rates, and therefore to drive the total value upward, the 2013 data show a greater balance among the numbers of non-domestic consumers (be they connected in low, medium or high voltage), besides an increasing participation also in the domestic sector whose switching rates have been increasing year after year.

Actually, in 2013, the percentage of domestic customers that changed supplier was equal to 7.4%, corresponding to an energy share that almost reached 10%. Among the non-domestic customers, moreover, those connected in low voltage (which for level of consumption are a lot more similar to domestic customers) registered switching rates higher than those of large consumers

⁹⁹ With resolution dated 18 April 2013, 166/2013/R/com.

¹⁰⁰ With consultation document dated 28 November 2013, 547/2013/R/com.

¹⁰¹ The questions were asked in such a way to identify the phenomenon according to the definition provided for by the European Commission. Therefore, the questionnaire already presented in the past years was replicated for recording the switching activity, meant as number of changes of supplier in a given period of time (year) including:

- re-switch: when a customer changes a supplier for the second (or following) time, also in the given period of time;
- switch-back: when a customer goes back to the first or previous supplier;
- switch toward a company in competition with the incumbent and vice versa.

Should a customer change area of residence, the switch is registered only if said customer refers to a supplier different from the incumbent existing in the area of arrival; moreover, a change of the economic conditions with the same supplier is not equivalent to a switch, also in case a new contractual formula is chosen or a change is carried out from a protected price to a non-protected price offered by the same supplier or a company which it controls.

(connected in high or very high voltage). As in the past, however, the most dynamic segment among the non-domestic customers in terms of connection points is that of customers connected in medium voltage.

Table 3.19 Switching rates of final customers

TYPOLOGY OF CUSTOMER	2012		2013	
	VOLUMES	COLLECTION POINTS	VOLUMES	COLLECTION POINTS
Domestic	8.3%	6.4%	9.7%	7.4%
Non-domestic	32.5%	12.0%	32.2%	15.3%
<i>of which:</i>				
- low voltage	23.4%	11.8%	29.5%	15.1%
- medium voltage	37.4%	26.6%	39.0%	27.5%
- high and very high voltage	38.0%	16.7%	21.1%	14.5%
TOTAL	27.2%	7.6%	27.2%	9.0%

Source: Annual Investigation on the regulated sectors.

Complaints and reports

As of 1 December 2009, the **Energy Help-Desk** [*Sportello per il consumatore di energia*], managed in collaboration with the company Acquirente Unico, carried out material, informative and fact-finding activities, as well as preparatory and instrumental, within the ambit of the evaluation of complaints, requests and reports, submitted by final customers and their representative associations. This structure was confirmed by what provided for by art. 44, paragraph 4, of Legislative Decree n. 93/11, implementing which the Authority identified in the Help-Desk the tool through which to ensure the efficient treatment of complaints, including those submitted by consumers-producers (the so-called prosumers). This option, which entailed the innovation of the functions and tasks of the Help-Desk in compliance with the new European regulation, was considered preferable and much less expensive compared to other tools or the creation of *ex novo* structures.

In 2012, the Authority also defined two special complaint procedures that appoint the Help-Desk with a specific role and specific time frames for providing answers: in particular, it is the complaint procedure for non-requested contracts¹⁰² and the procedure for requesting information concerning the indemnity system.¹⁰³ Therefore, the Authority implemented the mentioned art. 44, paragraph 4, as regards the treatment of complaints and, with following implementing measure, it approved the Help-Desk's operational project for the three-year period 2013-2015.¹⁰⁴

¹⁰² As mentioned under part III of the Enclosure A to the resolution dated 19 April 2012, 153/2012/R/com.

¹⁰³ As mentioned under resolution dated 22 March 2012, 99/2012/R/eel.

¹⁰⁴ With resolution dated 26 July 2012, 323/2012/E/com.

Consequently, at the end of 2012, the Authority approved¹⁰⁵ a new regulation for the functioning of the Help-Desk, which establishes the modalities for treating complaints. The regulation was amended during 2013;¹⁰⁶ in particular, the amendments concern the relationship between the complaint procedure at the Help-Desk and the judicial and extrajudicial tools for solving controversies. The measure introduced, in the view of inexpensiveness and non-duplication of procedures, hypothesis of complaint inadmissibility and impossibility to proceed, should the controversy object of the complaint already be object of a judicial or jurisdictional proceedings, or of a conciliation procedure at the Conciliation service for energy consumers [*Servizio conciliazione clienti energia*], or of a different alternative procedure for the solving of the controversy, also voluntary and on equal terms.

In order to carry out its activities for the treatment of complaints, the Help-Desk requires from companies all necessary information and provides customers, as well as their representative associations and companies, with all indications indispensable for solving the reported problems. The Help-Desk submits to the Authority only complaints that have been fully opened and that require the Authority's evaluation.

In 2013, the Help-Desk managed the two special complaint procedures mentioned: that concerning non-requested contracts and that concerning the indemnity system. During 2013, the Help-Desk received 1,124 reports for complaints rejected by sellers, implementing the procedure of the non-requested contracts, registering a percentage of validity of rejections equal to 73%. Throughout 2013, further complaints were submitted concerning similar cases occurred before the entering into force of the new special procedure, as well as many irregular or incomplete complaints, that is sent to the Help-Desk by the customer before the expiring of the terms for the seller's answer, which must be provided within 40 solar days.

In 2013, the Help-Desk reported many complaints submitted by final customers (from both the free market and the protected categories market, with reference both to the electricity sector and the natural gas sector). Said complaints concerned, among other things, the non-compliance with the invoicing periodicity, the non-issuing or delayed issuing of the final invoice upon the cessation of the supply relationship due to change of supplier, as well as the invoicing of estimated consumptions, despite the distributor had put at the seller's disposal the actual meter readings. Also due to these reports, a preliminary investigation was launched on invoicing modalities and time frame adopted within the ambit of the electricity and natural gas sale service to small sized customers, served in protection regime or under free market conditions (described in paragraph 3.2.2.2).

The historic trend of complaints, requests for information and reports submitted to the Help-Desk starting from 2010, highlights a new increasing trend - after a stabilization registered in 2012 - very likely due to final customers' greater attention toward energy expenditure and a greater awareness of their rights and individual protection tools at their disposal. The amount of "paperwork" (complaints, requests for information and reports), submitted to the Help-Desk during 2013, amounts to 43,989 (82% sent by domestic customers and 18% by non-domestic customers), with an increase of about 23% compared to 2012. This increasing trend seems to be confirmed by the data of the first quarter of 2014. Lastly, it is important to highlight that in March

¹⁰⁵ The procedure for the adoption of the new regulation was launched with resolution dated 4 October 2012, 399/2012/E/com. After related consultation (consultation document dated 8 November 2012, 463/2012/E/com), the regulation was approved with resolution dated 20 December 2012, 548/2012/E/com.

¹⁰⁶ With resolution dated 18 April 2013, 162/2013/E/com.

2014 the Authority diffused a consultation document¹⁰⁷ containing several directions for the improvement of the efficacy of the activities for the treatment of the complaints submitted to the Help-Desk, with particular attention toward the modalities for submitting the complaint and the channels for contacting the Help-Desk, toward the punctuality and exhaustiveness of the companies' answers to the requests for information carried out by the Help-Desk, toward the procedure for submitting complaints as regards the social bonus, toward the quality of the answers provided by the Help-Desk and its accountability.

In the period comprised between 1 January and 31 December 2013, the communications concerning the electric sector amounted to 27,524 (equal to 63% of the total). There has been an increase compared to 2012, when the same communications were equal to 55% of the total. Very slight changes concerned the proportions between complaints and requests for information.

The most frequent topics of the communications received in 2013 concerned: invoicing 7,163 (28%), market 5,507 (19%), bonuses 4,791 (14%), contracts 5,710 (19%), technical quality 700 (8%), connections and works 1,388 (5%). Compared to 2012, in particular, it is possible to notice an increase in communications concerning invoicing, and an even more appreciable increase in issues concerning contracts, bonuses and market, while a sensitive decrease in the technical quality can be noticed.

The communications concerning invoices mainly deal with the issues that refer to the correct quantification of consumptions, the periodicity of the issuing of bills and settlements; whereas, those concerning the market deal with issues regarding compliance with the Commercial Conduct Code approved by the Authority, double invoicing and regular changes of supplier. As regards the market issue, starting from 1 June 2012, there are also the claims managed according to the special procedure for the non-requested contracts, as mentioned above.

Table 3.20 Issues of the communications submitted to the Help-Desk by energy consumers

Year 2013

TOPICS	NUMBER	%
Invoicing	7,163	26%
Market	5,507	20%
Bonuses	4,791	17%
Contracts	5,710	21%
Connections/Works	1,388	5%
Prices and tariffs	438	2%
Technical quality	700	3%
Measure	568	2%
Commercial quality	426	1%
Prosumers	575	2%
Non-competence	258	1%
TOTAL	27,524	100%

Source: AEEG's elaboration on data of the Help-Desk for energy consumers.

¹⁰⁷ This refers to document dated 20 March 2014, 115/2014/E/com.

3.2.2.2 Recommendations on final sale prices, investigations, inspections and impositions of measures for competition promotion

Final sale prices

In the hearing on 9 July 2013, at the 10th *Commissione industria, commercio e turismo* of the Senate of the Republic, the Authority, within the ambit of the preliminary investigations on electricity and gas prices as strategic drive for the growth of the Country's productive system, provided a series of considerations concerning:

- the comparison between the final prices to domestic customers and those to the customers of the Country's productive system;
- the main items that compose the final price, as regards the respective fundamentals;
- the critical aspects and the main evolutions of several specific phenomena such as, for example, the system's general expenses, explicit and implicit incentives and taxes in the gas sector.

In the notes dated 8 July 2013, 298/2013/l/com, prepared for the mentioned hearing, the Authority examined the main items composing the electricity and gas prices and prospected a comparison with the prices applied at European level.

The dynamics underlying the prices applied to final customers are referable, substantially, to three macro categories: sale services, grid services and taxes. These three components, in 2012, registered in the electric sector differentiated trends: in slight increase the sale services, in strong increase the grid services due to the growing weight of system's expenses and, lastly, the taxes basically stable.

In particular, the Authority highlighted that the exponential increase in the system's expenses on the electricity bills (+10% in 4 years for a typical family) is progressively decreasing the weight of the "market" components on the consumption price. Moreover, the impact of the system's general expenses on final customers is differentiated according to the type of user and the incidence of costs does not fall into line with the weight in terms of consumption. Furthermore, final customers' total expenditure is burdened also by the implicit incentivising mechanisms, concerning grid services and general charges, which do not allow to keep into consideration the different typologies of productive activities carried out by those benefitting and entail a relevant redistributing effect. To this regard, the Authority highlighted the advisability for these mechanisms to be adequate to the aims of allocative efficiency and environmental sustainability and, therefore, they should be made *in primis* explicit and restricted by the grid structures or at least be limited with reference to the relevant explicit incentives.

Investigations, inspections and measures for promoting competition

The Regulator's competences and powers in this ambit are illustrated in table 3.3.

With reference to the activity carried out in the electricity sector in 2013, the Authority launched several preliminary investigations as well as an intense programme of surveillance and controls through inspections at companies' premises and by requesting information.

In August 2013, the **preliminary investigations on the electricity and natural gas retail markets** were closed.¹⁰⁸ The investigation had been launched in July 2012 in order to verify, among other things, the possible presence of criticalities, with particular reference to aspects that can affect the small sized final customers' behaviour (domestic and non-domestic customers), and in order to increase their awareness concerning their contractual choices.

The Investigation was launched due to surveys carried out on the occasion of the 2012 *Annual Report*, which highlighted a positive differential between the prices applied in the free market for the sale of electricity to domestic customers and the corresponding prices in the standard offer market. Therefore, the Investigation concentrated on year 2011, on the basis of the information collected in 2012.

More in detail, by launching the Investigation, the Authority's aim, with reference to year 2011, was as follows:

- to verify, for the electricity and natural gas sectors, the actual existence of positive differentials between the prices applied in the free market and in the standard offer market, the entity of said differentials and the underlying reasons, also in terms of possible cost differentials connected to different qualities of the service offered or additional services;
- to verify the presence of criticalities in the retail market, with particular reference to aspects that can affect the final customers' behaviour, making it difficult for said customers to carry out fully aware and advantageous choices;
- to evaluate possible interventions, both regulatory and non-regulatory, aimed at improving the involvement of domestic customers in the market and at increasing their ability to exploit the potential benefits deriving from competition, also keeping into account the impact that said interventions could have on the development of the offer in the retail market;
- to evaluate if and in what measure interventions could be necessary, both regulatory and non-regulatory, also aimed at small sized customers different from domestic customers, keeping into account both the differences that exist among the different typologies of final customers, and the peculiarities of the sale offers destined to the same.

In order to verify the actual existence of differentials among prices, the Investigation first of all aimed at evaluating, on the basis of what emerged from the data collected on the occasion of the 2012 Annual Report, if and in what measure the free market prices were, in average, higher than the prices of the standard offer market, also by carrying out in-depth analyses of the differences in the various consumption classes. This enabled to identify, for the electricity market and for the natural gas market, a sample of sellers for whom, with reference to the year object of the Investigation (2011), the price applied in the free market, stated by the same, resulted higher compared to that concerning the standard offer market as provided for by the legislator. Keeping into account the aim to analyse in-depth the reasons for the high prices on the free market and the reasons for the differences with those of the standard offer market, the Authority identified the companies whose prices resulted to be higher than those of the standard offer regime, and it investigated on the components of the offers in order to evaluate in what measure different prices can be connected to different products. In this way, with reference to the price levels identified, the Investigation analysed the possible reasons connected to the prices found on the free market

¹⁰⁸ With resolution dated 7 August 2013, 366/2013/E/com.

and their difference compared to those of the standard offer market; this was carried out by analysing the prices and elements characterising the offers applied in year 2011 by the sample operators to domestic customers and small sized non-domestic customers.

The comparison between the prices of the offers on the free market and those applied in the standard offer market resulted to be particularly complex, in particular due to the differences in the price structures, as well as in the products/services offered to the final customer in the free market.

Despite said limits, the analysis confirmed the presence of positive differentials between the prices in the free market and those applied in the standard offer market, especially with reference to customers in the electricity sector, and in particular domestic. The reasons for said differentials seem to be explained only in part by the presence of different price structures in the free market, for which the seller has to bear specially covering costs, or by the presence of particular additional services.

In fact, the price differential can find theoretical justification on the basis of the evidence inferable from the data analysed: an average level higher than the price, for example, in the offers at fixed price and in the “all inclusive” offers is in fact justifiable on the basis of the seller’s need to define a specific coverage associated to the risks of said price structures, that is risks connected to the volatility of the price in the wholesale market and to the volumes for which the coverage is undersigned. For these offers, where the operators provided data, a comparison was made between the price proposed and the forward price of the commodity detectable when the offer was being proposed. The differences identified were in the whole rather high, with the exception of contracts concluded on-line. Consequently, if on one hand the reason of said differences can be explained by the seller’s need to be covered from the risks of variations of price of the raw matter, on the other hand these appeared such to suppose the existence of a more competitive space for offers formulated to the final customers. As regards the distribution of the customers among the various offers available with the single seller, what emerged was that the most convenient offers, those on-line, were also those accepted by a lower percentage of customers,¹⁰⁹ that therefore very often still appear not very much capable of choosing the most advantageous offer consciously.

The Investigation also highlighted the customers’ non-total awareness of cost elements and price components. In particular:

- a scarce awareness of cost elements emerges both for domestic customers and for non-domestic customers; moreover, with specific reference to the indexed offers, customers seem to have a scarce ability to fully understand price indexes and evaluate their trend, also because these are often defined with reference to a product basket potentially considered difficult for the customer to understand;
- the analysis carried out highlighted the final customer’s scarce attention toward the renegotiation modalities of price conditions once those initially accepted have expired, affecting the choice concerning the offer actually fit for the customer’s personal needs.

¹⁰⁹ As regards the operators that provided data, the on-line offers were chosen by 2% of electricity domestic customers and by 1% of natural gas domestic customers.

In order to analyse the final customers' knowledge of the free market, specific Investigations were carried out on small sized customers. In particular, said Investigations concentrated on customers that chose the free market, thus leaving the protection service, with the aim to evaluate their ability to understand and compare offers, the use of informative tools at disposal and their level of awareness concerning the contract undersigned. Said Investigations highlighted as follows:

- domestic customers are characterised by an approach which is still passive toward the market, to which they are attracted by a promise of saving that however they are not able to quantify. The choice to pass to the free market is often driven by the seller that contacts the customer, while the latter rarely carries out a comparison, or if so, the comparison is carried out on a limited number of offers (2/3). Moreover, in general, customers complain about the scarce transparency and excessive complexity of the language usually used in contracts and invoices, and deem necessary to have clearer information. However, when asked to provide practical indications, they are capable of formulating proposals;
- non-domestic customers have a situation which is only partially more positive, mainly due to the different dimension of this type of consumers. In fact, smaller the size of the non-domestic customer, more similar is the latter's approach toward the market to that of domestic customers.

Lastly, the Investigation kept into account international experiences, with particular reference to the activities of the Regulators belonging to European Union Countries, among which the British Regulator (Ofgem), also in the light of the recent Retail Market Review, aimed at enabling final customers in being (more) active in the market and in making better and more aware choices.

In synthesis, the Investigation highlighted the following aspects:

- the price data at the Authority's disposal, aimed at identifying the average price paid by the various final customers for the supply of electricity and natural gas services, do not always enable a comparison of prices between the free market and the standard offer market as regards the components covering costs, with reference to the liberalised phases of the chain;
- from the information collected within the ambit of the Investigation concerning the offers of the free market analysed, the differences found between the levels of prices observed do not seem to be exclusively referable only to cost differentials connected to the characteristics of the products offered in the free market;
- domestic customers and smaller sized non-domestic customers show a behaviour which is still passive toward the market and, when choosing a seller, they do not carry out comparisons among different offers or, if they do, the number of comparisons is very limited;
- most of the customers ask for greater clarity and simplicity as regards the contractual documentation and the invoicing documents.

The outcomes illustrated in the Investigation result preliminary for the evaluation of possible reform interventions in the retail market, mainly aimed at increasing the customer's awareness, for example, by improving and possibly increasing the choice tools. The outcomes of the Investigation may be object of further in-depth analyses also within the ambit of the annual monitoring activities in the retail markets carried out by the Authority.

In June 2013, within the ambit of further in-depth analyses, the Authority launched¹¹⁰ **Preliminary investigations concerning the transparency of invoicing documents** in order to collect informative elements for following regulatory interventions within the ambit of the principles and criteria of the European Directive 2012/27/EU, identifying an actual review project of the bill (the so-called “progetto Bolletta 2.0”). In the Authority’s intentions, the elements collected can be used for rationalization and simplification interventions of the information contained in invoicing documents.

Said information is currently regulated by resolution ARG/com 202/09, which establishes obligations for sellers as regards invoices sent to final customers served both in the standard offer market and in the free market. The resolution to intervene also depends on the evidence emerged on the occasion of the surveys carried out on final customers, realised so as to identify customers’ needs (especially of those served in the free market), also with reference to the issue of transparency of invoicing documents, verifying among other things if the mentioned documents are used by the final customer to carry out a first comparison with other offers. In particular, the surveys highlighted that the final customers are not totally satisfied with the actual simplicity of the invoicing documents: on one hand, a widespread request for greater clarity emerged, on the other hand the simplification/synthesis of the items present was requested in order to make them comprehensible for all. However, there are also some that indicate the need to better specify the items of the invoice, asking for greater details. Lastly, within the ambit of the above mentioned requests, it emerged how rarely the invoice is used as a comparison tool with other offers. Also sellers, on several occasion, submitted requests for interventions as regards the transparency of the invoicing documents, especially in the view of simplifying the current regulation.

Said evidence made a further in-depth analysis advisable and necessary with reference to the needs of the subjects involved, both final customers and sellers, evaluating in particular:

- possible rationalization and simplification alternatives of the information contained in the invoicing documents, also in view of guaranteeing to final customers all the information necessary for managing the contract;
- the impact on the commercialization costs of the various alternatives, since the intervention also aims at reducing said costs, compared to the current regulation.

Within the ambit of the so-called “progetto Bolletta 2.0,” the Authority organized hearings with the subjects involved in October 2013.

The participation of the main stakeholders was high. In fact, contributions arrived from sellers, their representative associations, associations representing domestic consumers and small/medium enterprises. Moreover, contributions were submitted by domestic and non-domestic consumers, as well as other subjects, different from the Authority’s usual stakeholders.

On the basis of a general evaluation of the contributions submitted, it is clear that the current bill is considered difficult to comprehend and not always adequate for the purposes of the regulation in force. Therefore, the subjects that participated in the hearings and answered to a specially provided questionnaire consider advisable to intervene in simplifying and rationalizing the structure and contents of the invoicing documents, also providing for innovative forms and modalities as regards the representation and transmission of information, which need to be more

¹¹⁰ With resolution dated 13 June 2013, 260/2013/R/com.

flexible for sellers at least with reference to the free market, at the same time improving the reading and comprehension of the bills for final customers. Several subjects (both sellers and consumers) highlighted that the language and terminology used in the bills negatively affect their readability.

Moreover, also due to the extremely articulated structure of prices and tariffs, the detailed information on the amounts invoiced results to be too complex and hard to connect with that summarised, besides the specific contractual conditions signed by the customer; as regards this aspect, in particular sellers highlighted the need for a simplification of the tariff structure also by overcoming consumption steps that burden the bill's structure, increasing the difficulty of comprehension.

Further problems were reported in cases of settlements, mostly due to the criticalities found in the measure activity and that have an incidence, in the end, on invoicing documents. Lastly, some of the sellers' answers to the questionnaire highlighted that the criticalities reported have a negative impact on sellers' management costs and expenses, in particular because the excessive complexity perceived from the customer often results in a high number of complaints which, in the end, affect management costs of the contact channels.

On the basis of the contributions received during the hearing and the answers to the questionnaire, the consultation document dated 20 February 2014, 69/2014/R/com, indicated the Authority's directions as regards the modalities for exposing details in invoices, with equal regulatory structure. As regards the transparency of invoicing documents, the Authority provided for specific interventions in the natural gas sector (described in the following chapter).

At the end of 2013, the Authority launched¹¹¹ a **Preliminary investigation on invoicing modalities and time frame** adopted within the ambit of electricity and natural gas sale to small sized customers, both in protection regime and in the free market.

The activity was necessary due to the many complaints submitted by final customers to the Help-Desk of energy consumers, with reference to:

- non-compliance with the invoicing periodicity provided for by the Authority's regulations or by contractual clauses;
- delayed issuing or non-issuing of final invoice upon the cessation of the relationship for change of supplier;
- invoicing of estimated consumptions despite the distributor put at disposal the actual meter readings;
- use of the so-called "*stime di coda*", that is the invoicing of a share of estimated consumptions for the variable period going from the date of the last reading notified in the bill to the issuing date of the same.

The main aim of the Investigation is to collect data and information that enable, through following regulatory and enforcement interventions, to reduce the presence of the mentioned negative phenomena.

¹¹¹ With resolution dated 28 November 2013, 542/2013/E/com.

Besides the acquisition of data and information deemed useful and additional compared to what already in the Authority's possession, the Investigation aims at publishing survey documents so as to acquire responses from the subjects involved, and the involvement of consumers or of their representative associations.

Moreover, in October, the Authority launched¹¹² a **Preliminary investigation concerning the provision of the electricity measure service**, with particular reference to:

- the measure of the electricity produced and the electricity input in the grid by distributed generation plants;
- the measure of the electricity collected from the transmission and distribution grids by the final customers and distributing companies, so as to acquire data and useful information for following interventions falling within the Authority's competence.

The Investigation has among its aims that to verify the compliance with several decisive aspects for the correct functioning of the whole electricity chain, such as: the precision of the measure data, the compliance with the time frame for the transmission of the measure data, the putting into service of the electronic meters in low voltage.

The Authority also kept into consideration the many reports concerning the problems of the supplying of the measure service, with particular reference to the electricity measure produced by distributed generation plants.

The investigation envisages the acquisition of data and information through operators, as well as the carrying out of inspections and meetings with operators and their representative associations.

¹¹² With resolution dated 31 October 2013, 475/2013/E/eel.

3.3 Security of supplies

3.3.1 Monitoring of the balance between electricity demand and supply

The monitoring of the balance between electricity demand and supply does not fall within the Authority's competences: pursuant to art. 1 of Legislative Decree n. 93/11 said competence is appointed to the Ministry of Economic Development (MSE).

3.3.2 Monitoring of investments in generation capacity as regards the security of supplies

Pursuant to Legislative Decree n. 93/11, the following functions for monitoring capacity investments were appointed to the MSE:

- Operational security of the grids (art. 7 directive 89/2005/EC);
- Investments in the interconnection capacity in the next 5 years or more (art. 7 directive 89/2005/EC);
- Demand and supply envisaged for the next 5 years and 1-15 years (art. 7 directive 89/2005/EC).

New remuneration system of the productive capacity availability – Capacity payment mechanism

Legislative Decree n. 379 dated 19 December 2003, provides for the introduction of a new remuneration system of the electricity productive capacity (capacity market), aimed at increasing the level of coordination among the investment choices in productive capacity and in transmission capacity of the various actors (Terna and the operators), reducing risks and at the same time increasing the contestability of the market. The same Decree provides for the Authority to define the criteria and conditions on the basis of which Terna is obliged to elaborate a regulatory scheme of the new remuneration system of the electricity productive capacity, and for said scheme to be approved with Decree of the Ministry of Economic Development, upon hearing the Authority.

After an articulated consultation process,¹¹³ in July 2011, the Authority established¹¹⁴ the criteria and conditions for the regulations of the capacity market, including the procedural iter for organising the mentioned scheme.

Said regulations provide for Terna to purchase from generation companies physically backed call options for the quantities requested by the system every year so as to protect consumers from risks of price peaks deriving from insufficient capacities. Said options have to be exchanged through biddings on the capacity market and characterised by:

- Energy unitary prices adapted to the variable costs of a new peak plant;

¹¹³ Consultation documents dated 6 August 2008, DCO 27/08; 7 May 2009, DCO 10/09; 23 April 2010, DCO 9/10; 15 November 2010, DCO 38/10). During the consultation process, the Authority outlined the many connected causes for which the electricity market – in the absence of regulatory interventions – is an inefficient and ineffective tool for coordinating operators' (in generation capacity) and Terna's (in transmission capacity) investment choices.

¹¹⁴ Resolution 22 July 2011, ARG/elt 98/11.

- Payment of a bonus with a price established by the capacity market and by the obligations to give back the positive differences between reference prices (i.e. Stock exchange spot prices) and operational prices.

In September 2012, Terna submitted the regulatory scheme to the Authority that positively verified ¹¹⁵ the compliance with the criteria and conditions established. As of 23 November 2012, the scheme was submitted to public consultation, which closed on 15 February 2013. After various evaluations and in-depth analyses, carried out with the Authority and the Ministry of Economic Development, Terna submitted the scheme to the Authority that approved it, ¹¹⁶ with the exception of several modifications requested by Terna. The approval of this regulation marks the completion of the interventions under the Authority's competence for the launching of a productive capacity market: in fact, the regulatory scheme was submitted by Terna to the Ministry of Economic Development for the final approval.

During the month of December 2013, the Parliament approved law n. 147 dated 27 December 2013, (*legge di stabilità – stability law*), which under art. 1, paragraph 153, establishes that «*The Ministry of Economic Development must define, within 90 days from the date of entering into force of this law, upon the proposal of the Regulatory Authority for Energy, Water and Gas, and having heard the Ministry of Environment and Protection of Land and Sea, conditions and modalities for defining a productive capacity remuneration system capable of providing adequate flexibility services, in the measure strictly necessary to guarantee the security of the electricity system and the coverage of the requirements carried out by grid operators and without electricity price and tariff increases for final customers, within the ambit of the regulations of the electricity market, keeping into account the evolution of the same and in coordination with the measures provided for by Legislative Decree n. 379 dated 19 December 2003*».

In January 2014, the Authority launched a measure ¹¹⁷ aimed at formulating a proposal which may provide for as follows:

- the constitution of a segment of the capacity market devoted to the negotiation of the productive capacity capable of providing the flexibility services necessary to cover long-term requirements estimated by Terna, integrating the scheme of the new capacity market already submitted by Terna to the Ministry of Economic Development;
- the remodulation of the transitory mechanism, as mentioned under art. 5 of Legislative Decree n. 379/03, in order to make it consistent with the aims of the regime mechanism, that is the supply of «adequate flexibility services, in the measure strictly necessary to guarantee the security of the electricity system». The Authority also specified that said remodulation must not envisage electricity price and tariff increases for final customers, but an advisable participation of all the other subjects.

¹¹⁵ Resolution dated 15 November 2012, 482/2012/R/eel.

¹¹⁶ Resolution dated 5 September 2013, 375/2013/R/eel.

¹¹⁷ Resolution dated 16 January 2014, 6/2014/R/eel.

3.3.3 Measures for covering demand peaks or lack of supply

Measures for dealing with demand peaks and lacks of supply of one or more suppliers do not fall within the Authority's competence: pursuant to art. 1 of Legislative Decree n. 93/11 said competence is appointed to the Ministry of Economic Development.

4 THE NATURAL GAS MARKET

4.1 Regulation of facilities and infrastructure

4.1.1 Unbundling

Unbundling regulations

Regulation of functional unbundling and unbundling of accounts in the natural gas sector is essentially identical to the regulation developed for the electricity sector and explained under point 3.1.1.

Certification of transmission system operators

During 2013, as required by European and domestic legislation, the Regulatory Authority for Electricity, Gas and Water certified gas transmission operators.

More specifically, in November, following the opinion formulated by the European Commission pursuant to article 3 of Regulation (EC) 715/2009, the Authority adopted¹¹⁸ the final certification decision for Snam Rete Gas as natural gas transmission system operator under the ownership unbundling regime. The operator certification procedure was carried out in order to verify the operator's compliance with the provisions of the ownership unbundling model provided for by article 9, paragraph 1, of Directive 2009/73/EC and Legislative Decree no. 93 of 1 June 2001 for its transposition into national law, including the following:

- the independence of the operator's shareholders from interests in the activity of production or supply of electricity or natural gas;
- the fulfilment of all of the duties provided for by the aforementioned directive with regard to operation of the transmission network;
- the ownership of gas transmission networks;
- the independence of the members of the administrative bodies of the company;
- decision-making capacity and autonomy in relation to the drawing up of ten-year network development plans;
- confidentiality of commercially sensitive information handled, or the making available of non-confidential information in a non-discriminatory way;
- confidentiality obligations, including contractual clauses, applying to the company's staff and external collaborators.

As early as February and September, following receipt of the opinion issued by the European Commission pursuant to article 3 of Regulation (EC) 715/2009, the Authority proceeded with the certification of two other major companies: Società Gasdotti Italia and Infrastrutture Trasporto Gas.

¹¹⁸ Resolution 515/2013/R/gas of 14 November 2013.

Indeed, in February the Authority adopted¹¹⁹ the final certification decision for Società Gasdotti Italia as natural gas transmission system operator under the ownership unbundling regime; in this case, too, the purpose of the certification procedure was to verify the company's compliance with all of the provisions of the ownership unbundling model.

In September the Authority adopted¹²⁰ the final certification decision for Infrastrutture Trasporto Gas as an independent natural gas transmission operator. The purpose of the certification procedure was to verify the company's compliance with the provisions of the Independent Transmission Operator (ITO) model in the context of a vertically integrated undertaking (Edison Group), as provided for by Chapter IV of Directive 2009/73/EC and Legislative Decree no. 93/11 for its transposition into national law.

These provisions require that the operator adopt measures to ensure, among other things:

- the fulfilment of all of the duties provided for by the aforementioned directive with regard to operation of the network;
- the availability of all of the resources necessary for network operation and development. In this respect, the prohibition on stipulating service contracts with the vertically integrated undertaking and with its other subsidiaries is particularly important;
- the independence of corporate governance rules and company organisation from the vertically-integrated company and its subsidiaries;
- the independence of the operator's communication and brand policy from the vertically integrated undertaking and its subsidiaries;
- compliance with specific independence requirements by those responsible for administration and management of the operator and by its staff;
- the capacity to draw up a compliance programme containing the measures adopted by the operator in order to guarantee non-discriminatory network management in addition to the multi-year network development plan.

4.1.2 Technical regulations

Economic-merit balancing for natural gas

In October 2013, the development of the Balancing Market was completed.¹²¹ In contrast to the previous simplified structure,¹²² which provided the storage managed by Stogit as the only resource for operators to close their positions, the new regulation allows additional resources – in particular storage resources, imports and regasification – to contribute to network balancing.

In addition, the regulation sets out new means methods for determining the imbalance price, applied to users as from the date of activation of the new balancing session, which takes place on the day preceding the flow day (locational market session). Determination of the unbalancing price and the structure chosen for the locational market take into account, on one hand, the principles contained in the European Balancing Network Code, and on the other, the actual

¹¹⁹ Resolution 55/2013/R/gas of 14 February 2013.

¹²⁰ Resolution 404/2013/R/gas of 26 September 2013.

¹²¹ Resolution 446/2013/R/gas of 10 October 2013.

¹²² Introduced with Resolution ARG/gas 45/11 of 14 April 2011.

situation of the markets and of the competition, as well as the need for a gradual introduction of the new measures. The resolution establishes an identical unbalancing price in the case of users in a “long” or “short” position at the end of the gas day, to which a specific adjustment must be added (termed “Small Adjustment”), the purpose of which is to incentivise users to balance their positions in advance in respect of the gas day; if users correctly communicate information about their unbalancing in advance, this additional adjustment component is applied but as a reduced amount (termed “reduced Small Adjustment”). The unbalancing price, conversely, administratively remains fixed whenever procedures for security falling within the jurisdiction of the Ministry of Economic Development are implemented, albeit only when these measures have actually prevented a crisis situation in the network.

The new regulation also sets out the criteria with which the operator responsible for balancing makes its offers during the locational market session, as well as the neutrality mechanisms for the operator responsible for balancing in relation to the activity of balancing, in order to implement the principle according to which it must not make a loss or profit from the activity of balancing. The net balance of buying and selling operations is offset through the (already existing) fund specially set up to cover costs connected with the gas balancing system. This does not preclude the possibility of “superimposing” on the principle of neutrality an incentive mechanism for improving performance, which will be detailed in a forthcoming provision, following the proposal of the operator responsible for balancing, as provided for by the Balancing Network Code.

Participation in the locational market session was initially restricted to quantities of gas corresponding to changes in injections into the network at cross-border interconnection points; nevertheless, starting with the provision of October 2013 and subsequent measures, the Authority has made provision for additional flexibility resources which can contribute towards satisfying the requests of the operator responsible for balancing. Specifically, these resources are:

- the flexibility permitted by management of linepack gas, valued at the price of gas on the day following the day of use;¹²³
- the flexibility permitted by making available storage capacity allocated to gas transmission companies which they do not plan to use;¹²⁴
- the flexibility permitted by the change in volumes handled at the storage facilities of Edison Stocaggi, whose resources are not currently available at the balancing platform and regasification plants;¹²⁵
- the flexibility permitted by the use of Stogit system storage capacity in excess of the contractual limits, on condition that the excess quantities used on subsequent days are restored, with reference to the purchase price of the gas to be restored on subsequent days for the purpose of its valuation.¹²⁶

Measures regarding economic-merit balancing for natural gas also include the following:

- the adoption of provisions¹²⁷ regarding the management of guarantees required to cover exposure in balancing, in the form of credit rating and gas in storage as security;
- closure¹²⁸ of the investigation launched in June 2012¹²⁹ concerning the means of provision of the balancing service with reference to the period from 1 December 2011 to 23 October 2012.

¹²³ Resolution 446/2013/R/gas.

¹²⁴ Resolution 446/2013/R/gas.

¹²⁵ Resolution 502/2013/R/gas of 7 November 2013.

¹²⁶ Resolution 552/2013/R/gas of 28 November 2013.

¹²⁷ Resolution 15/2013/R/gas of 24 January 2013.

The investigation was launched in order to clarify the circumstances regarding the failure on the part of a number of debtor firms to pay significant amounts relating to financial transactions for balancing which had arisen during the aforementioned period, in addition to additional profiles connected with the existence of improper uses of the Virtual Trading Point [*Punto di scambio virtuale* (PSV)], consisting of recordings of transactions for significant quantities without any form of cover. The results of the investigation have brought to light a number of situations which merit further enquiry, in which the intervention of Snam Rete Gas was not entirely timely;

- the launching¹³⁰ – on the basis of the results just referred to – of a proceeding to determine what percentage of the costs attributable to uncollected receivables should be allocated to the operator responsible for gas balancing for the period from 1 December 2011 to 23 October 2012;
- adoption¹³¹ of provisions for the Equalisation Fund [*Cassa conguaglio per il settore elettrico*, (CCSE)] for the purpose of recovery of a number of sums relating to receivables for balancing not collected from a user, previously paid to Snam Rete Gas, the recognition of which is the subject of the proceeding referred to in the previous point.

Measures to ensure the correct determination of physical consignments of and financial transactions for gas – Settlement

In May 2012 the Authority approved¹³² the Integrated text of provisions for the regulation of physical consignments and financial transactions in the natural gas balancing service [*Testo integrato delle disposizioni per la regolazione delle partite fisiche ed economiche del servizio di bilanciamento del gas naturale*, (TISG)], i.e. settlement. The provision replaces the regulation previously in force, solving many of the critical aspects present in the allocation of withdrawals at the redelivery points of the transmission network and in the definition of commercial chains.

The main aspects regulated by the TISG are the following:

- criteria for identification of redelivery points subject to conventional load profiling;
- means of conventional load profiling;
- means of execution of the “balancing session”;
- means of execution of the “adjustment session”;
- the responsibilities and information obligations upon the operator responsible for balancing [*responsabile del bilanciamento* (RdB)], transmission companies, users of the balancing system [*utenti del bilanciamento* (UdB)], gas distribution companies and distribution users [*utenti della distribuzione* (UdD)] for the settlement of the balancing service.

With regard to the means of execution of the balancing and adjustment sessions, several sessions for regulation of the physical consignments and financial transactions at the redelivery points of the transmission network have been introduced:

¹²⁸ Resolution 144/2013/R/gas of 5 April 2013.

¹²⁹ Resolution 282/2012/R/gas of 28 June 2012.

¹³⁰ Resolution 145/2013/R/gas of 5 April 2013.

¹³¹ Resolution 258/2013/R/gas of 13 June 2013.

¹³² Resolution 229/2012/R/gas of 31 May 2012.

- a monthly balancing session, in which the RdB determines the daily physical consignments of gas withdrawn from the transmission system by each UdB, with reference to each gas day of the previous month, for the purpose of applying transmission and balancing charges;
- an annual adjustment session, with reference to the previous calendar year for the economic valuation of the difference between the physical consignments of gas attributed in the balancing sessions and those determined according to the metering data available at the time the session is conducted;
- several annual settlement sessions, with reference to the second, third, fourth and fifth previous calendar year, for the economic valuation of the difference between the physical consignments of gas attributed in the previous adjustment sessions, having regard to the same years, and those determined according to the metering data available at the time the sessions are conducted.

With specific regard to the revision of the load profiling method, the provision has provided for:

- the determination of the annual off-take being carried out for each redelivery point once a year by distribution companies;
- a simplification of standard load profiles, which are determined in such a way as to allow their thermal component to be isolated;
- the introduction of a weather modulation factor to be applied to standard load profiles, to be established in a forthcoming provision.

In addition, information obligations incumbent on the parties involved have been rationalised and the system for mapping trading relations has been revised, in relation to future developments aimed at establishing a direct link between the user of the balancing system and the individual redelivery point, by establishing that:

- the correspondence matrix between users of the system be determined and updated monthly, in advance of the beginning of each month;
- each user may as a priority identify distribution users whose off-takes can be traced to it;
- each distribution user be assigned direct responsibility for indicating – in the context described in the preceding point – those users of the balancing system to whom off-takes for which it is responsible are to be attributed;
- the operator responsible for balancing must verify that, in the context of the correspondence matrix between users of the system, at least one trading relationship is determined for each distribution user, and if this is not the case, issue the appropriate communications to the distribution companies with regard to the potential activation of last-resort services.

The provisions came into force on 1 January 2013.

In September 2013, the Authority updated¹³³ the percentage values relating to the use of gas required to determine standard load profiles in force for the 2013-2014 thermal year.

With reference to the goal of reforming the criteria for uniquely attributing the off-takes of each gas redelivery point to users of the balancing system, the Authority set out its final guidelines in a consultation document published in July 2013.¹³⁴ More specifically, the document deals with the question both in terms of modification of the criteria for conferment of transport capacity at the redelivery points of the transmission network and in terms of the drawing up of provisional balances. With regard to the first aspect, it set out three options for assigning the user of the balancing system a capacity determined on the basis of a number of fundamental parameters, such as annual consumption and load profile, associated with the redelivery points of the distribution network which are served by the distribution user to which it is contractually bound, resulting in a simplification of activities for which it is responsible. Transport capacity should no longer be chosen on a discretionary basis by the user of the balancing system, but instead should be assigned by the operator responsible for balancing, thereby obtaining the benefit of greater automation of capacity transaction procedures, with particular reference to cases of switching, in addition to the abolition of penalties for exceeding capacities in the redelivery points of the transmission network.

With regard to the subject of provisional balances, the document took up and developed option 1 described in a previous consultation document,¹³⁵ examining the aspect of apportionment, between users of the balancing system, of the difference between the off-take metered and the allocation attributed on the basis of annual consumption and load profiles. In December 2013, new provisions were therefore approved¹³⁶ concerning a provisional balance, in line with the principles that govern the settlement process, while nevertheless enabling a number of simplifications in order to guarantee the implementation of the chosen solution in a reasonable timeframe. Specifically, with reference to the process of allocation to redelivery points interconnected with distribution networks, provision was made for the use of the daily off-take attributable to each distribution user, obtained by annual load profiling for each point, on the basis of the data communicated by the distribution company. Provisional off-takes allocated to the distribution user, before being attributed to users of the relevant balancing system thanks to the information regarding the commercial chain, must be corrected in order to take into account the quantity of gas metered on the gas day at the redelivery point of the transmission network.

The new provisions, which also aim to determine established and expected financial transactions which can be used in the activity of monitoring exposure in respect to users of the transmission and balancing systems, came into force on 1 May 2014.

¹³³ Resolution 394/2013/R/gas of 19 September 2013.

¹³⁴ Consultation 317/2013/R/gas of 18 July 2013.

¹³⁵ Consultation 541/2012/R/gas of 13 December 2012.

¹³⁶ Resolution 619/2013/R/gas of 19 December 2013.

Quality of natural gas transmission service

The quality of the natural gas transmission service in terms of safety, continuity and commercial quality for the 2010-2013 period was regulated in 2009.¹³⁷ Data regarding the safety of the service for the 2011-2013 period, regarding the main gas transmission companies, show that:

- the percentage of the network inspected with “pigs”¹³⁸ in relation to the total of the network subject to supervision and oversight recorded a steady – albeit modest – increase;
- the percentage of the steel-based network with effective cathodic protection has reached high values; specifically, in 2013 an increase of around 1% was recorded compared with 2011-2012;
- the number of service emergencies was very low and their causes were connected with natural events and third parties.

With regard to continuity of the natural gas transmission service, data regarding service interruptions and cases of failure to respect minimum contractual pressure values at redelivery points shows that, from 2011 to 2013:

- the annual number of service interruptions with adequate advance notice fluctuated, while the number of users of the transmission service involved showed a steady increase;
- compared with the two previous years, 2013 saw a considerable increase both in the number of service interruptions without adequate advance notice and in the number of users involved;
- the annual number of redelivery points experiencing one or more service interruptions which are not due to service emergencies is steadily decreasing;
- the number of cases of failure to respect minimum contractual pressure values is insignificant.

Thus on 31 December 2013 the regulation period for the quality of the natural gas transmission service came to a close. Consequently, in February 2013 a proceeding¹³⁹ was launched for the formulation of provisions concerning charges and quality of the natural gas transmission service for the 2014-2017 regulation period. In the context of the proceeding, the Authority published a consultation document¹⁴⁰ in order to set out its guidelines regarding the quality of the natural gas transmission service for the fourth regulation period, with particular reference to safety, continuity and commercial quality.

The specific goals highlighted by the Authority with regard to safety and continuity of the natural gas service were:

- to improve safety by intervening in cathodic protection activities in steel pipelines, network inspection and oversight activities, management of service emergencies, and odourisation of the gas redelivered for domestic or similar uses, to final customers directly connected to the transmission network;

¹³⁷ Resolution ARG/gas 141/09 of 1 October 2009.

¹³⁸ A “pig” is a device used to check the integrity of pipes by passing inside them.

¹³⁹ With Resolution 45/2013/R/gas of 7 February 2013.

¹⁴⁰ Consultation 192/2013/R/gas of 9 May 2013.

- to improve, with regard to continuity, protection of users of the service through the monitoring of pressure levels at redelivery points, the introduction of specific standards which also take into account actual levels metered during the preceding years, the extension of the scope of application of the service obligation concerning the alternative transportation of gas via gas-cylinder trucks.

At the end of the consultation, in December 2013, the new regulation was approved¹⁴¹ concerning the quality of the natural gas transmission service for the 2014-2017 regulation period [*Regolazione della qualità del servizio di trasporto del gas naturale per il periodo di regolazione 2014-2017* (RQTG)], the purpose of which is to improve the safety, continuity and commercial quality of the natural gas transmission service through more stringent regulation of:

- odourisation of gas delivered to final customers directly connected to the transmission network;
- cathodic protection of steel-based networks;
- inspection and oversight of networks, with particular regard to networks which are not cathodically protected in an effective manner;
- management of service emergencies with regard to the organisation and activation of the alternative natural gas transportation system via gas-cylinder trucks;
- monitoring of the minimum guaranteed pressure at redelivery points.

With regard to service continuity, a particularly innovative measure is the introduction of two specific standards, with automatic compensation mechanisms, on the reduction/interruption of capacity at redelivery points following maintenance operations, and on the maximum number of supply interruptions in the redelivery points, with regard to which regulation is scheduled to be completed in the early months of 2015, by means of a provision which will determine the parties that are to receive automatic compensation, the conditions which they must satisfy in order to be eligible for such compensation, and the time period for and means of payment.

Quality of gas distribution and metering services

In 2013, the regulation period for the quality of gas distribution and metering services established in 2008¹⁴² also came to an end.

Quality regulation governs a number of activities which are relevant to the safety of the gas distribution service. These include a rapid response service, inspection of the distribution network, and the activity of locating leaks, following both inspection/reports by third parties, and gas odourisation. The regulation, which was introduced in 2000, has a single objective: that of minimising the risk of explosions and fires caused by distributed gas and therefore has the purpose

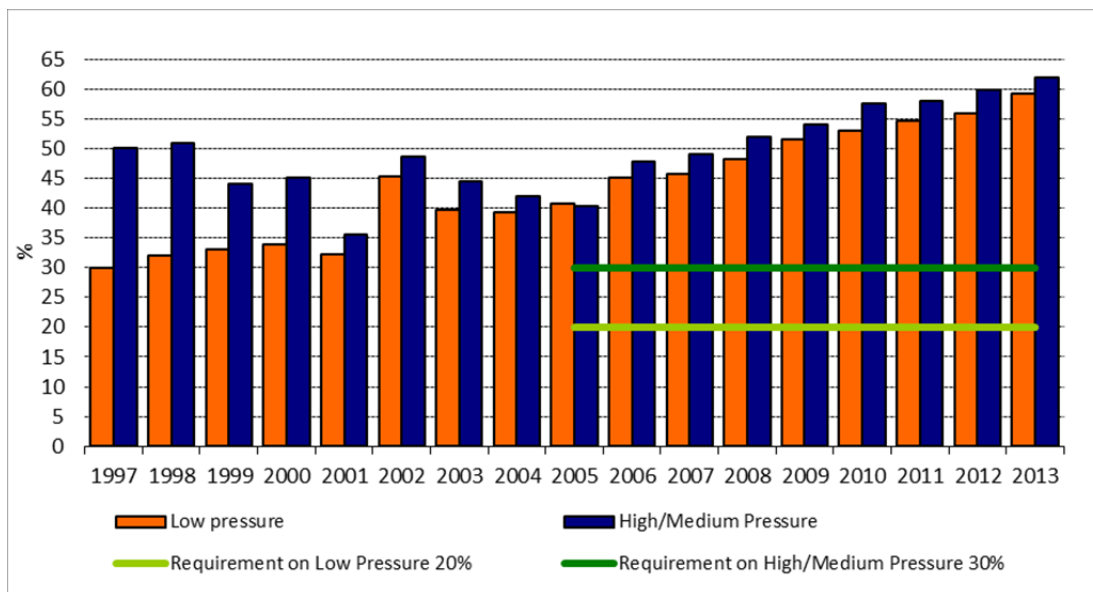
¹⁴¹ Resolution 602/2013/R/gas of 19 December 2013.

¹⁴² More specifically, Resolution 436/2012/R/gas of 25 October 2012 extended until 31 December 2013 the period of validity of the regulation in force for the 2009-2012 period introduced by Resolution ARG/gas 120/08 of 7 August 2008.

of protecting people and things from damage caused by explosions and fires caused by distributed gas.

Figure 4.1 shows inspection of the network starting from 1997. In 2013 the positive trend in terms of amounts inspected continued. Indeed, taking into account the minimum levels provided for by the current regulation (30% for medium and high pressure and 20% for low pressure), the inspection values for both the low-pressure network and the high- and medium-pressure network for the gas sector as a whole are over 59%. Inspection of the network, generally, aims to prevent the occurrence of network losses, thus providing greater safety for citizens and final customers for natural gas.

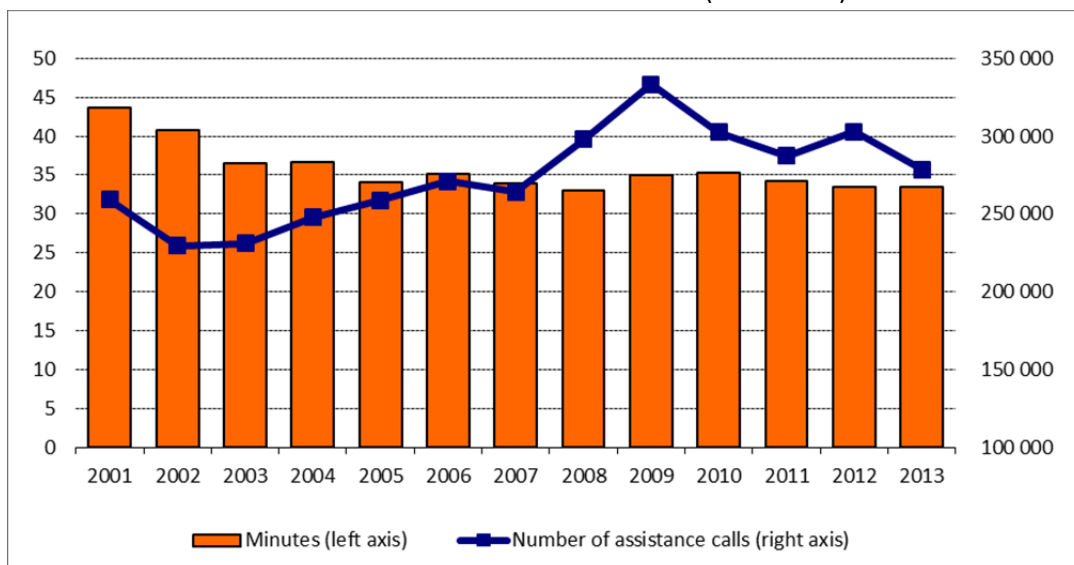
Figure 4.1 Percentage of network inspected, 1997-2013



Source: Declarations by distributors to Authority.

Figure 4.2 Rapid response on distribution system, 2001-2013

Number of calls and time to arrive on the scene of the call (in minutes)



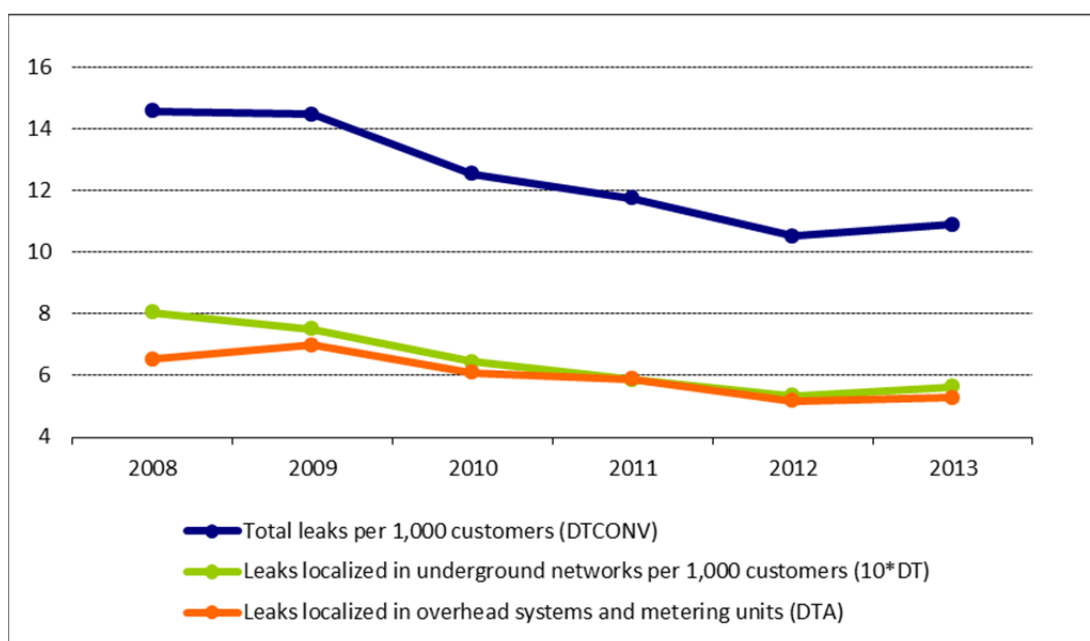
Source: Declarations by distributors to Authority.

With regard to rapid response activities, Figure 4.2 shows that in 2013 the average time to arrive on the scene of the call was less than 35 minutes, almost half of the maximum time stipulated by the regulation of the quality of gas distribution and metering services [*Regolazione della qualità dei servizi di distribuzione e misura del gas* (RQDG)] of 60 minutes and compared with previous years a further decrease. With regard to the number of calls placed to the rapid response service, compared with 2012, a fall was recorded. The obligation to record calls introduced by the RQDG, with effect from 1 July 2009, accompanied by the customary campaign of inspections of companies' rapid response service for natural gas implemented with the aid of the Guardia di Finanza (the Italian Tax Police) increasingly induces companies to record data accurately. Furthermore, it should be added that the number of companies obliged to participate in the recovery of safety is steadily increasing and compliance with regulation on rapid response is an essential requirement for the recognition of recovery of safety for the whole of the province to which the distribution facility belongs. Despite signs of improvement, the Authority remains highly vigilant on the issue of rapid response, as the natural gas rapid response service constitutes an essential service for the safety of citizens and final consumers of gas. Only through it, if it is carried out promptly and in accordance with the provisions set out on the subject by the Authority in the RQDG, can gas-related accidents with potentially extremely serious consequences be avoided.

Figure 4.3 shows the number of gas leaks located after being reported by third parties per thousand customers for the provincial areas subject to the incentive-based regulation: a significant decreasing trend, practically constant for leaks located on the underground network (10*DT), and for leaks on the overhead network (DTA); in 2013 both parameters, 10*DT and DTA were just over five leaks per thousand final customers.

Figure 4.3 Number of leaks located after being reported by third parties per 1,000 customers

Provincial areas subject to incentive-based regulation, 2008-2013



Source: Declarations by distributors to Authority.

Regulation of quality provides for a bonus/penalty mechanism regarding the safety of the natural gas distribution system (recovery of safety) with two independent components: the first incentivises the reduction of gas leaks located as a result of being reported by third parties, with

reference to an improvement process established *ex ante* (annual improvement targets), while the second rewards a greater number of inspections regarding the degree of gas odourisation, in respect of the minimum annual number established by the regulation. The mechanism, with reference to the leakage component, rewards virtuous behaviour on an *ex post* basis on the part of distribution companies that provide a service characterised by safety levels which exceed the annual targets set by the Authority by means of specific provisions.

In order to implement the regulation, in May 2013¹⁴³ bonuses and penalties were established, with reference to 2011, for recovery of safety on the part of 101 distribution companies, while determination of bonuses and penalties for a further 7 distribution companies which requested to be heard before the Authority's board of commissioners was deferred to a subsequent provision. For these companies, bonuses and penalties were established at the beginning of 2014.¹⁴⁴ For 2011 a total of 26.3 million euros of bonuses and 2.3 million euros of penalties were issued.

As a result of the period of application of the regulation of the quality of the natural gas distribution and metering service being extended to 31 December 2013, improvement targets were set¹⁴⁵ for 2013 with regard to the losses component for 177 distribution companies, 162 of them already regulated and 15 smaller companies coming under regulation in 2013. The same provision granted the request for a derogation from participation in the incentive-based system for 44 distribution companies for 2013.

Revision of regulation of quality of gas distribution and metering services

Every four years, the Authority conducts an overall revision of the regulation of quality of services. The proceeding for the regulation of gas distribution and metering services for the 2014-2019 period was launched in May 2011,¹⁴⁶ also providing for the development of Regulatory Impact Analysis (RIA) with regard to the most significant aspects.

In order to implement the proceeding, three consultations were held. The first took place in August 2012,¹⁴⁷ containing the general framework for action for the new regulation regarding tariffs and the quality of gas distribution and metering services. The second was held in November 2012,¹⁴⁸ and contained initial guidelines concerning the safety, continuity and commercial quality of gas distribution services. The third was held in July 2013,¹⁴⁹ to develop the Authority's final guidelines.

In parallel, as part of the proceeding launched in February 2012¹⁵⁰ concerning metering, a consultation document was published,¹⁵¹ dealing with three matters:

- evaluation of the performance of the metering service in natural gas distribution;

¹⁴³ Resolution 229/2013/R/gas of 30 May 2013.

¹⁴⁴ Resolution 18/2014/R/gas of 30 January 2014.

¹⁴⁵ Resolution 315/2013/R/gas of 18 July 2013.

¹⁴⁶ More specifically, Resolution ARG/gas 64/11 of 19 May 2011 provided for the 2013-2016 regulation period. Nevertheless, as the result of the consultation held in August 2012, with Resolution 436/2012/R/gas of 25 October 2012 the regulation of the quality of gas distribution and metering services in force was extended to 31 December 2013.

¹⁴⁷ Consultation 341/2012/R/gas of 2 August 2012.

¹⁴⁸ Consultation 501/2012/R/gas of 29 November 2012.

¹⁴⁹ Consultation 303/2013/R/gas of 11 July 2013.

¹⁵⁰ Resolution 44/2012/R/gas of 16 February 2012.

¹⁵¹ Consultation 202/2013/R/gas of 16 May 2013.

- revision and completion of regulation regarding the reconstruction of gas consumption after the malfunctioning of a metering station is verified;
- revision and simplification of quality service performance in relation to metering station inspection, linking it exclusively to requests on the part of final consumers.

Therefore, in December 2013, the new RQDG was approved¹⁵² for the 2014-2019 regulation period.

The main new changes introduced by the new RQDG regard, with reference to the distribution service:

- incentivisation of investments in the replacement/repair of networks in cast iron with hemp and lead joints as well as the modernisation of odourisation systems installed in city gates by means of an output-based mechanism (and no longer an input-based mechanism with an increase in the weighted average cost of capital or WACC, for a predetermined period), with an *ex post* effect on the bonuses and penalties provided for by the incentivising regulation (increase or reduction in bonuses and penalties), based on the actual virtuous behaviour of distribution companies in repairing cast-iron pipes with hemp and lead joints and in modernising odourisation systems;
- the application of the bonus/penalty regulation at the distribution plant level rather than in the provincial context of the business; it was deemed appropriate to apply RIA to this change to the regulation, given the high degree of technical and administrative responsiveness which will be demanded of the gas distribution sector in the coming years, as a result of tenders for allocation of concessions for the gas distribution service;
- optional participation in the bonus/penalty regulation for plants serving fewer than 1,000 final customers as at 31 December 2013;
- the restructuring, in the bonus/penalty regulation, of factors incentivising the installation of systems for remote monitoring of the state of cathodic protection in steel-based networks and of remote control systems for final pressure reducing stations;
- the implications, in the bonus/penalty regulation, of gas-related accidents for which the distribution company is responsible, in addition to the increase in the economic value of the threshold for damage to property for the purpose of identification of gas-related accidents that are the responsibility of distribution companies;
- the introduction of a new formula to incentivise the odourisation component of the bonus/penalty regulation;
- inspection intervals for high-, medium- and low-pressure networks;
- the timeframe for putting in place effective cathodic protection on steel-based networks;
- monthly publication, on the distribution company's website, of the scheduled plant inspection plan actually completed;

¹⁵² Resolution 574/2013/R/gas of 12 December 2013.

- monitoring of operating pressure in low-pressure networks, with the institution of a round table, coordinated by the Comitato Italiano Gas (CIG), with the purpose of establishing *ad hoc* rules, timeframes and methods for carrying out such monitoring;
- an obligation for the outgoing distribution company to communicate quality of service data to the incoming company, in the case of succession.

In addition, with reference to continuity of the distribution service, the new changes introduced by the new RQDG are:

- significant simplification of regulation, given the high degree of reliability of the gas distribution networks in terms of continuity;
- minimum advance warning time for customers in the event of scheduled interruption from one working day to three working days;
- the application of the international indices SAIFI (System Average Interruption Frequency Index) and SAIDI (System Average Interruption Duration Index) for interruptions with and without advance warning.

Finally, in relation to performance of the metering service, an important change introduced by the new RQDG regards the comparative publication, by the Authority, of data and information (already subject to registration) regarding metering service performance for the 2012-2015 period.

In February 2014, a number of modifications were made¹⁵³ to the RQDG and in particular the differentiation of the threshold for damage to property for the purpose of identifying a gas-related accident, retaining both the value of €1,000, already in force, exclusively for accidents that occur on final customers' systems, and the new value of €5,000 (updated with the new RQDG itself) for accidents that occur on the distribution network.

At the end of 2013, new provisions were also approved¹⁵⁴ regarding the reconstruction of natural gas consumption following verified malfunctioning of the metering station, which apply as of 1 July 2014, while a provision for the abrogation of the regulation previously in force¹⁵⁵ takes effect from the same date, thus overcoming the critical aspects encountered. With the new regulations, the reconstruction of natural gas consumption applies following:

- metering station inspections which find metering errors greater than the values admitted under the metering regulations in force;
- metering station inspections during which faults in the metering stations are identified which do not permit the metering error to be identified;
- faults in the metering station identified by the distribution company while carrying out its own activities which do not allow the metering error to be identified.

¹⁵³ With Resolution 64/2014/R/gas of 20 February 2014.

¹⁵⁴ Resolution 572/2013/R/gas of 12 December 2013.

¹⁵⁵ Resolution ARG/gas 7/10 of 27 January 2010.

For estimation of the recalculation volume, the provision establishes two methods to apply respectively in cases in which, during metering station inspections, the metering error can be identified and in cases in which the type of fault or breakage on the metering group makes it impossible to determine the metering error.

Regulation of commercial quality of distribution services

Regulation of commercial quality, among other things, provides for maximum times within which a number of types of service must be provided and any automatic compensation which the company must pay to the final customer if the maximum time established by the Authority is not respected.

Compensation is paid for causes that can be attributed to the distribution company and for each individual service provided after the maximum time. Generally, the specific commercial quality levels refer to the type of user, through the calibration of the metering station, as do the automatic penalties to be paid in cases of non-compliance. The rules concerning automatic compensation also make provision for an increase in the base amount according to the delay in execution of the service, except for the time window, for which no escalation is indicated.

Compared with 2012, 2013 saw an increase in cases of failure to comply with standards subject to reimbursement (+5%) and a decrease in the number of reimbursements paid (-3%). Against 19,745 cases of failure to comply with specific standards, 18,821 automatic compensation payments were made to final consumers: a total pay-out of approximately 1,000,000 euros.

With regard to the various services subject to automatic compensation, a decrease in the percentage of non-compliance was observed in most cases. In detail, the percentage regarding the service of sending a metering station inspection report to the supplier was 1.30%. The service concerning the time window for personalised appointments (representing the largest number of cases) recorded a non-compliance rate of 0.36%. The service representing the smallest number of cases, i.e. inspections concerning supply pressure, recorded a non-compliance rate of 2.99%.

With reference to the most common type of final customer, i.e. those supplied at low pressure with metering stations up to class G6, the actual average time recorded in 2013 is markedly lower than the standard set by the Authority for all services subject to automatic compensation. With the exception of the services of deactivation of supply and reactivation in the event of the customer being cut off for failure to pay, regarding the remaining services average times were lower than half of the standard set. Cost estimates for complex works are provided in less than a quarter of the time set (8.5 working days as against a maximum of 40 days), while cost estimates for simple works are provided in a third of the time provided for by the RQDG (5 days as against the maximum of 15 days), while reactivation of supply due to potential danger to public safety takes less than one working day as opposed to the two days provided for by the regulation.

With reference to services subject to automatic compensation as a whole, the number of services performed in 2013 was around 26,000 higher than in 2012. Services in which the number of requests on the part of customers increased were: deactivation of supply, the time window for personalised appointments and activation of supply. In 2013, as in 2012, the greatest number regarded postponed appointments (1,589,398), which alone represented 46% of the total of services provided, followed by activation of supply, at 20%.

Comparing the two years, 2012 and 2013, a general decrease in the average times to perform services was seen. The figure is consistent with the decrease, in most cases, in the non-compliance percentage.

The number of automatic compensation payments made in 2013 increased slightly compared with 2012. The service which led to the greatest number of automatic compensation payments was the time window for personalised appointments (4,838 compensation payments), followed by automatic compensation payments made for non-compliance with the standard (five working days) for deactivation of supply (4,752 cases).

The new RQDG for the 2014-2019 regulation period has also introduced new changes with regard to the commercial quality of distribution and metering services, and specifically:

- the application, with effect from 1 January 2015, of rapid estimation, already in force since 2013 for the electricity sector; such estimates are based on standard payments at the national level and may be communicated to final customers who contact the call centre of the energy sales company already during the first call; at present, the rapid estimation requirement applies to activations and deactivations of supply for which standard payments have been set¹⁵⁶ on a national scale;
- the elimination of all differences between standards according to class of metering stations;
- the reduction of the maximum time for providing estimates for the execution of complex works;
- a number of procedural aspects related to the metering station inspection service, a service linked exclusively to requests on the part of final customers, with the transformation of the related general standard to specific;
- the transformation from general to specific of the standard concerning the time for replacement of faulty metering stations;
- the introduction of a new specific standard concerning the maximum time to restore the standard supply pressure, exclusively for interventions connected to pressure regulators and reducers;
- an increase in the minimum percentage for compliance with the general standard regarding the justified response time to written complaints or to written requests for information;
- updating of amounts relating to automatic compensation payments;
- annual communication of data and information at the regional rather than the provincial level, in addition to the company level.

Connection times for transmission and distribution network

Data relating to connections are distinguished according to whether they are to gas transmission pipelines or to distribution pipelines. Within each individual type of system, data shows the number of connections and average time to obtain them, i.e. the period for creating the point as provided for by the connection contract stipulated with the network operator. As Table 4.1 shows,

¹⁵⁶ With Resolution 573/2013/R/gas of 12 December 2013.

in 2013, there were 71 connections with the national transmission network, 54 of them high pressure and 17 medium pressure.¹⁵⁷ The average waiting time was 50.4 working days; naturally the average time was greater for high-pressure gas pipelines, where the average waiting time was approximately 69 days, while for medium-pressure pipelines the average time falls to 38 days.

The number of connections with the distribution network (Table 4.2) was decidedly higher, with 175,944 connections in 2012.

Almost all of these (around 98%) were at low pressure and waiting times were obviously shorter than for pipelines connected with the transmission network: respectively 7.4 working days for low-pressure pipelines, 15.7 days for medium-pressure pipelines and 8.5 days for high-pressure pipelines.

Table 4.1 Connections to transmission networks and average connection times in 2013

Number and average time in working days

PRESSURE	NUMBER	AVERAGE TIME ^(A)
High pressure	54	69.0
Medium pressure	17	38.0
TOTAL	71	50.4

(A) Excludes time required to obtain any necessary authorisations.

Source: Annual Survey of Regulated Sectors.

Table 4.2 Connections to distribution networks and average connection time in 2013

Number and average time in working days

PRESSURE	NUMBER	AVERAGE TIME ^(A)
Low pressure	4	8.5
Medium pressure	3,852	15.7
Low pressure	172,088	7.4
TOTAL	175,944	10.5

(B) Excludes time required to obtain any necessary authorisations and time required for final customers to fulfil own obligations.

Source: Annual Survey of Regulated Sectors.

Approval and updating of Codes of Services

Regulation of access to and provision of natural gas transmission, storage and regasification services contained in Legislative Decree no. 164 of 23 May 2000 requires companies which provide the aforementioned services to set out their own codes in accordance with the criteria established by the Authority, which approves them once it has verified their compliance with said criteria.

¹⁵⁷ Typically pipelines built for transmission purposes are of the 1st, 2nd or 3rd type with a maximum operating pressure of over 5 bar.

During 2013 a number of previously approved Codes of Services concerning transmission, storage and regasification were updated in order to incorporate new regulatory provisions, Authority provisions or means of management designed to improve the provision of the service.¹⁵⁸

Access to transmission service

As part of a proceeding which also included a public consultation phase, at the beginning of 2013 the Authority approved¹⁵⁹ specific *Guidelines*, drawn up in coordination with the Austrian regulator E-Control, which set out the criteria and means of effecting the procedures for allocation of daily transmission capacity between the Austrian and Italian gas systems. Previously, measures had been established¹⁶⁰ to make available, starting from April 2013, a service of allocation of the daily transmission capacity between the Austrian and Italian gas systems, via Tarvisio, to be implemented by means of the use of the common European platform for cross-border capacity allocation, Prisma, established by the main European transmission system operators. The objective of these measures is to foster the joint allocation of cross-border capacity in order to encourage ever greater market liquidity and flexibility, and to achieve gas price convergence at the European level.

In June 2013, the Authority made available for consultation¹⁶¹ its guidelines regarding the modifications to be made to the regulation concerning requirements for access to the transmission service and to criteria for allocation of transmission capacity at cross-border interconnection points on the domestic network, in order to implement the changed European regulatory framework, with particular reference to the provisions of both the Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems, as set out in Commission Regulation (EU) No 984/2013 (CAM regulation) and Annex I to Regulation (EC) No 715/2009 concerning contractual congestion management (Congestion Management Procedures, CMP regulation).

The ultimate goal of the CAM and CMP regulations is to create more liquid, competitive markets. The CAM regulation sets out transparent, non-discriminatory rules for capacity allocation to which all European Union Member States are bound. Specifically, they provide rules for harmonising allocation procedures between interconnected systems, making it obligatory to hold auctions for products which make it possible to obtain capacity in order to transit directly from one system to another without having to acquire exit capacity from one system and entry capacity into the neighbouring system (so-called bundled).

The new regulation will be directly applicable, starting from 1 November 2015, at all interconnection points between entry-exit systems of European Union Member States (for Italy: Gorizia-Sempeter and Tarvisio-Arnoldstein), as well as interconnections with non-EU countries, if thus decided by the regulation authorities concerned.

Some of the provisions of the CAM regulation take on a self-executing nature, insofar as they are subject to Regulation (EU) No 984/2013, and are characterised by such a high degree of detail that they require mere transposition into national legislation of their provisions (for example regarding

¹⁵⁸ See Resolutions 137/2013/R/gas of 28 March 2013, 143/2013/R/gas of 5 April 2013, 335/2013/R/gas of 25 July 2013, 353/2013/R/gas of 1 August 2013, 520/2013/R/gas of 14 November 2013 and 556/2013/R/gas of December 2013.

¹⁵⁹ Resolution 83/2013/R/gas of 28 February 2013.

¹⁶⁰ With Resolution 536/2012/R/gas of 13 December 2012 and in line with the guidelines set out in Consultation Document 82/2012/R/gas of 8 March 2012.

¹⁶¹ Consultation 270/2013/R/gas of 20 June 2013.

timeframes for allocation and capacity allocation mechanisms), while others require for their implementation an evaluation on the part of the Authority regarding their most appropriate means of application and related scope. In the consultation of June 2013, the Authority also set out its guidelines regarding aspects of the CAM regulation whose implementation requires criteria to be determined by the regulator or for which determination of such criteria is opportune, given the general nature of the regulation (for example, the possible extension of the rules contained in the CAM regulation to interconnection points to transmission systems outside the European Union or the maintenance of current public service obligations on transmission companies which make the possibility of giving access to the transmission service dependent on the existence of specific requirements regarding authorisation of imports and the availability of an importation contract).

The CAM regulation also requires that a share of at least 20% of existing capacity be made available for the allocation of capacity products with a short duration and medium term (specifically 10% for quarterly products and 10% for products up to five thermal years). The Authority has therefore ruled¹⁶² that capacity allocations for the entry points to the national transmission network interconnected with abroad of Passo Gries, Tarvisio and Gorizia granted during the summer of 2013 should already take into account the share of capacity that must be reserved for short-term products, in accordance with the future CAM regulation.

The CMP regulation, on the other hand, sets out the European rules for the management of so-called “contractual congestion”, i.e. situations in which transmission capacity is low because it has been entirely allocated – often on a multi-year basis – when (technical) physical capacity is still available. Contractual congestion is considered one of the main obstacles to integration of the European market. The CMP regulation requires transmission system operators to make any capacity deriving from the application of specific congestion management procedures available to users, as from 1 October 2013.

As the result of the consultation referred to above, in July 2013 the Authority therefore set out¹⁶³ the provisions for the transposition into national law of the congestion management procedures of the CMP regulation.

Also with regard to access to the transmission network, in September the Authority set out¹⁶⁴ its guidelines regarding the regulation of conditions for connection and access to the national gas pipeline network in cases in which the exemption for LNG terminals is waived. The intervention is part of a broader reform launched by the Authority in order to clarify¹⁶⁵ what regulation is applicable in cases where a new piece of infrastructure (LNG terminals, interconnectors or new underground storage facilities) which would benefit from an exemption comes to lose such entitlement, which may happen in cases where the Ministry of Economic Development accepts (according to conditions set out by the ministry itself through a specific Decree) such waiving or withdraws it. In this area, the definition of the most appropriate instruments for guaranteeing that upon expiry of the transmission contract the terminal continues to operate and offer regasification services, and thus does not cease operation in an inefficient manner and/or with costs for the system, has been made available for consultation.

¹⁶² Resolution 332/2013/R/gas of 25 July 2013.

¹⁶³ Resolution 411/2013/R/gas of 26 September 2013.

¹⁶⁴ Consultation 374/2013/R/gas of 5 September 2013.

¹⁶⁵ As provided for by Resolution 272/2013/R/gas of 25 June 2013.

The consultation process ended at the beginning of 2014, when it was established¹⁶⁶ that only regasification terminals deemed to be strategic are entitled to modify the conditions of the transmission contract to be signed or already signed,¹⁶⁷ reducing the duration to five years, with effect from the terminals coming on line or, if they are already on line, from the waiving of the exemption, without prejudice to the need to commit capacity of 100% of the terminal's maximum send-out capacity. In addition, if the regasification company exercises the right, if waiving of the exemption has been accepted subsequent to the commencement of works to build the dedicated transmission infrastructure, with costs to the system, it must ensure – at least on an annual basis – that transmission capacity is available for the provision of its own services for a percentage of capacity corresponding to the percentage of revenues covered by the guarantee factor.

Access to storage service

In March 2013 the Authority set¹⁶⁸ the percentages of gas applied to users to cover technical storage consumption for the period from 1 April 2013 to 31 December 2013. The means of allocating technical consumption¹⁶⁹ take into account the fact that the storage service user plays a part in generating the related costs where its position is aligned with that of the system flow (forward flow), while it plays a part in reducing them where it is opposed to the system flow (reverse flow).

In August, the Authority introduced¹⁷⁰ provisions obliging storage companies to update the effective maximum daily volumes deliverable during the delivery phase, based on actual storage usage patterns. The purpose of the measure was to provide users with the greatest possible flexibility in the use of the storage service, while respecting both the limitations on use imposed by the Ministry of Economic Development,¹⁷¹ and maintenance of performance, as specified by the same Decree, until the end of the delivery phase. With regard to the updating of the maximum effectively deliverable daily volumes, the Authority subsequently acted by means of a provision¹⁷² which provided Stogit with guidelines concerning the removal of a number of limitations that it had set in determining delivery performance made available;¹⁷³ these limitations, in fact, did not allow the maximum additional delivery performance to be made available in order to maximise the flexibility of use of gas in storage as is compatible with the safe operation of the system.

With regard to access to the storage service, one is also referred to the opinion¹⁷⁴ issued by the Authority to the Ministry of Economic Development regarding the updated new storage capacity development plan submitted by Eni, in application of the provisions of Legislative Decree no. 130 of 13 August 2010.

In February 2014 the Authority set out¹⁷⁵ criteria for allocation of storage capacity for the 2014-2015 thermal year. With the preceding consultation document,¹⁷⁶ in advance of the provisions

¹⁶⁶ Resolution 19/2014/R/gas of 30 January 2014.

¹⁶⁷ Pursuant to Resolutions 168/2006 of 31 July 2006 and ARG/gas 2/10 of 27 January 2010.

¹⁶⁸ Resolution 128/2013/R/gas of 28 March 2013.

¹⁶⁹ Introduced with Resolution 152/2012/R/gas of 19 April 2012.

¹⁷⁰ Resolution 353/2013/R/gas of 1 August 2013.

¹⁷¹ With the Decree of 15 February 2013.

¹⁷² Resolution 625/2013/R/gas of 19 December 2013.

¹⁷³ Pursuant to the aforementioned Resolution 353/2013/R/gas.

¹⁷⁴ Opinion 136/2013/I/gas of 28 March 2013.

¹⁷⁵ Resolution 85/2014/R/gas of 27 February 2014.

subsequently set out by the Ministry of Economic Development in the Decree of 19 February 2014, the Authority submitted its guidelines for storage capacity allocation by means of market procedures, confirming the general framework for storage services set out the previous year,¹⁷⁷ organised in terms of the peak service and the uniform service. Also for the 2014-2015 thermal year, the measure comes in a market context of seasonal gas price differences between summer and winter which are at lower levels than the costs connected with the purchase and use of storage capacity. In addition, consumption levels are significantly lower than their historical maximums, and the share necessarily covered by storage is lower as a result.

Against this background, and with the aim of valuing the “storage resource” as a whole based on market developments, auction procedures have been structured, from the outset, as a series of consecutive auctions for the allocation of peak and uniform services by means of different procedures, to be carried out on a monthly basis, yet from March to September 2014.

Specifically, in each allocation procedure, participants are asked to submit their offer for storage capacity, for the uniform and peak services, divided into two separate products:

- a first product which provides for the availability of injection capacity from the month following the month of allocation until the end of the injection phase (product with seasonal injection);
- a second product which provides for the availability of injection capacity exclusively in the month following the month of allocation (product with monthly injection).

Oversight of gas system safeguard measures

Articles 4 and 8 of Legislative Decree no. 93/11 set out the safeguard measures and plans which the Ministry of Economic Development must implement in the event of a sudden crisis on the energy market and when the physical integrity or safety of people are threatened, as provided for by article 46 of Directive 2009/73/EC. Article 43.3, letter c) of the directive assigns the Italian regulator the task of overseeing the application of such measures by operators, in keeping with the provisions of article 41.1, letter t) of Directive 2009/73/EC.

The following specific provisions are highlighted:

- the opinion¹⁷⁸ expressed to the Ministry of Economic Development in relation to thermoelectric units fired by fuels other than natural gas, to keep available to be activated in the event of any emergencies that might arise during the 2013-2014 thermal year;
- the implementation,¹⁷⁹ within the Authority’s area of responsibility, of the provisions of the Decrees issued by the Ministry of Economic Development, regarding the management and supply, on the part of regasification terminals, of quantities of LNG to keep stored and to make available, in the context of the “peak shaving service”, in order to cope with any emergency situations in the gas system;

¹⁷⁶ Consultation 44/2014/R/gas of 6 February 2014.

¹⁷⁷ Resolution 75/2013/R/gas of 21 February 2013.

¹⁷⁸ Resolution 439/2013/l/gas of 8 October 2013.

¹⁷⁹ Resolution 471/2013/R/gas of 24 October 2013.

- the establishment¹⁸⁰ of procedures for collecting the amounts necessary to compensate for costs borne, for the 2012-2013 year, for thermoelectric plants essential to the security of the gas system.

Regulation of offers and determination of greater costs borne for electricity production plants deemed essential in the event of a gas emergency

Decree Law no. 83/12, converted, with amendments, by Law no. 134/12, for the purpose of reducing the consumption of natural gas in the thermoelectric sector in gas emergencies without placing at risk the security of electricity supplies to households and firms, requires the Ministry of Economic Development, on the basis of elements identified by the Gas Emergency Committee and by Terna, to set out in its own Decree by 31 July each year:

- production capacity requirements, from facilities fired with fuel oil and other fuels different from natural gas, the availability of which must be guaranteed;
- procedures for identifying specific electricity generation plants with a total rated thermal input of over 300 MW in order to cope with gas emergencies during the following thermal year.

The same Decree Law also requires the operators of the aforementioned plants to guarantee their availability for the period from 1 January to 31 March of each thermal year, and that the plants may be called into service, on an urgent basis, during the aforementioned period, only for the time necessary until the emergency gas situation has passed.

Finally, Decree Law no. 83/12 establishes that the Authority shall define the dispatching procedures for the aforementioned plants, as well as the means of compensation for the costs borne for those plants during each thermal year, as general costs for the security of the natural gas system, in the same way as the provisions for compensation of costs relating to plants essential to the security of the electricity system.

The Decree issued by the Ministry of Economic Development on 13 September 2013 regulates procedures for identifying electricity generation plants with a total rated thermal input of over 300 MW in order to cope with potential gas emergencies during the 2013-2014 thermal year. Based on the aforementioned procedures, Terna has drawn up a list of units essential to the security of the gas system to be submitted to the approval of the Ministry of Economic Development, in consultation with the Authority. The Decree issued by the Ministry of Economic Development on 13 September 2013 in many respects similar to the one issued by the ministry on 23 November 2012, while differing in the following respects:

- it does not set a contribution for containment of natural gas consumption on the part of the thermoelectric sector in gas emergencies, instead introducing a cost-benefit evaluation regarding the activation of the gas consumption containment service. Only if this evaluation produces a positive result, the Ministry of Economic Development approves the final list of units essential to the security of the gas system and activates the gas consumption containment service;

¹⁸⁰ Resolution 620/2013/R/gas of 19 December 2013.

- it provides for the Authority to proceed with covering the costs borne as a result of the gas consumption containment service, including through revenues from the balancing service performed by Snam Rete Gas and from proceeds relating to gas saved valued at opportunity cost.

Following the cost-benefit evaluation, with a letter addressed to the Authority, the Ministry of Economic Development set the contribution for containment of natural gas consumption at 13 million m³ per day on the part of the thermoelectric sector in gas emergencies, with reference to the 2013-2014 thermal year (the contribution for the 2012-2013 thermal year was set at 18 million m³ per day). In October 2013, the Authority expressed¹⁸¹ its favourable opinion to the Ministry of Economic Development on the list of units essential to the security of the gas system communicated by the ministry itself.

The list consists exclusively of production units owned by Enel Produzione, which can be operated with derogations at the limits set during the Integrated Environmental Authorisation [*Autorizzazione integrata ambientale (AIA)*] process and which guarantee, overall, the availability of a net electrical power of 3,150 MW. In the following month of December, the Authority thus approved¹⁸² the final regulations regarding both procedures for dispatching the electricity produced by the units essential to the security of the gas system and procedures for compensating for costs borne in each thermal year in order to ensure the availability of those units during the critical period (1 January - 31 March).

Under the regulation approved by the Authority, if the Ministry of Economic Development declares a gas emergency, the units essential to the security of the gas system are offered by the respective dispatching users:

- for sale on the day-ahead market at a price equal to the variable charge;
- for sale on the intraday market at a price equal to the variable charge;
- for sale and for purchase on the dispatching services energy market at a price equal to the variable charge.

The variable cost compensated for each unit essential to the security of the gas system is determined as being the lower of the following two values: the variable charge offered in the selection procedures and the variable cost ascertained by the Authority according to the same criteria as set out in article 65 of Resolution no. 111/06.

The fixed cost compensated for each unit essential to the security of the gas system is determined as being the lower of the following two values: the fixed charge offered in the selection procedures and the fixed cost ascertained by the Authority according to the same criteria as set out in article 65 of Resolution no. 111/06.

Without prejudice to regulations in force concerning charges for effective unbalancing in the electricity market, in each significant period of the electricity market included in the gas emergency period, the dispatching user of a unit essential to the security of the gas system must pay Terna a penalty equal to the product of:

¹⁸¹ Resolution 439/2013/l/gas of 8 October 2013.

¹⁸² Resolution 615/2013/R/eel of 19 December 2013.

- the virtual variable cost;¹⁸³
- the unavailable power, measured as any positive difference between the contracted power and the maximum deliverable power calculated according to the dynamic register of production units.

The total amount of penalties paid and invoiced by Terna in chronological order may not exceed the compensated fixed cost.

Finally, it is pointed out that the Authority forms part of the Gas System Emergency and Monitoring Committee (*Comitato di emergenza e monitoraggio del sistema del gas*), which was set up by the Ministry of Productive Activities, now the Ministry of Economic Development, with the Decree of 26 September 2001. The committee performs a consultative role with regard to emergency management and operation of the natural gas system. It is made up, in addition to representatives of the ministry and the Authority, of representatives of operators of transmission infrastructure of national interest, of natural gas storage and regasification facilities and representatives of the national electricity grid operator.

4.1.3 Tariffs for connection and access to networks and regasification terminals

Transmission

In Italy the transmission tariff is structured in three parts:

- remuneration for the transmission service on the national network of the entry-exit type, with matrix cost allocation, with costs split 50-50 between entry and exit charges and 85-15 between capacity and commodity;
- remuneration for the transmission service on the regional network, to which a uniform charge is applied (the so-called “postage stamp” charge);
- a variable tariff component dependent on volumes transported.

The part of the tariff corresponding to remuneration for the service provided on the regional network is subject to discounts in proportion to distance for regional gas pipelines which are less than 15 km from the national network; given the homogeneity of the tariff on the regional network, provision is made for specific equalisation mechanisms. For the continuous service based on a period of less than a year the tariff undergoes a restructuring based on a monthly breakdown of the unit charges for capacity on the national network, while for the interruptible service the charge is reduced in order to take into account the risk of interruption to the service. The methods for calculating the reduction in the charge are decided by the main transmission company and approved by the Authority.

¹⁸³ Calculated in accordance with article 4 of Annex A to Resolution 615/2013/R/eel.

At the beginning of 2013 the Authority launched a proceeding¹⁸⁴ for regulation concerning tariffs and quality of service in natural gas transmission for the 2014-2017 period. Subsequently, in April the Authority submitted¹⁸⁵ its guidelines on aspects regarding the determination of recognised revenue, while a subsequent consultation¹⁸⁶ set out its guidelines on aspects concerning the tariff structure and configuration.

At the end of the consultation phase, in November 2013, criteria were established¹⁸⁷ for determining natural gas transmission and dispatching tariffs for the 2014-2017 period. The Authority deemed it appropriate:

- to set a real, pre-tax rate of return on capital of 6.3%, subject to review every two years with reference to the risk-free component;
- to introduce an increase in the recognised cost of capital invested of 1%, in order to compensate for regulatory lag in recognising new investments;
- to make provision for the introduction of output-based incentives, according to procedures to be defined in detail over the course of the regulation period, in order to ensure a greater degree of selectivity in the incentivisation of investments;
- to make provision for the calculation of the percentage of revenues in relation to depreciation by subtracting from the gross fixed assets any capital grants received from public or private entities;
- to apply, for the purpose of determining recognised costs, the criterion of symmetrical sharing, at the end of the period, of the largest productivity recoveries achieved over the course of the third regulation period, compensating companies for 50% of those largest recoveries in the first year of the new regulation period;
- to determine, for companies which have not achieved the efficiency targets set by the Authority for the third regulation period, the recognised operating cost on the basis of an average of actual operating cost and the operating cost recognised in the relevant year;
- to establish the admissible level of network losses based on specific emission factors for each significant component of the transmission network, in order to provide incentives for reducing losses;
- to introduce a system for monitoring expenditure for transmission investments in order to have the necessary information available for the implementation of a mechanism for the recognition of new investments based on standard costs;
- to introduce an equalisation mechanism for revenues deriving from the application of the variable unit charge;
- to eliminate reductions in the regional charge for off-takes away from redelivery points and for the activation of new redelivery points;
- to provide for the gradual elimination of discounts applied to the regional transmission charge for redelivery points located within 15 km of the national network, with specific provision, with

¹⁸⁴ With Resolution 45/2013/R/gas of 7 February 2013.

¹⁸⁵ Consultation 164/2013/R/gas of 18 April 2013.

¹⁸⁶ Consultation 330/2013/R/gas of 25 July 2013.

¹⁸⁷ Resolution 514/2013/R/gas of 14 November 2013.

effect from 2014, for the application of a minimum charge irrespective of distance from the redelivery point.

At the same time, the Authority also initiated two proceedings for establishing measures regarding:

- incentivisation of new investments, in order to apply a greater degree of selectivity in remuneration of investments in new infrastructure;
- containment of physical and accounting losses at transmission network redelivery points, in order to ensure correct maintenance and management of systems owned by distribution companies and final customers connected to the transmission network.

Following verification of the tariff proposals submitted by transmission companies pursuant to the new regulation, in December 2013 the Authority approved¹⁸⁸ the tariff proposals and transmission and dispatching charges for the gas transmission metering service for 2014.

Finally, with regard to transmission, in July 2013 the Authority assessed¹⁸⁹ the extent to which the milestones in development measures on the national gas pipeline network for 2012 had been reached, providing for the recognition of incentivisation in acceleration of investments, with reference to assets in development at 31 December 2012, to the two companies Snam Rete Gas and S.G.I., in accordance with transmission tariffs for 2014. These measures refer to a 2012 provision¹⁹⁰ in which the Authority approved proposals for development of the national gas pipeline network drawn up by Snam Rete Gas and S.G.I., to be subject to the mechanism to incentivise the acceleration of investments to develop transmission capacity becoming operational.¹⁹¹

Regasification

In 2012 the third tariff regulation period for the regasification service (1 October 2008 - 30 September 2012)¹⁹² came to an end. In order to manage the process of transition from the thermal to the calendar year and ensure the consistency of regulatory decisions regarding the regasification service with the development of the regulatory framework for the national gas system, the Authority extended¹⁹³ to the period from 1 October 2012 to 31 December 2013 the validity of the tariff criteria in force, while at the same time initiating¹⁹⁴ the proceeding for the drawing up of provisions concerning LNG regasification tariffs for the fourth regulation period.

In this regard, in April 2012 the Authority made available for consultation¹⁹⁵ its initial guidelines on the matter, subjecting the proceeding to the RIA method. In addition, it initiated a proceeding¹⁹⁶ for the establishment of criteria for the regulation of tariffs and of access to the regasification

¹⁸⁸ Resolution 603/2013/R/gas of 19 December 2013.

¹⁸⁹ Resolution 291/2013/R/gas of 4 July 2013.

¹⁹⁰ Resolution 279/2012/R/gas of 5 July 2012.

¹⁹¹ Mechanism in turn established with Resolution ARG/gas 156/11 of 10 November 2011.

¹⁹² Regulated by Resolution ARG/gas 92/08 of 7 July 2008.

¹⁹³ Resolution 237/2012/R/gas of 7 June 2012.

¹⁹⁴ Resolution ARG/gas 108/11 of 28 July 2011.

¹⁹⁵ Consultation 150/2012/R/gas of 19 April 2012.

¹⁹⁶ Resolution 224/2013/R/gas of 22 May 2013.

service in cases of waiving or revocation of exemption from the third-party access system relating to LNG terminals.

In May 2013 the Authority published¹⁹⁷ its final guidelines regarding criteria for determining tariffs for the LNG regasification service for the fourth regulation period and in addition submitted for consultation its guidelines in relation to the matter of waiving or revocation of exemption from the third-party access system relating to LNG terminals.

The criteria for regulation of tariffs and of access to the regasification service in cases of waiving or revocation of the exemption relating to LNG terminals were subsequently regulated in June 2013,¹⁹⁸ as follows:

- ownership of the right to apply the guarantee factor of the regasification terminals, in cases of waiving or revocation of the exemption, is recognised on condition that the terminal has been identified as strategic infrastructure, pursuant to Legislative Decree no. 93/11;
- in the course of the drawing up of the new framework introduced by Legislative Decree no. 93/11, as referred to in the previous paragraph, the application of the guarantee factor is conditional upon the verdict on the part of the Ministry of Economic Development in the Decree of revocation or acceptance of the waiving of the exemption regime with regard to the characteristics of essential or indispensable infrastructure, with a view to guaranteeing adequate security, economic efficiency and competition in energy supplies;
- if the exemption is waived or revoked, in order to apply the guarantee factor, tariff incentives granted for the development of new investments are excluded from recognised revenues.

The drawing up¹⁹⁹ of criteria for the regulation of LNG regasification tariffs for the fourth regulation period (2014-2017) was conducted in October. Specifically, the Authority deemed it appropriate:

- to set a real, pre-tax rate of return on capital of 7.3%, subject to review every two years with reference to the risk-free component;
- to introduce an increase in the recognised cost of capital invested of 1%, in order to compensate for regulatory lag in recognising new investments;
- to ensure that, for floating terminals not permanently anchored to the sea floor, the conditions of application of the tariff regulation be drawn up with reference to the characteristics of the service offered, and that to this end the regasification terminals must be capable of injecting gas into the national gas pipeline for at least 320 days of the year;
- to provide for the introduction of output-based incentives during the regulation period, in order to ensure a greater degree of selectivity in remuneration of investments;
- to retain the application of a mechanism for covering revenues by maintaining, for terminals which came into operation before the end of the third regulation period (if they satisfy the conditions to benefit from it), the same level of coverage of revenues adopted during that

¹⁹⁷ Consultation 237/2013/R/gas of 30 May 2013.

¹⁹⁸ Resolution 272/2013/R/gas of 25 June 2013.

¹⁹⁹ Resolution 438/2013/R/gas of 8 October 2013.

period, while nevertheless making provision for the selective application of the mechanism to new terminals only if they are considered strategic for the system;

- to ensure that for any new terminals declared to be strategic the level of coverage of revenues is differentiated on a case-by-case basis and in any case within previously set minimum and maximum levels, taking account of the level of risk and of the contribution of the initiative to promoting competitiveness on the natural gas market; furthermore, to this end the Authority considered it appropriate, in keeping with the need for participation on the part of the parties concerned, to defer the establishment of the aforementioned criteria and levels to a subsequent provision;
- to retain the provisions concerning tariff criteria and the revenue coverage factor for cases in which the exemption is waived or revoked, adopted with Resolution 272/2013/R/gas;
- to make provision for the review of the level of revenue coverage if the infrastructure item – for reasons to be ascertained on a case-by-case basis – is unable to provide the service during the seasonal peak period or in situations of system criticality;
- to introduce a specific share of revenue for coverage of regasification infrastructure decommissioning costs are restoring locations to their former state, by ensuring that the proceeds from the application of the related charge are set aside in a specific fund of the electricity sector compensation fund (*Cassa conguaglio del settore elettrico*) and made available to companies only after restoration operations have been completed;
- with regard to the tariff structure, to assign total costs to the capacity component, and eliminate the unit charge associated with scheduled dockings (Cna) in order to reflect the structure of the costs of the service;
- to determine the tariff based on the technical capacity of the terminal, without taking account of any load factor.

In December, the Authority also imposed,²⁰⁰ on a precautionary, provisional basis, the tariff for the regasification service for the transitional period from October 2012 to December 2013 for OLT Offshore LNG Toscana, setting up an additional investigation in order to analyse and evaluate the evidence produced by the company. In addition, following its assessment of the tariff proposals submitted by the regasification companies in accordance with the rules instituted for the new regulatory period, the Authority:²⁰¹

- approved the tariff proposals for the provisional metering charge [*Corrispettivo transitorio di misura* (CMG)] for 2014 submitted by GNL Italia and Terminale GNL Adriatico;
- approved the tariff proposal for the regasification service for 2014 submitted by GNL Italia and Terminale GNL Adriatico;
- automatically imposed the tariff for maritime services of towing and mooring for 2014 for Terminale GNL Adriatico;

²⁰⁰ Resolution 575/2013/R/gas of 12 December 2013.

²⁰¹ With Resolution 604/2013/R/gas of 19 December 2013.

- automatically imposed for OLT Offshore LNG Toscana both the provisional metering charge CMG for 2014 and on a precautionary, provisional basis, the tariff for the regasification service and for the maritime services of towing and mooring.

During the drawing up of the criteria for regulation of regasification tariffs for the fourth regulation period,²⁰² the Authority decided to defer until 2015 the introduction of a tariff which remains constant over time, thus enabling it to make further analyses and evaluations, if necessary following a specific consultation process. A consultation document²⁰³ regarding the matter was published at the beginning of 2014, setting out the Authority's additional analysis and guidelines.

Storage

The capacity component of the storage tariff includes three charges:

- a charge for the space allocated to the user;
- a part to cover injection and delivery capacity;
- a charge to cover strategic space.

In addition to these components, the capacity component has a variable component connected to volumes of gas moved (the commodity part). Also for the storage tariff, provision is made for specific equalisation mechanisms, made necessary by the homogeneity of the tariff on a national basis.

In 2010, the regulation of tariffs for the natural gas storage service for the 2011-2014 period (RTSG), currently in force, was approved.²⁰⁴ This provides for a rate of return on capital of 6.7%. The RTSG was subsequently amended and supplemented in 2011,²⁰⁵ in application of the provisions of Legislative Decree no. 130/10 concerning measures for greater competitiveness in the natural gas market and the transfer of resulting benefits to end users, and in 2012,²⁰⁶ in implementation of the Decree of the Ministry of Economic Development of 29 March 2012 concerning regulations concerning strategic storage of natural gas.

Following verification of the tariff proposals submitted by storage companies in accordance with the regulation in force, the Authority approved.²⁰⁷

- company charges and single national charges for the activity of gas storage and for the metering activity carried out by storage companies for 2014, together with proposals to reduce the unit charges for injection and delivery for the offer of interruptible storage capacity, as well as to increase peak delivery charges for delivery capacity allocated during the injection phase;

²⁰² i.e. in Resolution 438/2013/R/gas.

²⁰³ Consultation 80/2014/R/gas of 27 February 2014.

²⁰⁴ Resolution ARG/gas 119/10 of 3 August 2010.

²⁰⁵ Resolution ARG/gas 29/11 of 23 March 2011.

²⁰⁶ Resolution 149/2012/R/gas of 19 April 2012.

²⁰⁷ Resolution 350/2013/R/gas of 1 August 2013.

- unit costs for access to and use of capacity developed in accordance with Legislative Decree no. 130/10, as well as charges for access to temporary metering.²⁰⁸

With the same provision, the Authority also determined the value of the compensatory contribution for loss of alternative use of land, as provided for by article 2, paragraph 558, of the 2008 Finance Act, to be allocated to the Regions in which the storage facilities are located, relating to 2014, and the percentages of the total amount of the compensatory contribution to be shared between the Regions, relating to 2013.

With the expiry of the regulatory period currently in force nearing, in February 2014 the Authority initiated²⁰⁹ a proceeding for regulation concerning tariffs and quality of service in natural gas storage for the period starting from 1 January 2015.

Distribution

During 2013 the consultation process to establish the tariff regulation for the fourth regulation period 2014-2019 continued.²¹⁰ The process concluded in December 2013, when the tariff regulation for distribution and metering services was drawn up²¹¹ for the 2014-2019 regulation period with reference to concessions at the municipal or supramunicipal level, while the adoption of provisions concerning tariff regulation for the management of minimum geographical areas [*Ambito Territoriale Minimo (ATEM)*]²¹² was deferred to a subsequent provision.

With reference to the duration of the regulatory period, the guideline to establish a duration of six years was retained, while making provision, in addition to a triennial review of the objectives of change in the annual productivity rate, for a biennial review of the rate of return on risk-free activities (RF) and of the value of the component to cover operating costs relating to the installation and maintenance of metering stations.

With regard to differentiation of unit charges recognised in order to cover operating costs of the distribution service, charges have been set according to the characteristics of the individual distribution company concerned (i.e. the size and density of the customer base served), for the “old” municipal management areas.

The annual rate of reduction of unit costs recognised to cover operating costs of the distribution service to be applied for updates to tariffs with effect until 2016, has been set:

²⁰⁸ As provided for by Resolution ARG/gas 29/11.

²⁰⁹ Resolution 79/2014/R/gas of 27 February 2014.

²¹⁰ Initiated in August 2012 with Consultation Document 341/2012/R/gas, in which the Authority set out the general framework and illustrated the main lines of intervention. Consultation Document 56/2013/R/gas of 14 February 2013 analyses aspects regarding the structure of mandatory tariffs and reference tariffs, equalisation mechanisms and the reform of connection contributions. More specifically, in Document 257/2013/R/gas the Authority issued a guideline to retain the structure of the tariff system in force in the third regulation period, founded on the determination of a reference tariff, which establishes the revenue admissible for each distribution company to cover the recognised cost, and of a mandatory tariff, applied to users of the network, with balancing of revenues among distribution operators by means of specific equalisation mechanisms. The final guidelines were illustrated in Consultation Document 359/2013/R/gas of 7 August 2013.

²¹¹ Resolution 573/2013/R/gas of 12 December 2013.

²¹² The minimum geographical areas are groups of municipalities which must assign the distribution service jointly through a tender procedure (see Ministerial Decree of 19 January 2011).

- at 2.5% for distribution companies serving up to 300,000 redelivery points;
- at 1.7% for distribution companies serving over 300,000 redelivery points.

In relation to the treatment of net centralised capital investment, single charges have been established at the national level, and provision has been made for recognition in the first two years of the fourth regulatory period of the costs of remote reading/remote management and costs of concentrators borne by companies.

With reference to the determination of the level of capital investment for the site, for the first three years of the regulation period, the criterion for valuation of capital invested continues to be based on the revalued historical cost method. The resolution initiated a specific proceeding to evaluate the possibility of modifying valuation criteria for new investments with effect from 2017, establishing that in the proceeding the possibility of introducing valuation methods at standard costs is analysed.

The rate of return on capital invested has been set at 6.9% for the distribution service and 7.2% for the metering service, with reference to the two-year period 2014-2015. Two updates to the rates of return have been scheduled for 30 November 2015 and 30 November 2017 respectively, in relation to the adjustment of the rate of return on risk-free assets.

As in the previous regulatory period, distribution companies must apply to users of the service a mandatory tariff (which represents a maximum price), consisting of fixed and variable parts, divided into 6 tariff areas²¹³ coinciding with those of the previous regulation period, due to the need for continuity, administrative simplicity and promotion of competition in the sales segment. The mandatory tariff is made up of components τ_1 ,²¹⁴ linked to the number of redelivery points and component τ_3 , linked to volumes delivered and differentiated according to consumption bracket. Additional components are added to these.²¹⁵ With effect from 2014, the tariff structure has been reformulated compared with the previous regulatory period, with priority given to reducing unit charges for the higher consumption brackets (annual consumption over 200,000 S(m³)). With effect from 2015, the fixed parts of the mandatory tariff covering the costs of the activities of distribution/management of network infrastructure and the metering service according to the size of the metering station installed.

Also in December, the Authority approved²¹⁶ the mandatory tariffs and bi-monthly equalisation adjustment amounts for natural gas distribution and metering services for 2014.²¹⁷

²¹³ The areas refer to 6 main zones into which the country is divided: North-West, North-East, Centre, South-Central (East) and South-Centre (West).

²¹⁴ Component τ_1 (dis), covering distribution costs, τ_1 (mis), covering costs for the metering service, and τ_1 (cot), covering sales costs.

²¹⁵ The additional components are the following:

- GS, covering tariff compensations for economically disadvantaged customers;
- RE, covering costs for metering, energy saving measures and development of renewable energy sources in the natural gas sector, for district heating networks and for technological development;
- RS, covering costs relating to quality of gas services;
- UG₁, covering any imbalances in the equalisation and adjustment system;
- UG₂, to compensate for retail sales costs;
- UG₃, covering costs connected with the intervention of interruption, services of last resort and temporary suppliers.

²¹⁶ Resolution 633/2013/R/gas of 27 December 2013.

²¹⁷ In application of the provisions contained in Resolution 573/2013/R/gas.

Metering

In December 2013, obligations were updated²¹⁸ with regard to the installation and commissioning of electronic meters for remote reading/management of gas distribution redelivery points (gas smart meters). For small customers, with G4 and G6 class metering stations, different obligations have been introduced, based on the size of the distribution companies. Those with over 200,000 final customers must:

- install 3% of smart meters (compared to active redelivery points) by 31 December 2014;
- put 3% of smart meters into service by 31 December 2015;
- install 10% of smart meters by 31 December 2015;
- put 60% of smart meters into service by 31 December 2018.

Companies with over 100,000 final customers must install 3% of smart meters by 31 December 2015.

Companies may install G4 and G6 metering stations of the traditional type, but only until 31 December 2014, after which only smart meters may be installed.

With regard to making final customer withdrawal data available, pending transposition into Italian law of Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012:

- the differentiation previously in effect according to the class of smart meter has been removed;
- consumption data can be made available both via Internet (using the most common, widespread technologies) and via the smart meter interface, not necessarily in real time;
- the costs approved by the Authority in cases of the smart meter interface coinciding with the pulse emitter output are not affected.

Provisions concerning tenders for concession areas

In implementation of the provisions of Decree no. 226/11 of the Ministry of Economic Development, which set out the regulation for tender criteria and for the evaluation of bids to provide the natural gas distribution service (*Regolamento per i criteri di gara e per la valutazione dell'offerta per l'affidamento del servizio della distribuzione del gas naturale*), the Authority instituted²¹⁹ its own regulation concerning criteria for tenders and for the evaluation of bids to be awarded the natural gas distribution service at the level of minimum geographical areas (*ambiti territoriali minimi*, ATEM).

Against this background, the Authority has published three consultation documents²²⁰ which describe its initial guidelines regarding methods of transmitting data on the state of progress of distribution networks, the criteria for determining a one-off payment to cover tender costs and the drawing up of a model service contract.

²¹⁸ Resolution 631/2013/R/gas of 27 December 2013.

²¹⁹ Resolution 77/2012/R/gas of 8 March 2012.

²²⁰ Consultation Documents 212/2012/R/gas of 24 May 2012, 257/2012/R/gas of 21 June 2012 and 382/2012/R/gas of 27 September 2012.

Following the consultation, the Authority approved:

- criteria for determining a one-off payment to cover the costs borne by commissioning bodies²²¹ for managing tenders for the new minimum geographical areas for the gas distribution service.²²² The payment amount varies according to the number of users served and the number of municipalities in the individual minimum geographical area, within the limits of a maximum spending ceiling;
- the model service contract for gas distribution,²²³ subsequently approved in a Ministry of Economic Development Decree on 5 February 2013;
- the electronic media format for the sending of data regarding the state of progress of natural gas distribution networks, drawing up the technical data sheets for them to be sent in printed form and establishing the electronic media format and the date from which the obligation to use the electronic format is to take effect.²²⁴

In March 2013, the Authority established²²⁵ the methods of implementation of the provisions set out in article 9, paragraph 2, of Decree no. 226/11. To this end, a model justificatory note was drawn up²²⁶ and the area of the verifications which the Authority plans to carry out in order to formulate any observations to be communicated to the commissioning body was determined. Finally the Authority made provision for the tariff data which are relevant to the conduct of tenders to be made available to commissioning bodies through publication on the Authority's website.

In addition, in May the Authority supplemented²²⁷ the criteria²²⁸ for determining the one-off payment to cover the costs of the tender for awarding the natural gas distribution service, in implementation of the provisions of article 8, paragraph 1, of Decree no. 226/11.

Prevention of overlapping transfers between businesses in the supply chain

Resolution 11/07, "*Obblighi di separazione amministrativa e contabile per le imprese operanti nei settori dell'energia elettrica e del gas*" ("Mandatory separation of administration and accounts for companies operating in the electricity and gas sectors"), which aims, among other things, to prevent companies operating in the electricity and gas sector from carrying out overlapping

²²¹ The "commissioning body" is the entity which, upon delegation of the local authorities granting the concession in the geographical area, is responsible for announcing, managing and adjudicating the tender for gas distribution in all of the municipalities of the area. In this regard, Ministerial Decree no. 226/11 established that, in order to ensure an effective, efficient process for awarding the distribution service by geographical area, it is essential that the local authorities belonging to an area select an already-established administrative body or organisation to which to delegate the completion of the competitive tendering procedure (commissioning body). The Decree recommends that the administrative body with the function of commissioning body should be the municipality in which the provincial capital is located, in areas where this exists; in other cases this may be a lead municipality, the Province or another entity, such as a network holding company, where present, and that the choice must be made by the municipalities in the area.

²²² Resolution 407/2012/R/gas of 11 October 2012.

²²³ Resolution 514/2012/R/gas of 6 December 2012.

²²⁴ Resolution 532/12/R/gas of 13 December 2012.

²²⁵ Resolution 113/2013/R/gas of 21 March 2013.

²²⁶ The justificatory note must illustrate deviations of the tender procedure and regulations from the model procedure as well as the choice of scores used in the tender evaluation criteria to be used by commissioning bodies.

²²⁷ Resolution 230/2013/R/gas of 30 May 2013.

²²⁸ Set out by Resolution 407/2012/R/gas of 11 October 2012.

transfers of resources between various businesses in the supply chain. During 2013 the Authority neither initiated nor concluded proceedings to ascertain violations of the regulation concerning functional and accounting separation obligations.

4.1.4 Regulation and international cooperation regarding cross-border infrastructure

TAP exemption

The TAP pipeline represents a major opportunity for Italy in terms of security of energy supply, diversification of energy sources and further development of competition, by helping to confirm Italy's status as a gas hub. In addition, the new connection with Greece and Albania, and therefore with the Balkans, will open up access to new, emerging markets, through the opportunity to move gas by booking capacity, including reverse-flow capacity.

At the end of February 2013, the Authority, jointly with the Greek and Albanian regulators (RAE and ERE), issued²²⁹ a preliminary favourable opinion regarding the request for exemption submitted by TAP AG (*Joint Opinion*). The exemption regards third-party access and other provisions of the gas directive of the Third Energy Package concerning tariffs and unbundling. The joint opinion was reached following the regulators' activities and the results of the market test, as provided for by Directive 2009/73/EC. The purpose of the market test procedure was to garner interest among potential users of the infrastructure, institutions and network operators, towards the allocation of related transmission capacity; it represented the first case of the application of the provisions of the directive to a gas pipeline.

With its Decree of 13 March 2013, the Ministry of Economic Development adopted the provision of exemption which refers to the joint opinion in its entirety while adding a further condition regarding competition-promoting measures applicable in Italy. On 16 May 2013, the European Commission, pursuant to article 36.9 of the aforementioned directive, took its decision regarding the exemption notified.

At the beginning of June the Authority, jointly with the Greek and Albanian regulators (RAE and ERE), therefore transposed²³⁰ the additions requested by the European Commission and by the Energy Community with regard to the "Joint Opinion of the Energy Regulators on TAP AG's Exemption".²³¹

With a Decree issued on 25 June 2013, the Ministry of Economic Development transposed the additions requested by the European Commission regarding the granting of exemption from third-party access regulation in favour of TAP AG.

In the Final Joint Opinion, acceptance of the application for exemption on the part of TAP AG was made dependent on a series of conditions, along the following lines:

- the business case of TAP AG for the transmission of available volumes of gas from the Shah Deniz II field to South-East Europe and Italy was accepted, yet on condition that at the same time all future purchasers of said volumes of gas be guaranteed access on the same terms and under the same conditions;

²²⁹ Resolution 78/2013/R/gas of 28 February 2013.

²³⁰ Resolution 249/2013/R/gas of 6 June 2013.

²³¹ Adopted with Resolution 78/2013/R/gas (Final Joint Opinion).

- the maximum capacity for gas transmission via the TAP pipeline will be developed following a market approach based on best practices in Europe;
- the gas markets of South-East Europe will also have direct access to gas supplies from Italy, via Greece and Albania;
- the interoperability of the TAP pipeline with existing and future gas infrastructure in Italy, Albania and Greece is guaranteed through the development of new entry and exit points, according to the needs of the three countries;
- TAP AG will operate as an independent system operator for the whole period of the exemption;
- pro-competition measures must impede the development and consolidation of dominant market positions in all three countries.

In September 2013 the Authority defined²³² Shah Deniz Gas more specifically pursuant to the Final Joint Opinion, in order to enable TAP AG to transport gas produced in Azeri territory, irrespective of the specific production field. In October 2013, after expressing²³³ its favourable opinion to the Ministry of Economic Development concerning its confirmation of the exemption issues in favour of TAP AG, the Authority approved²³⁴ TAP AG's tariff code proposal at concomitantly with the national regulatory authorities of Albania (ERE) and Greece (RAE).

During November TAP AG submitted its Regulatory Compliance Programme proposal, as set out in the Final Joint Opinion. The programme contains measures for preventing potential discriminatory behaviour on the part of TAP AG against participants in the initial booking phase of the market test that are not shareholders in the company itself. The application of the programme is only one of the conditions requested by the Final Joint Opinion to avoid potential conflicts of interest between the TSO TAP AG and its shareholders with an active role in gas extraction from the Azeri fields. Thus TAP AG, despite having been granted exemption from ownership unbundling, will in any case have to be certified according to the ITO model before the TAP pipeline is built, and in any case not later than 1 January 2018.

Investments in new network infrastructure and consistency with EU development plans

Decree no. 65 of the Ministry of Economic Development of 27 February 2013 established, in accordance with article 16.1 of Legislative Decree no. 93/11, a **mechanism for evaluating and monitoring the gas transmission network development plan**. According to the Decree, network operators must communicate the plan to the Regions, the Authority and the Ministry of Economic Development; the Ministry and the Authority evaluate it, each within its own purview, and including with a view to consistency with domestic energy strategy. The Ministry must also evaluate, after consultation with the Authority, whether the plan contains an adequate estimate of investment requirements and whether it is in line with the ten-year network development plan at the European Union level. Following the monitoring activity, should it emerge that the network

²³² Resolution 384/2013/R/gas of 12 September 2013.

²³³ Opinion 472/2013/I/gas of 28 October 2013.

²³⁴ Resolution 495/2013/R/gas of 7 November 2013.

operator has not made an investment which according to the plan should have been made, the Ministry and the Authority may force the operator to make the investment within a fixed term. In the event of non-compliance with the provisions issued as a consequence of the monitoring, the Authority may ultimately impose penalties.

4.1.5 Compliance with EU regulations

During the year which has just ended, no legally binding decisions were adopted by the Agency or by the Commission which the Authority was required to implement pursuant to article 41.1.d) of Directive 73/2009/EC.

Conformity of the duties attributed to the Authority pursuant to the gas directive

For an illustration of the main duties and powers attributed to the Authority by current legislation, see the 2013 Annual Report and the new legislation described in paragraph 2.

4.2 Promotion of competition

4.2.1 Wholesale markets

In the third quarter of 2013, the fall in GDP, sustained by exports and changes in inventories, was halted and it began to grow once again, albeit to a very modest degree (0.1% over the previous period), thus interrupting the recessionary phase which began in the summer of 2011. Despite these initial signs of improvement, throughout the whole of last year economic conditions remained extremely difficult in Italy, especially for smaller firms and in the service sector. Prospects for improvement, connected mainly to growth in global economic activity and international trade, have until now remained within the reach of larger-sized industrial firms and those more oriented towards export markets.

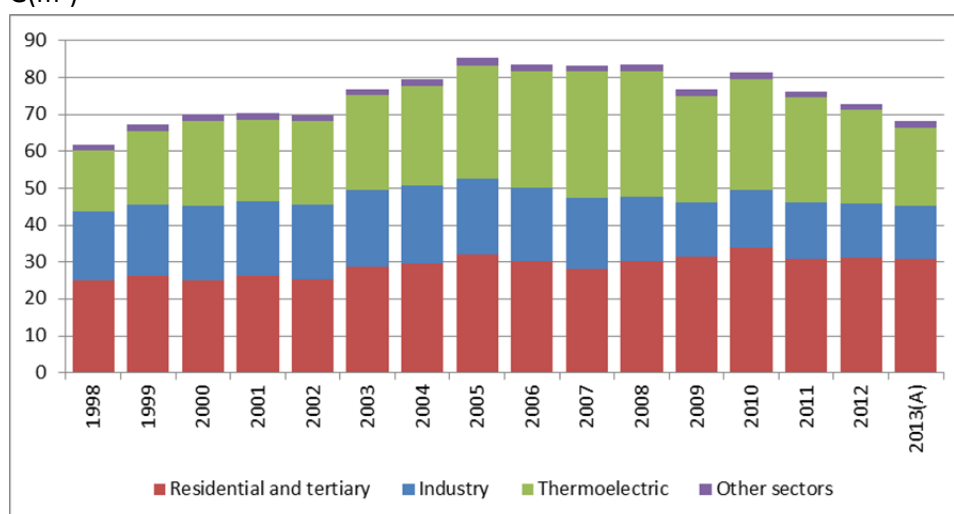
The reduction in consumption and production made life difficult for all energy sectors throughout the whole of 2013, including the gas sector. According to provisional figures published by the Ministry of Economic Development, last year gross domestic consumption was 70.1 G(m³), thus recording another decrease – the third in a row – of 6.5% compared with the previous year, and returning to 1999/2000 figures.

With the exception of motor propulsion, where consumption increased by 6.6%, all sectors recorded lower total off-takes, especially those for electricity generation.

Partly as a result of relatively mild temperatures during the winter months, consumption in the civil (i.e. residential and tertiary) sector fell by 1.4%, from 31.2 to 30.8 G(m³); non-energy uses registered a drop of 2.8%. In the sector of gas for productive use, a smaller drop was seen in agriculture (-1.3%), followed by industry, where consumption fell to 14.6 G(m³), i.e. by 2.7%. Another sharp decline (-15.7%), on the other hand, was seen in the thermoelectric sector, where demand tailed off to 21.2 G(m³), an even larger fall than last year's. If these figures are confirmed, gas consumption for electricity production will have decreased by 10 G(m³) in four years, as in 2010 it was – albeit marginally – over 30 G(m³).

Figure 4.4 Natural gas consumption by sector

G(m³)



(A) Provisional figures.

Source: Ministry of Economic Development, National Energy Balance Sheet, various years.

As Figure 4.4 shows, from the peak reached in 2005, total demand has decreased by 20%. However, this reduction is almost wholly accounted for by productive uses: in fact, while consumption in the civil sector has remained steady, industrial and electricity generation uses have fallen by around one third compared with the levels of that year. If, on the other hand, 2000, the year of liberalisation, is taken as a baseline, it can be observed that consumption levels have remained unchanged overall (-2%). However, a breakdown by sector shows that this stability has been guaranteed by substituting civil consumption (which has grown by over a fifth) with industrial consumption (which has dropped by almost a third) and – to a lesser extent – consumption in the thermoelectric sector (which has fallen by approximately 7%).

With a sharp decrease in final demand it is no surprise that domestic production in 2013 was kept low: indeed, after three years of slight increases, last year it stabilised at 7.7 G(m³), a figure which is 10% lower than in 2012. Around 85% of all domestic production is extracted by companies in the Eni group, which remains the dominant operator in this segment with an absolute majority share and far ahead of the second group, which this year is Royal Dutch Shell with 7.3%. For several years the latter has alternated between second and third place with the Edison group, while Gas Plus remains in fourth place, with a share of 2.4% this year.

The contraction in consumption has contributed to the further, significant reduction in imports (-8.5%), with a fall of 5.8 G(m³), while exports, although still negligible, showed another solid increase, from 139 M(m³) to 228 M(m³). Net imports, therefore, were 61.7 G(m³). In contrast to the three previous years, 2013 did not see an increase in inventories: on the contrary, 0.6 G(m³) was withdrawn from inventories. Taking system consumption and network losses into account, domestic consumption in 2013 was 68.2 G(m³), 6.5% lower than in 2012 and similar to 1999 and 2000 levels.

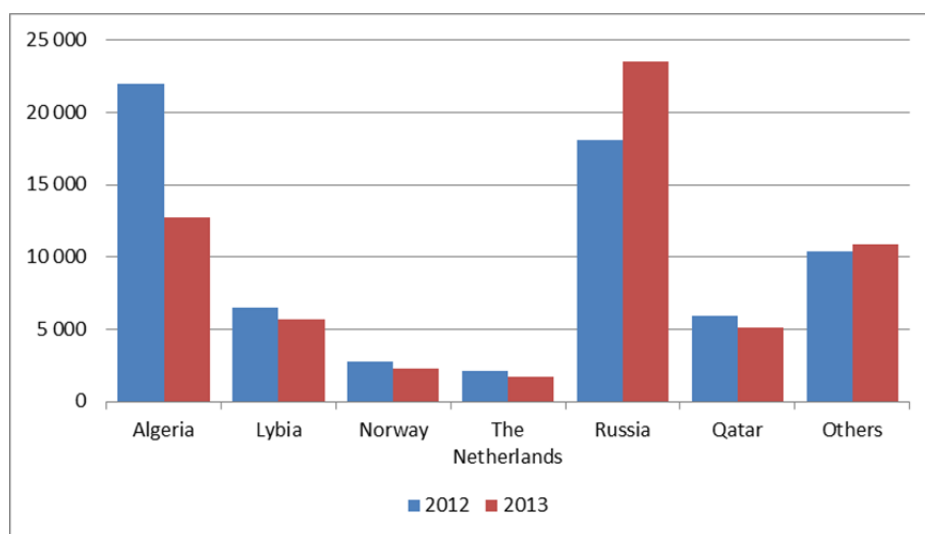
For the first time in several years the degree of Italy's dependence on foreign supplies (measured as the ratio between gross imports and gross domestic consumption) fell by two percentage points, to 88.4%, from 90.4% in 2012.

Figure 4.4 shows the quantities of gas supplied in the last two years by country of origin of the gas. Against a background of general contraction of consumption – and therefore import – levels, almost all countries of origin of the gas imported by Italy exhibit a significant decrease in volume. The fall in quantity from Algeria in particular stands out, partly offset by greater imports from Russia.

In 2013, 9 G(m³) less gas was imported from Algeria than in the previous year. This large fall (-42%) is mainly accounted for by the effects of revisions of volumes agreed in existing supply contracts with a number of Italian importers (Eni, Edison and Enel), but also partly by the background of socio-political instability in the countries of North Africa, which has caused several interruptions to gas (and oil) flows to Italy.

Contract renegotiations also explain part of the contraction in imports from Qatar, which fell by 14% compared with 2012, i.e. by over 800 M(m³); similarly, the ongoing clashes between government and rebel forces and consequent blockages of the Greenstream reduced gas flows from Libya, from where 765 M(m³) less gas reached Italy than in 2012. Imports of Libyan gas, in addition, have not returned to 2011 pre-crisis levels.

Partially offsetting decreases of imports from North Africa, Italy imported 5.4 G(m³) more gas from Russia, which with a share of 38% became the largest importer of gas to Italy. Algeria thus slipped from first place, which it had held since 1995, into second, with a share of 21% of all gas imported. Libya remained in third position, with 9% of the total, moving just ahead of Qatar on 8%.

Figure 4.5 Gross gas imports in 2012 and 2013 by country of originM(m³); estimates based on gas entry point

Source: Ministry of Economic Development.

According to the (provisional) data from the Annual Survey of Regulated Sectors (*Indagine annuale sui settori regolati*), in 2013 the quantities of gas imported to Italy fell to 61.7 G(m³) from 65.4 G(m³) in 2012,²³⁵ a decrease of -5.7%, comparatively smaller than the decrease measured according to the Ministry of Economic Development's figures.²³⁶ 4.6% of gas procured from abroad, i.e. 2.8 G(m³), was purchased on the European spot markets.

As in previous years, the groups²³⁷ with a share of over 5% of total gas supplied (i.e. produced or imported) were Eni, Edison and Enel. Altogether the three main importers imported 50 of the 61.7 G(m³), i.e. 81.5% of gas coming on to the Italian market. Taking into account also the quantities produced within domestic borders, the three groups account for 82.5% of all gas supplied. As in the past, this share increased (from 77.7% in 2012), with increases in share on the part of Eni and Edison not cancelled out by the reduction in Enel's share. In addition, the same three groups each have more than 5% of gas available, with a comparable share to that of gas supplied.

As always, first place in the rankings of importing companies is held by Eni, which in 2013 – bucking the average national trend – imported 6.2% more gas than it purchased in 2012, i.e. 30.8 G(m³), thus increasing its market share to 49.9% (49.7% if calculated according to import figures provided by the ministry), once again topping the share recorded the previous year. Since 2011, i.e. since the application of antitrust ceilings established under Legislative Decree no. 164 of 23 May 2000 came to an end, Eni's share of gas supply has risen with each year and has now returned to its previous level of half of the entire market, from its lowest ever share of 39.2% in 2010.

In 2013 the quantity of gas supplied by Edison, the second largest supplier, remained essentially unchanged at 12.5 G(m³) (in more precise terms, an increase of 0.7%). As a result, the gap

²³⁵ Source: Annual Survey of Regulated Sectors.

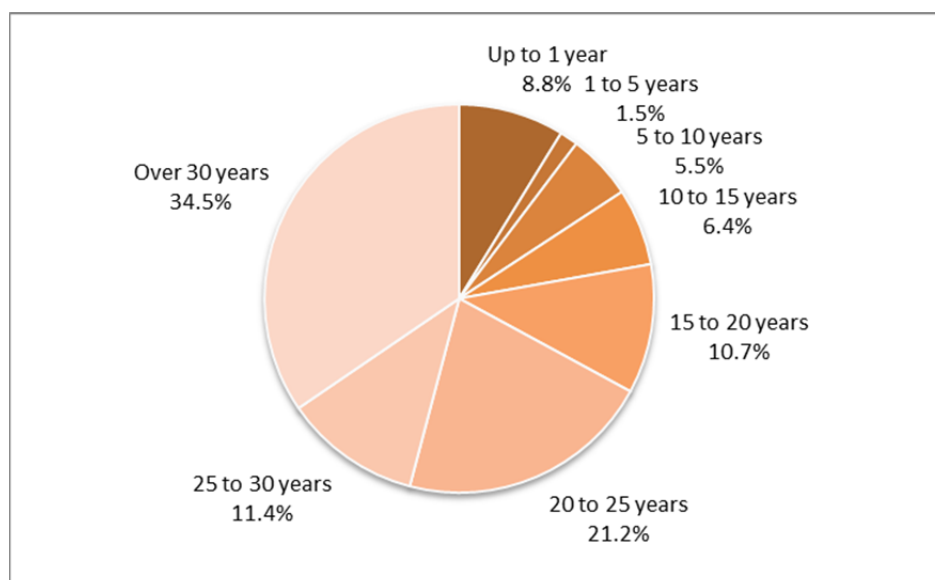
²³⁶ The differences between these and the ministry's figures are probably the result of differences in the classification of import data. In other words, it is likely that some of the quantities which the ministry classifies as imports are considered in the Authority's survey "Purchases at the Italian border" in consideration of customs clearing operations.

²³⁷ In the context of the survey of the gas market, belonging to a group of companies is defined in accordance with article 7 of Law no. 287 of 10 October 1990: essentially, a company's belonging to a group is determined even if there is effective control of the participating company in the subsidiary.

between itself and Eni widened still further, from 25 to almost 30 percentage points. With almost 7 G(m³) purchased, two less than in 2012, Enel Trade remained in third place, albeit with a share of 11.3%, down from 12.8% the previous year.

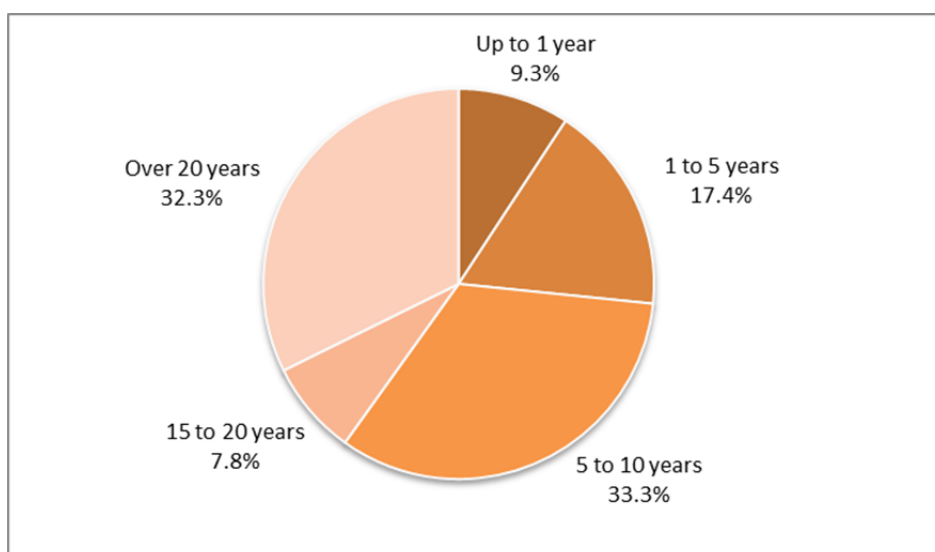
An analysis of active import contracts in 2013 based on their entire duration (Figure 4.6) highlights a structure which is still relatively long, albeit in a tightening market, meaning that the volumes underlying the shares illustrated in the chart are becoming lower and lower with time. Counter to this trend are contracts with an overall duration of between one and five years and, to a lesser extent, those with a duration of between five and ten years, which are the only ones whose underlying Annual Contract Quantities have increased compared with 2012. Long-term contracts continue to represent the lion's share: indeed, 67% of imports are based on agreements with an overall duration of over 20 years. Compared with 2012, the percentage of spot imports – i.e. those with a duration of less than one year – fell slightly, from 9.4% to 8.8%. It should be pointed out that, as in previous years, it was measured excluding Annual Contract Quantities of spot contracts which did not give rise to imports to Italy, as the gas was resold directly abroad by the operator in Italy that purchased it.

Figure 4.6 Structure of active (annual and multi-annual) contracts in 2013, by entire duration



Source: Annual Survey of Regulated Sectors.

With regard to residual duration, active import contracts in 2013 (Figure 4.7) were still quite long overall; however, the structure of contracts is gradually shortening: 60% of the contracts will expire within the next ten years and 27% within the next five years. The fall of the share of contracts with an overall duration of between ten and fifteen years to zero should also be stressed. The share of contracts with a residual duration of one year has also fallen, as described above.

Figure 4.7 Structure of active (annual and multi-annual) contracts in 2013 by residual duration

Source: Annual Survey of Regulated Sectors.

Table 4.3 Development of wholesale market

Year	Total demand (A) G(m ³)	Peak demand (B) M(m ³)/day	Production G(m ³)	Import capacity G(m ³)/year				No. of companies with share of production and import capacity >5%	No. of companies with a share of available gas >5%	Share held by three largest wholesale gas sellers
				Total	Priority access for transit (C)	Priority access for LT contracts	Unbooked access			
2001	125.1	n/a	15.5	n/a	n/a	n/a	n/a	n/a	2	68.2%
2002	111.8	n/a	14.3	84.0	0.5	77.3	4.2	3	3	67.4%
2003	123.6	n/a	13.9	84.8	0.5	78.8	3.1	3	3	63.8%
2004	127.3	386	12.9	88.7	0.5	84.6	2.1	3	3	62.4%
2005	138.3	421	12.0	90.6	0.5	73.5	16.7	3	3	66.7%
2006	134.3	443	11.0	92.3	0.5	74.5	17.3	3	3	66.5%
2007	136.1	429	9.7	98.4	0.5	86.1	11.8	3	3	63.8%
2008	151.5	410	9.3	100.3	0.5	96.1	3.7	3	3	57.1%
2009	147.2	436	8.0	110.9	0.3	102.6	8.0	3	4	49.2%
2010	173.5	459	8.3	116.0	0.3	103.1	12.6	3	5	42.3%
2011	178.9	401	8.4	116.3	0.2	103.0	13.0	3	3	42.1%
2012	178.3	464	8.6	116.9	0.2	102.5	14.2	3	3	40.5%
2013	180.6	360	7.7	122.1	0.0	102.6	19.5	3	3	42.7%

(A) Volumes of gas sold on domestic wholesale and retail markets, includes resales.

(B) Peak input reached on: 26/01/2004, 19/12/2005, 25/01/2006, 18/12/2007, 18/02/2008, 21/12/2009, 17/12/2010, 25/01/2011, 7/02/2012 and 11/02/2013; the volume indicated includes injections, withdrawals from storage, losses and consumption within the network.

(C) In Italy transits handled as normal transmission are not distinguished; the figure in the table refers to a transit contract which has obtained priority access as it belongs to a multi-annual contract.

Source: AEEG, based on Snam Rete Gas figures and declarations by operators.

In 2013, total demand in the gas sector, taken as the sum of gas volumes sold on the wholesale (including resales) and retail markets plus gas used for system operation, increased slightly (by 1.3%) to 180.6 G(m³). The wholesale market handled 106.8 G(m³), 5.6% up on 2012, while the retail market handled 63.3 G(m³), recording a fall of 1.9% compared with 2012. Gas consumed for system operation totalled 10.5 G(m³). Five operators had a market share of over 5%.

More specifically, the industrial groups and their respective percentage share (indicated in brackets) are the following: Eni (21%), Edison (10.9%), GdF Suez (10.8%), Royal Dutch Shell (8.1%) and Enel (7.1%). The first three groups together accounted for 42.7% of total demand, a share which was 1.2 percentage points higher than the equivalent figure the previous year.

The following section describes sales and prices in the wholesale market.

4.2.1.1 Monitoring of wholesale market prices

Figures for the wholesale gas market are taken, as usual, from the initial, provisional data collected in the annual survey which the Authority conducts on the state of the electricity and gas market during the previous year. With regard to the gas market, the survey involved the 508 accredited companies in the Authority's Registry of Operators whose declared activity was the sale of gas on the wholesale or retail market in 2013. 436 of these companies answered the survey. Of these, 39 declared that they had not carried out operations during the year. Of the 397 active companies, 67 sold gas exclusively on the wholesale market and were classified as pure wholesalers, while 229 sold gas exclusively to final customers and were classified as pure retailers. The remaining 101 companies operated on both the wholesale and retail markets and were classified as mixed operators.

The wholesale market, which handled a total of 106.8 G(m³), was served by pure wholesalers (35.7% of the total) while the remaining 64.3% was served by mixed operators. In 2012 the share was larger for mixed operators, as the two shares were 32.4% and 67.6% respectively. The number of wholesalers increased by 16, to 168 companies as against 152 the previous year.

Unexpectedly, in 2013 the degree of concentration in the wholesale market rose slightly, after the reductions observed in more recent years. Last year, in fact, the share of the three largest companies, Enel, Edison and Enel Trade (the same as last year) returned to 29.3%, from the 27.9% calculated in 2012. Similarly, the cumulative share of the largest five companies (the three just mentioned plus two companies in the GdF Suez group) rose, from 40.2% to 42%. The level of concentration in the wholesale market in fact has returned to 2010 levels. Naturally the Herfindahl-Hirschmann index, too, which is calculated on the wholesale market alone, increased marginally compared with 2012, from 496 to 508, while nevertheless remaining well below 1,000, the figure deemed to be symptomatic of low concentration.

In 2013, the average price charged on the wholesale market was 32.67 c€/m³, higher than the 29.61 c€/m³ of the PSV (the source of the figure is Platts) and down (-4.8%) on the figure for 2012, which was 34.31 c€/m³.

The average price charged by mixed operators was 33,60 c€/m³, or 2.6 c€ higher than the price charged by pure wholesalers.

Table 4.4 Sales and prices in the wholesale market in 2013

M(m³); c€/m³

Operators	Number	Sales	Price
Pure wholesalers	67	38,081	31.01
Mixed operators	101	68,707	33.60
Total	168	106,788	32.67

Source: Annual Survey of Regulated Sectors.

The main trading platform in the wholesale market in Italy is still the Virtual Trading Point [*Punto di scambio virtuale* (PSV)], managed by the main transmission network operator – Snam Rete Gas – and which enables gas capacities and quantities to be traded on the basis of over-the-counter contracts.

Only in 2010, as explained in more detail in the following sections, was a regulated, transparent gas trading hub created. As a result of developments still underway, and above all the significant development of the natural gas balancing platform, the Gas Exchange continued to register an extremely low level of liquidity.

Virtual Trading Point

The Virtual Trading Point [*Punto di scambio virtuale* (PSV)] is a virtual hub, i.e. a point which is notionally located between the entry and exit points of the national gas pipeline network, at which it is possible to trade and sell gas injected into the network itself. Managed by Snam Rete Gas, it provides operators with an effective commercial balancing instrument and the possibility of replicating the effects of daily sale of capacity, for example in the event of interruption or reduction of capacity from a supply source. Transactions at the Virtual Trading Point are based on bilateral over-the-counter (OTC) contracts; it therefore cannot be considered equivalent to a Gas Exchange, which was instituted in May 2010 at the GME (see below).

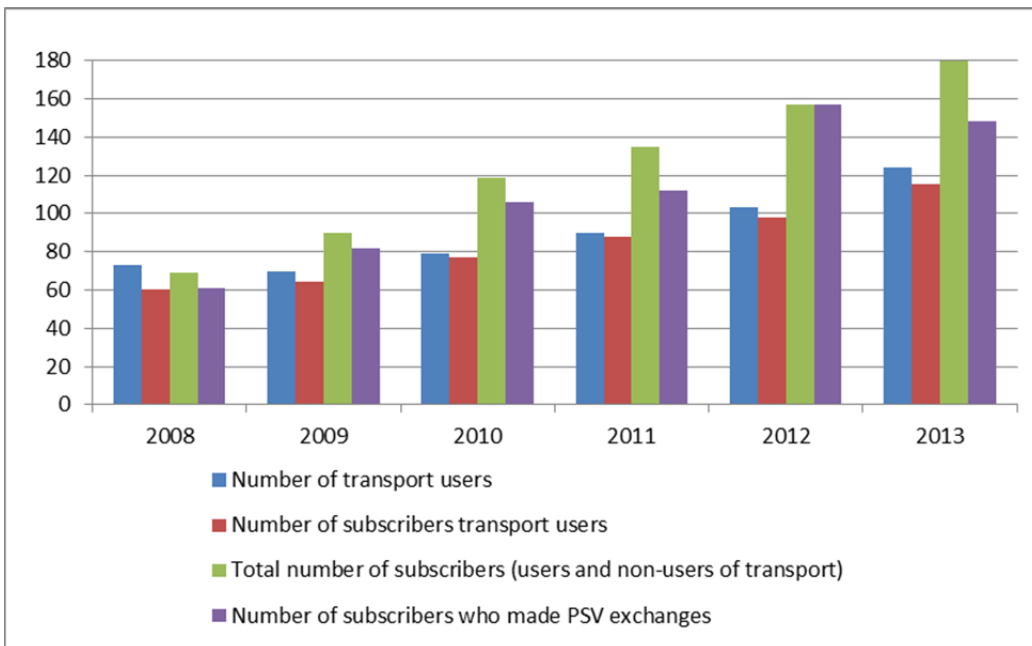
Set up in October 2003, the PSV has grown significantly in importance in terms of volumes traded and numbers of trades. This has occurred thanks to the standardisation of the contracts underlying the transactions and the opportunity for traders, since 2006, to conduct transactions without being users of the transmission system at the same time.

In 2013, 148 parties conducted trades, sales and purchases of gas on the PSV; around one third of them (48) were pure traders, insofar as they were not users of the transmission system.

For the first time in several years, the number of subscribers who have carried out trades at the PSV fell slightly, to 157 in 2012. The number of pure traders (i.e. not users of the transmission system) also fell, from 59 to 46 (Figure 4.8).

Figure 4.9 shows the historical time series for gas transactions at the entry points on the national gas system and trades recorded at the PSV. The graph shows imports at entry points, liquefied gas deliveries to the PSV and trades recorded at the PSV deriving from trades on the spot and OTC market. Imports at entry points, including all (commercial and customs) transactions, are grouped under a single item, which brings together sales recorded at Tarvisio, Passo Gries, Mazara, Gorizia, Gela and Panigaglia, these latter items until November 2005, as they were subsequently assimilated under the PSV LNG item.

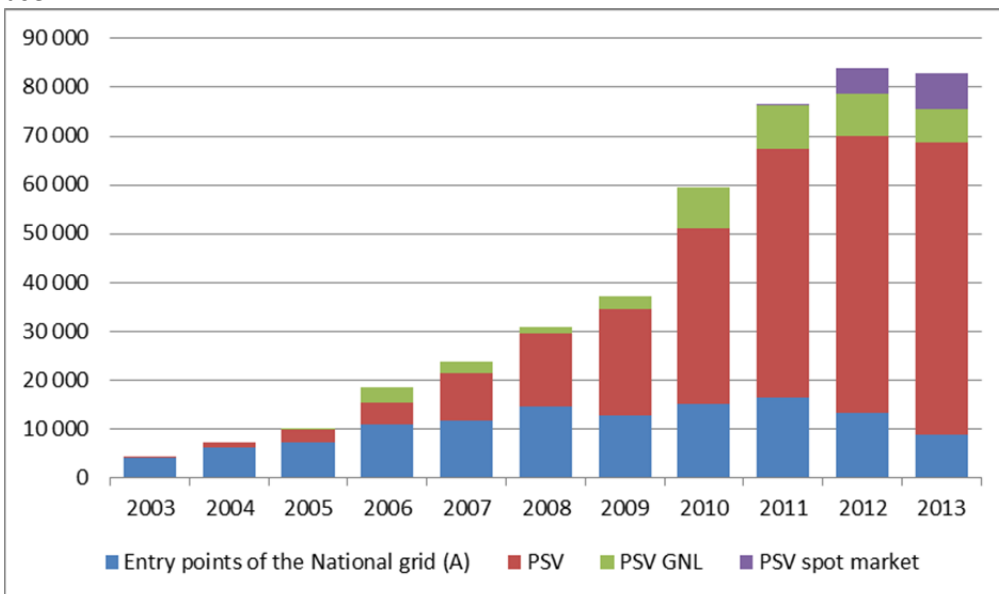
Figure 4.8 Users of PSV from 2008 to 2013



Source: Annual Survey of Regulated Sectors.

Figure 4.9 Volumes of transactions at entry points of the National grid

Standard M(m³) of 38.1 MJ; transactions conducted refer to gas injected into the network by the selling user



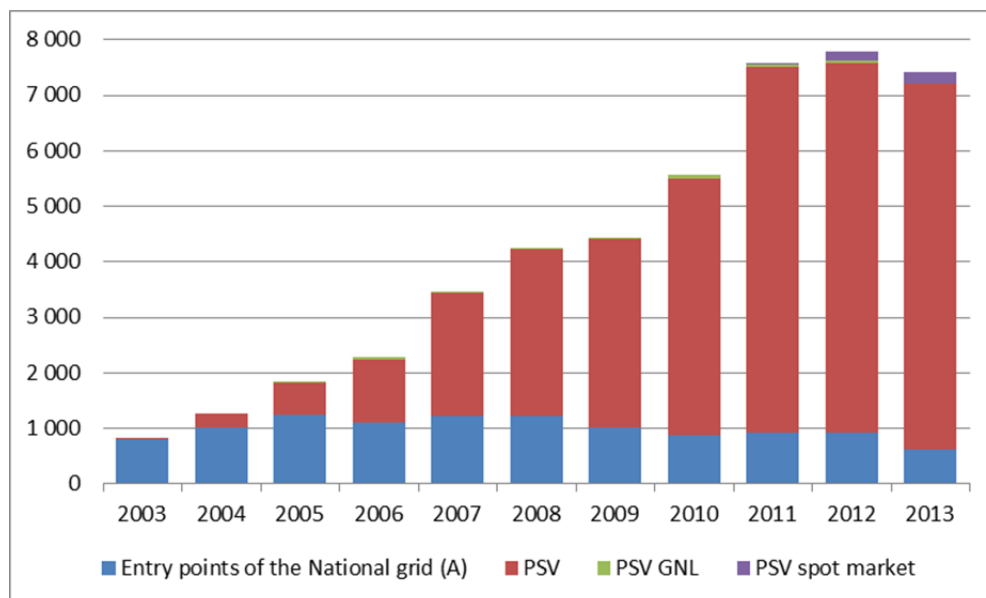
(A) The figures include all transactions (commercial and customs).

Source: AEEGSI, based on Snam Rete Gas data.

In fact, the PSV LNG category includes gas deliveries at the Panigaglia terminal by GNL Italia, as well as those made since October 2009 at the Porto Viro terminal (Rovigo) by Terminale GNL Adriatico, connected to the National Transmission Network via the Cavarzere entry point. Most recently, in October 2013, gas deliveries at the Livorno terminal, managed by OLT Offshore LNG Toscana, were added.

As can be seen, the PSV has grown significantly over time, in terms of both numbers of trades and volumes traded. In contrast, over the last three years in the series there was a steady decrease in the share of trades at entry points on the National Transmission Network, having been eroded not only by the PSV but also by other purchasing methods: LNG and the spot market.

Figure 4.10 Number of transactions at entry points of the National grid



(A) The figures include all transactions (commercial and customs).

Source: AEEGSI, based on Snam Rete Gas figures.

The “PSV spot market” entry indicates volumes traded on platforms managed by the GME for the P-GAS, M-GAS and PB-GAS spot markets. The latter is the platform for market-based gas balancing through which the operator responsible for the balancing service (i.e. Snam Rete Gas) and users can obtain the supplies that they need to carry out balancing of the system. The platform has been active since December 2011, yet it has only been possible for shippers to formulate purchase bids since 1 April 2012. The platform, which is organised in two sections and hosts daily trading sessions, is described in detail in the following section.

In 2013 volumes traded on the PB-GAS spot market exceeded 7 G(m³), while only 1.2 M(m³) (i.e. 13,300 MWh) was traded on the Gas Exchange (see the following section).

Gas Exchange

The creation of a Gas Exchange in Italy got underway in 2007 with Decree Law no. 7 of 31 January 2007, converted into law by Law no. 40 of 2 April 2007, which established the obligation for holders of concessions for natural gas exploitation to sell the quotas of gas produced in Italy owed to the State and for importers to offer a quota of gas imported on the regulated capacity market. The means of sale of the quotas were established with subsequent provisions of the Ministry of Economic Development and the Authority, adopted by 2008 and 2009. With Law no. 99 of 23 July 2009, the economic management of the gas market was assigned exclusively to the GME, which, in accordance with the same law and within six months of its entry into force, has taken on the management of bids to buy and offers to sell (and all connected services) based on criteria of economic merit.

The initial core of the Gas Exchange, however, was instituted by the Ministry of Economic Development's Decree of 18 March 2010, which established the trading platform for quotas of imported gas, called "P-GAS". Specifically, the degree ruled that, with effect from 10 May 2010, the quotas of imported gas which importers are obliged to sell should be offered by importers exclusively via the new trading platform (in the so-called "import segment"), but that further offers of volumes of gas may be admitted to the platform for sale by parties other than those to whom the obligations imposed by Decree Law no. 7/07 apply. Parties authorised to operate on the PSV may operate on the P-GAS platform. The products traded are contracts with delivery periods of one month or one thermal year. The GME's role is simply to manage the platform and not to act as a central counterpart: guarantees, invoicing and payments are managed directly by the operators that sell the gas. Obligatory sales of import quotas are traded on the P-GAS platform on a continuous basis.

As of 10 August 2010, in addition to trading of imported gas quotas, royalty gas lots produced in Italy and owed to the State are traded in the segment of the P-GAS platform dedicated to the sale of royalty gas lots. Here, too, the GME is not a central counterpart and operates exclusively as the organiser and manager of the platform. However, trading takes place by means of a competitive bidding method.

In May 2012 an additional segment of the P-GAS platform, called "Segment referred to in Legislative Decree no. 130/10" was established, in reference to the Legislative Decree aimed at implementing measures to make the natural gas market more competitive, including infrastructure and storage upgrades. Legislative Decree no. 130/10 was instituted in place of the so-called "antitrust ceilings", now expired, with the purpose of introducing new incentives to foster competition in the wholesale market by developing storage capacity.

Specifically, the Decree makes provision for investors²³⁸ to request that Gestore dei servizi energetici (GSE), while the new storage capacity is gradually brought online and in any case for a period of not more than five years, allow them to deliver gas during the summer period and have it redelivered during the winter up to a maximum quantity, corresponding to the quotas of the new storage capacity not yet online and allocated to them according to the procedures set out in article 7 of the same Decree.

In order to increase the liquidity of the wholesale natural gas market, the Decree obliges parties which make use of the incentivising measures just described, to offer for sale, in the trading systems organised by the GME, the quantities of natural gas for which they have requested redelivery in the winter period.

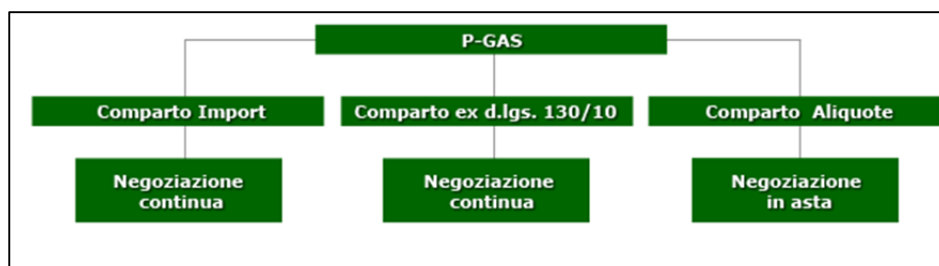
In March 2012, the Authority approved²³⁹ the proposals received from GME and GSE regarding how participating investors might fulfil their obligation to offer quantities of gas made available by the matched virtual storage facility, in relation to the aforementioned quotas, and making provision for them to be alternatively or cumulatively offered on the following platforms:

- the platform for offers to sell natural gas (P-GAS), through the creation of a specific segment called "the segment referred to in Legislative Decree no. 130/10";
- gas spot markets (MGP-GAS, see below).

²³⁸ Specifically, parties referred to in article 5, paragraph 1, letter b), numbers 1 and 3, of Legislative Decree no. 130/10.

²³⁹ With Resolution 67/2012/R/gas of 1 March 2012.

Figure 4.11 Structure of P-GAS platform



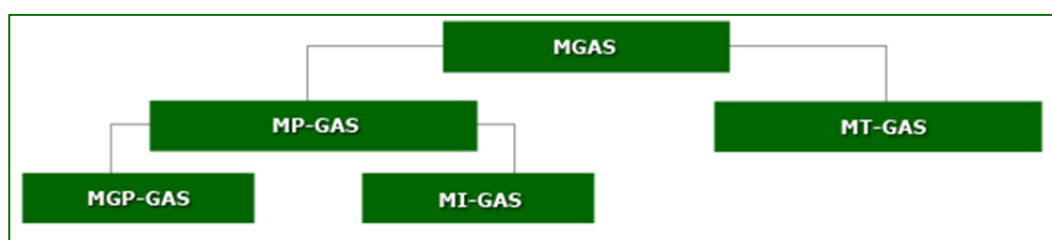
Source: GME.

A fully-fledged natural gas spot market, with the GME acting as central counterparty, was launched, finally, in October 2010, with the establishment of M-GAS. On this market, operators that have been authorised to carry out transactions on the PSV can purchase and sell quantities of natural gas on the spot market. Currently it is structured in three parts:

- MGP-GAS (the day-ahead gas market) in which trading takes place with offers to sell and bids to buy in respect of the following gas day. Trading is continuous, with a closing auction;
- MI-GAS (the intraday gas market), with trading of gas in respect of the same gas-day. Trading is continuous;
- MT-GAS (the forward gas market), in which trading is continuous.

In this regard, with its Decree of 9 August 2013, the Ministry of Economic Development set the launch date for the forward gas market managed by GME (MT-GAS) as 2 September 2013, in implementation of the provisions set out in article 32, paragraph 2, of Legislative Decree no. 93 of 1 June 2011. The market, which took its place alongside the existing spot markets, operates on the continuous trading mechanism with a large number of trade books, each one for every kind of tradable product and referring to different delivery periods, where bids to buy and offers to sell are selected. With regard to the operation of the MT-GAS platform, since its launch on 2 September 2013, to date trades in the various types of tradable products – thermal year and calendar year, six-month, three-month, month and Balance of Month (a product which includes the days of the current month that have not yet been delivered).

Figure 4.12 Structure of M-GAS platform



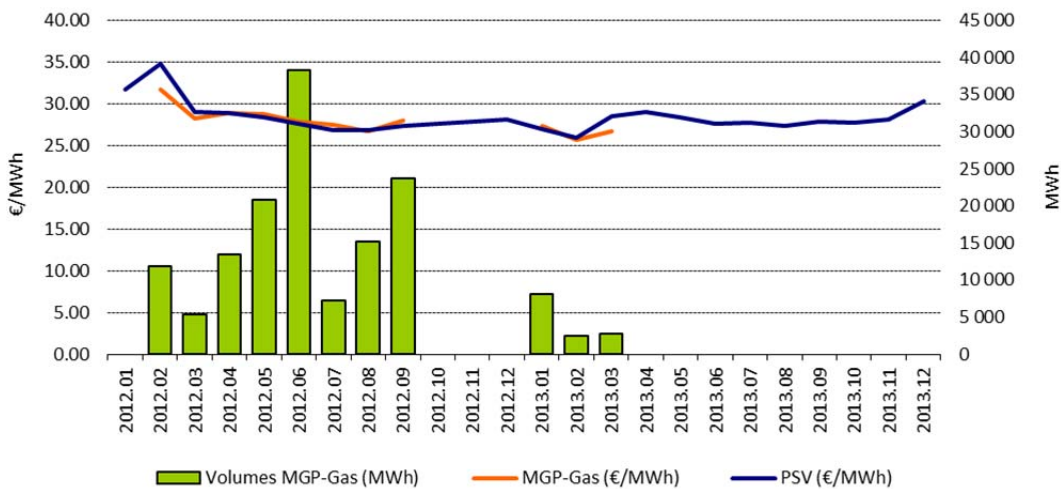
Source: GME.

During 2013, on the MGP-GAS platform the continuous trading phase saw just four sessions out of an available 364 with at least one march and a total of 13,300 MWh traded, down by 90% on 2012 (Figure 4.13). The average price was 26.80 €/MWh, which was also down on the previous year by 6.6%.

The MI-GAS platform, too, in 2013 saw a lower number of trades with four sessions held, as against 15 in 2012 (Figure 4.14). The average price was 27.52 €/MWh, down by 5.3% on the previous year, with volumes of 3,800 MWh, as against 36,120 MWh in 2012.

Figure 4.13 Prices for day trades on PSV and MGP-GAS and volumes traded on MGP-GAS

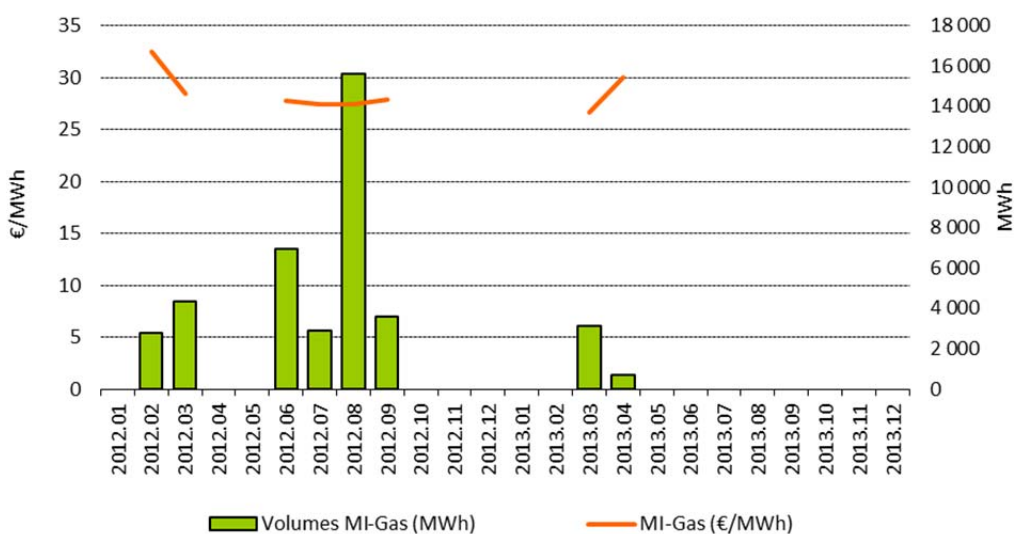
€/MWh, MWh



Source: Platts for PSV, GME for MGP-GAS.

Figure 4.14 Prices and volumes for day trades on the MI-GAS platform

€/MWh; MWh

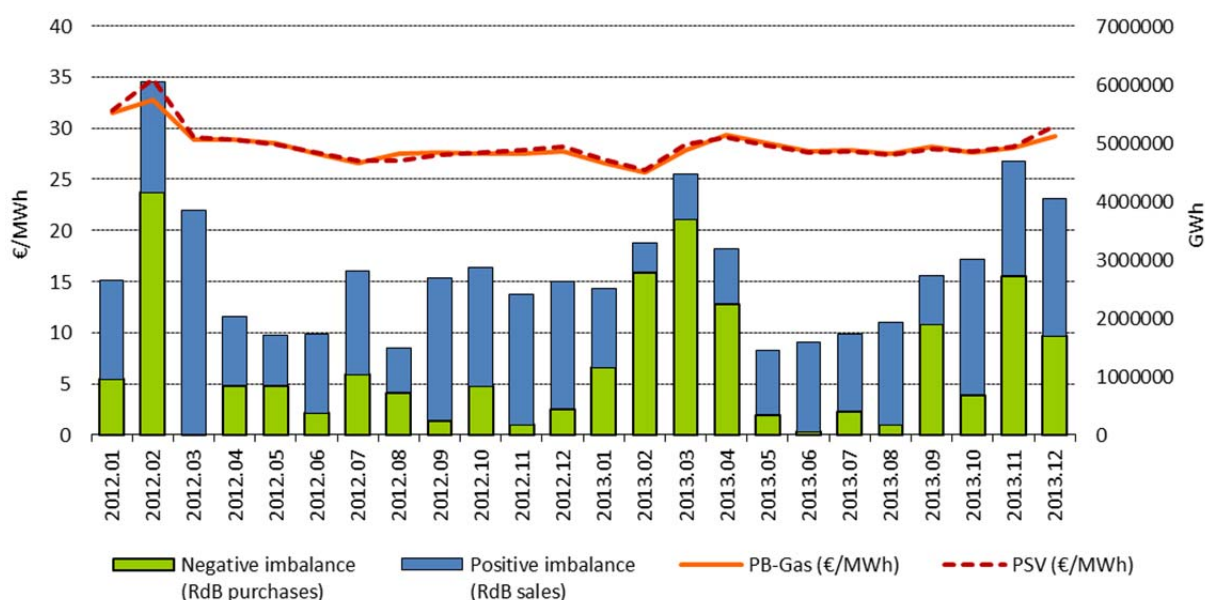


Source: AEECSI based on GME data.

Figure 4.15 shows prices and volumes on the gas balancing platform, managed by GME. On coming into operation at the end of 2011,²⁴⁰ it began the transition from a “storage-based” balancing system, based on a tariff regime established and updated by the Authority, to a “market-based” balancing system, in which the price of the resource is set by the intersection of supply and demand for the stored gas. The mechanism implemented obliges all owners of storage capacity to participate. On the PB-GAS platform, therefore, users of the transmission service can procure resources in order to correct their own balance equation, thus making it possible to calculate the value of the related physical imbalance. The compulsory participation of owners of storage capacity, together with the presence of Snam Rete Gas as the party responsible for balancing [*Responsabile del bilanciamento* (RdB)], has enabled a much higher quantity of gas to be shipped compared with other markets managed by GME.

Figure 4.15 Prices and volumes on the PB-GAS platform

€/MWh; MWh



Source: AEEGSI, based on GME data.

The PB-GAS platform, also in 2013, continued to play a dominant, central role in the gas markets, continuing the positive trends that had already emerged in 2012, both in terms of registered and active operators (74 and 73 respectively) and overall volumes traded of 40.9 TWh (up by 17% on 2012), i.e. approximately 6% of the gas delivered by Snam. The volumes traded on the platform represent 98.3% of all gas traded on the gas markets managed by GME.

Despite the obligation for operators to participate, they exhibit a certain degree of dynamic behaviour, as shown by the upsurge in volumes beyond balancing needs (6 TWh, or around 15%). The remaining volumes, 34.9 TWh, were those offered by Snam, for sale or purchase, in order to correct the shortfall or excess registered on the previous gas-day. Specifically, in 2013 these volumes totalled 17,833 GWh in negative balancing (purchased by the RdB) and 16,767 GWh in positive balancing (sold by the RdB).

²⁴⁰ With Resolution ARG/gas 45/11 of 14 April 2011.

The average price recorded on the PB-GAS platform in 2013 was slightly lower than in 2012, at 27.86 €/MWh (-2.3%), slightly below the average price on the PSV of 27.99 €/MWh, -3% compared with 2012. As can be seen from the graph in Figure 3.14, over the various months the prices were substantially in line with those of the PSV where, we should recall, trades are bilateral and private, as Snam Rete Gas, which manages the PSV, does not act as a central counterpart.

It should be mentioned that the G-1 segment was introduced on 14 November, a fully-fledged day-ahead market where, on a voluntary basis, various flexible resources, including LNG and Edison gas stocks, can be called upon to satisfy potential offers by Snam. However, in the latter months of 2013 this market was characterised by low liquidity.

4.2.1.2 Monitoring of level of transparency, including compliance with transparency obligations, and level and effectiveness of market opening and competition

Measures for development of competition on the wholesale market

Article 30 of Law no. 99 of 23 July 1999, stipulates that economic management of the natural gas market should be assigned exclusively to the Gestore del mercato elettrico (now Gestore dei mercati energetici, GME), which manages bids to buy and offers to sell natural gas and all related services according to criteria of economic merit.

Furthermore, the article requires that natural gas market regulations drawn up by GME be approved by Decree of the Ministry of Economic Development, following consultation with the relevant parliamentary committees and the Authority. Subsequently, under article 32, paragraph 2, of Legislative Decree no. 93/11, GME manages physical natural gas day-ahead markets and the Authority establishes the appropriate regulatory conditions to ensure that GME carries out such activities, including acting as the central counterpart for trades concluded by operators on the aforementioned markets, as well as the possibility of operating as a user of the PSV, with an account on the PSV and as a user of the natural gas balancing market.

During 2013, the Authority took measures in the area of the proceeding to draw up gas market regulations, expressing²⁴¹ its favourable opinion with regard to the gas market regulations drawn up by GME. In the same resolution, the Authority established the criteria counterparty risk management for trades carried out on the GME platform, both with regard to determining the necessary guarantees and the instruments that can be activated in order to cover debts not covered by those guarantees.

With its Decree of 6 March 2013, the Ministry of Economic Development approved, in accordance with article 30, paragraph 1, of Law no. 99/09, the natural gas market regulations as supplemented by GME following the aforementioned opinion of the Authority and the opinion expressed by the relevant parliamentary committees.

Therefore, in order to complete the process of drawing up the regulatory conditions for trading on the natural gas market, the Authority approved²⁴² the agreement between GME and Snam Rete Gas on the basis of which the two parties work together in order to record transactions on the

²⁴¹ With Resolution 4/2013/I/gas of 10 January 2013.

²⁴² With Resolution 365/2013/R/gas of 7 August 2013.

aforementioned market in the area of transmission balancing. In addition, it confirmed and integrated the abovementioned criteria²⁴³ relating to counterparty risk management. After the resolution was issued, the Ministry of Economic Development scheduled the opening the market managed by GME for 2 September, with its Decree of 9 August 2013.

Finally, at the end of 2013, the Authority confirmed²⁴⁴ the charges applied by the GME in 2014 for participation in trading on the balancing platform and expressed its favourable opinion to the Ministry of Economic Development in relation to the changes made to gas market regulations by GME.

In 2013 the measures provided for by Legislative Decree no. 130/10 continued. The Decree introduced, in place of the so-called “antitrust ceilings”,²⁴⁵ new measures designed to increase competition in the natural gas market by upgrading storage facilities in favour of industrial users and thermoelectric power suppliers.

In particular, also in 2013 industrial companies that finance the creation of new storage capacity were able to benefit from so-called “transitional measures/virtual storage”, i.e. provisions which bring forward, in virtual form, benefits equivalent to those that would be gained if the storage capacity were already operational (article 9, Legislative Decree no. 130/10). The mechanism will stay in place for as long as the new storage capacity gradually comes on line, and in any case not beyond 2015.

With regard to the physical service of virtual storage for the 2014-2015 thermal year, the Authority set²⁴⁶ the maximum payments relating to the offer obligation in the selection procedures for virtual storage operators, with a minimum amount of 50% of the service, to be supplied to parties that participate in the implementation of the measures provided for by article 5, paragraph 1, of Legislative Decree no. 130/10 (Eni).

In March 2014, procedures were completed for market gas storage allocation for 2014-2015, as provided for by Legislative Decree no. 130/10. 2,206,480 GJ was allocated, as against the 9,240,210 GJ offered, at an average price of 0.251671 €/J.

Monitoring of wholesale market

In June 2013, the Authority supplemented²⁴⁷ the proceeding for the formulation of provisions concerning monitoring of the wholesale natural gas market,²⁴⁸ in order to rationalise the collection of information subject to the information obligations on transmission, storage and regasification operators and on GME. The measure is part of the process of consolidation of the monitoring activities already underway, with the aim of attaining stable, accurate monitoring of the level of security and competition in the natural gas market at both the domestic and international level.

²⁴³ With the aforementioned Resolution 4/2013/I/gas.

²⁴⁴ With Resolution 616/2013/R/gas of 19 December 2013.

²⁴⁵ i.e. limits on injections into network and sales to final customers, pursuant to Legislative Decree no. 164/00.

²⁴⁶ With Resolution 22/2014/R/gas of 30 January 2014.

²⁴⁷ With Resolution 284/2013/R/gas of 28 June 2013.

²⁴⁸ Governed by Resolution ARG/gas 161/09 of 28 October 2009.

The Authority also conducts monitoring operations by means of specific investigations. One investigation particularly worthy of attention was the preliminary investigation, launched with Resolution 364/2013/E/gas of 7 August 2013, into the cost structure of the natural gas retail market for the 2013-2014 thermal year. The results of the investigation, which was closed with Resolution 67/2014/E/gas of 20 February 2014, are summarised in Chapter 5 (see section on “Investigations and measures imposed to promote competition”).

4.2.2 Retail markets

The provisional results of the Annual Survey of Regulated Sectors show that in 2013 63.3 G(m³) of natural gas was sold on the end market, 1.2 less than in 2012. The contraction, therefore, was 1.9%, lower than in the previous two years where it exceeded 5%.

The number of retailers active in this segment of the supply chain, in contrast, increased by 17, from 313 operators in 2012 to 330 in 2013.²⁴⁹ As in the electricity market, the number of gas retailers has been constantly growing for many years, despite that fact that the market has not expanded since 2006.

Table 4.5 End market sales and prices in 2013

M(m³); c€/m³

Operators	Number	Sales	Price
Pure retailers	229	17.965	51.92
Mixed operators	101	45.374	41.03
Total	330	63.338	44.12

Source: Annual Survey of Regulated Sectors.

Of the just over 63 G(m³) of gas sold on the retail market, around 18 G(m³) was sold by pure retailers, while the remaining 45 G(m³) was sold by retailers who also operate in the wholesale market. The average price charged to final customers was 44.12 c€/m³, down by 1.42 c€ (-3.1%) compared with 2012. The average price charged by pure retailers, 51.92 c€/m³, was markedly higher than the price of 41.03 c€/m³ offered by mixed operators (Table 4.5). The reason for the difference lies mainly in the type of customer served and the related characteristics. Companies operating mainly in the end market mainly focus on household customers who are connected to the distribution networks and who, despite their numbers, do not consume large amounts, whereas customers served by wholesalers are mainly large industrial or thermoelectric consumers who, as a result are able to negotiate lower prices and are often connected directly to the transmission network and therefore do not pay distribution costs.

²⁴⁹ As seen in the section dedicated to the wholesale market, this year 436 of the 508 companies in the Authority’s Registry of Operators whose declared activity was the sale of gas during 2013 (including for a limited period of the year) answered the annual survey. Beside the 39 companies that declared that they had been inactive, of the remaining 397, 67 sold gas exclusively in the wholesale market. The number of companies that operated in the retail market, therefore, was 330.

As has already been noted, in 2013 the number of operators in the retail market increased, in contrast to the total quantities sold, which fell from 64.6 to 63.3 G(m³). The average volume sold per customer thus fell by 6.8%, from 206 to 192 M(m³).

Changes in retailer numbers are also due to policies of mergers and acquisitions seen each year among companies. The main ones of note in 2013, in chronological order, were:

- in January, Azienda Energetica – Etschwerke, the historic Bolzano-based company active in the electricity sector, transferred to its subsidiary, Azienda Energetica Trading, the company division operating in the free natural gas retail market, reserving sales to protected-tariff customers for itself;
- at the beginning of March E.On Energy Trading changed its name to E.On Global Commodities, which in May incorporated E.On Ruhrgas; in the same month Eni acquired 100% of the shares of Asa Trade which, therefore, became part of the Eni group, while Genia Energia, in liquidation, sold its company division operating in the natural gas market to Energia Ambiente Servizi;
- in June, BPP sold its company division operating in the natural gas retail and wholesale market to My Energy;
- in September, Estra Energia partially acquired a part of the gas retail sales operation from ESE Gas; in addition, AMSC Commerciale Gas changed group after changes to its share capital, which became the property of Agesp Energia, Gelsia, Canarino and Acel (with 25% each);
- in October, Shell Energy Italia acquired Shell Italia's wholesale and retail gas market operation;
- in November, Axogas changed its name to C.U.RA Gas & Power, coming under the management and coordination of C.U.RA., Consorzio Utilities Ravenna which in 2000 was established on the initiative of the Ravenna Industrial Association (*Associazione degli Industriali della provincia di Ravenna*), in order to procure electricity and natural gas on the wholesale market; in the same month, BG Gas Marketing Trading Italia was dissolved and incorporated by BG Italia;
- in December, Polargas became part of the CPL Concordia group, which possesses 100% of its share capital, Est Più became part of the Eni group following the acquisition of 100% of its capital, Sicme Energy transferred its natural gas sales operations to final customers to Sicme Energy e Gas, and Medicea Gas sold both its wholesale and retail gas sales operations to Energetic.

In addition, at the beginning of 2014, Acea Energia incorporated Acea Energia Holding, while in February Acam Clienti became part of the Eni group, which acquired 100% of its shares.

During 2013, no fewer than nineteen companies on the Authority's Register of Operators declared that they had commenced retail gas selling operations, while eight companies declared that they had ceased such operations. With regard to the wholesale market, seven companies declared that they had commenced wholesale gas buying and selling operations, while three declared that they had ceased them. The net balance, therefore, in both activities, is positive.

7.6% (25) of the 330 active retailers that answered the annual survey serve customers throughout Italy, i.e. in all 19 Italian regions with access to a natural gas distribution network;²⁵⁰ a quarter of retailers (24.8%) sold electricity in between 6 and 18 regions, while the remaining 223 companies (67.6%) operated in between 1 and 5 regions.

The shareholding composition of gas retailers at 31 December 2013, with reference to direct first-level holdings only, is marked by low levels of foreign presence: only 22 companies (out of the 319 that provided this information) have a non-Italian majority shareholder. Direct foreign holdings are mainly represented by tend to be represented by Luxembourgian or Swiss companies, as well as a not insignificant presence of Austrian companies.

In order to correctly calculate market shares and the level of concentration of the end market, it is necessary to analyse not the operations of individual company names but rather of company groups (**Errore. L'origine riferimento non è stata trovata.**).

Table 4.6 Twenty largest groups by sales in the end market, 2013

Volumes in M(m³)

GROUP	VOLUME	SHARE
Eni	16,375	25.9%
Edison	7,555	11.9%
Enel	5,803	9.2%
Gdf Suez	3,137	5.0%
E.On	2,904	4.6%
Iren	2,482	3.9%
Hera	2,123	3.4%
Royal Dutch Shell	1,764	2.8%
A2A	1,588	2.5%
Sorgenia	1,406	2.2%
Ascopiave	897	1.4%
E.S.TR.A.	745	1.2%
Erogasmet	529	0.8%
Dolomiti Energia	459	0.7%
Unogas	439	0.7%
Linea Group Holding	429	0.7%
Erg	419	0.7%
Suisse Power & Gas	381	0.6%
Agsm Verona	377	0.6%
Enerxenia	366	0.6%
Others	13,161	20.8%
TOTAL	63,338	100.0%

Source: Annual Survey of Regulated Sectors.

In 2013, the level of concentration of the retail market was slightly lower than in 2012. Nonetheless, it remains relatively high. The three largest groups control 46.9%; the year before the figure was 49.3%. If we consider the five largest groups, the share of the market served rises to 56.5% (as against 58.8% in 2012).

²⁵⁰ In Sardinia the gas service is not present.

The Herfindahl-Hirschmann index calculated on the retail market was 991, very close to the threshold of 1,000 below which concentration is normally deemed to be low.

Compared with 2012, Eni's share fell by around one per cent, although it retains over twice the share of Edison, which – as in 2012 – is the second largest operator. The gap between it and the third largest, Enel, has widened, as Enel's share fell by one per cent. Edison's sales remained flat, at 7.5 G(m³), while Enel's fell by one billion cubic metres, to 5.8 G(m³), with its share thus falling to 9.2% from the 10.5% recorded in 2012.

Regarding the alternation of the groups occupying various positions of the ranking, the rise of Sorgenia stands out, with it climbing to tenth place from fourteenth in 2012. Its sales volumes tripled; however, this was largely the result of a change in the group's management choices, as in 2013 it decided to supply its thermoelectric plants with gas sold directly by companies belonging to the group, whereas in 2012 it supplied them mainly with gas purchased from third parties.

Dolomiti Energia also improved its ranking, moving from nineteenth to fourteenth place, thanks to a 10% increase in sales.

Table 4.7 summarises the figures for the end market for natural gas sales by market type and consumption sector in the last two years. The figures are drawn from the information gathered through the annual survey which, it should be remembered, is provisional for 2013.

Last year, 21.6 million customers (redelivery points) consumed 73.8 G(m³). Of this amount, 10.5 G(m³) was for system operation and, as already seen, 63.3 G(m³) for sale.

In general, quantities of gas fell compared with 2012 in almost every kind of market: consumption for system operation, which mainly relates to the thermoelectric sector, fell by 17.3%, while the decrease in sales was smaller, at 1.9%. The number of customers who purchased gas for system operation fell by 21%, while in contrast the number of customers in the gas sales market grew by around 95,000. The protected-tariff market suffered a drastic fall of -17.9% in volume terms and -7.7% in terms of number of customers, for at least three reasons: the continuing economic crisis, which has certainly induced consumers to reduce consumption levels in order to spend less, the shift towards the free market, in an attempt to find more advantageous prices and purchasing conditions, and above all the gradual expulsion, through legislation, from the protected-tariff market for all non-domestic categories of customer.

The first reason is confirmed by all of the data analysed so far relating to other segments of the chain (production, importation and distribution) which in 2013 invariably saw a contraction, albeit to different degrees. The second reason is confirmed by similar considerations made regarding the electricity market (see Section 3.2.2). The third reason relates to the provisions of Decree Law no. 69 of 21 June 2013, under which, since its coming into force (on 22 June 2013) the obligation to offer protected economic conditions regards only domestic end consumers and no longer also users with different uses and limited consumption levels or those relating to public service activities.²⁵¹ Given that new contracts for non-domestic customers may no longer benefit from protected-tariff conditions, for those who on that date were in the protected-tariff market yet has lost their entitlement thereto, the procedures for terminating the application of the protected-

²⁵¹ More specifically, before the new regulations, redelivery points owned by customers were entitled to the protected-tariff service: domestic, blocks of flats for domestic use with annual consumption of less than 200,000 m³ per year, non-domestic users with consumption of less than 50,000 m³ per year and public service activities.

tariff service were established by the Authority²⁵² in such a way as to enable final customers to have the necessary information at their disposal and an appropriate amount of time to evaluate the various offers available on the market. Therefore, starting from the second half of 2013, non-domestic customers are effectively leaving the protected-tariff market, as is confirmed by the data collected.

Table 4.6 End market by consumption sector

Customers in thousands and volumes in M(m³)

MARKET TYPE AND CONSUMPTION SECTOR	VOLUMES			WITHDRAWAL POINTS		
	2012	2013	% CHANGE 2013/2012	2012	2013	% CHANGE 2013/2012
Protected-tariff market	18,002	14,781	-17.9%	17,361	16,021	-7.7%
Domestic	13,900	12,571	-9.6%	16,520	15,591	-5.6%
Apartment blocks, domestic use	1,623	1,309	-19.4%	135	128	-5.1%
Commercial and services	1,605	608	-62.1%	534	238	-55.4%
Industry	493	157	-68.1%	111	45	-59.3%
Electricity generation	4	1	-86.3%	0	0	-37.7%
Public service activities	377	136	-63.9%	60	18	-70.1%
Free market	46,580	48,557	4.2%	4,126	5,561	34.8%
Domestic	2,969	4,058	36.7%	3,337	4,390	31.5%
Apartment blocks, domestic use	1,398	1,516	8.5%	61	70	15.7%
Commercial and services	4,711	6,857	45.6%	571	851	49.1%
Industry	19,832	20,183	1.8%	125	179	43.8%
Electricity generation	16,909	14,789	-12.5%	1	1	25.8%
	762	1,153	51.3%	32	70	120%
Total gas sold	64,582	63,338	-1.9%	21,487	21,582	0.4%
Domestic	16,869	16,629	-1.4%	19,858	19,981	0.6%
Apartment blocks, domestic use	3,021	2,825	-6.5%	196	198	1.3%
Commercial and services	6,316	7,466	18.2%	1,105	1,090	-1.4%
Industry	20,325	20,340	0.1%	235	224	-4.7%
Electricity generation	16,913	14,790	-12.6%	1	1	18.4%
Public service activities	1,140	1,289	13.1%	91	88	-4.1%
System operation	12,650	10,466	-17.3%	2	2	-21.0%
END MARKET	77,232	73,805	-4.4%	21,489	21,584	0.4%

Source: Annual Survey of Regulated Sectors.

In the light of the considerations made up to this point, it is not surprising that the free market has seen extremely positive growth levels both in terms of customers, whose numbers have increased overall by 1.5 million redelivery points (+34.8%), and of volumes sold, up by 4.2% on 2012.

With regard to rates of increase in the **number of customers**, the highest were recorded in non-domestic consumption categories, where consumers have been forced – as we have just seen – to move to the free market, while they are more modest – although still very positive – for customers

²⁵² With Resolution 280/2013/R/gas of 28 June 2013.

unaffected by the change in legislation (domestic customers and apartment blocks with domestic user profiles). The only exception is represented by the relatively smaller increase in the number of contracts for electricity generation which passed over to the free market in 2013, which however is due to the fact that this consumer category was more or less entirely (88%) served on the free market already in 2012.

The increase in the number of non-domestic customers served by the free market was accompanied by much smaller increases in **volumes purchased**, as (among other factors) the economic crisis continues to bite and consumption levels have tended to fall. Proof of this is that the average consumption figures per user for non-domestic types of consumer fell sharply (-29.2% in industry, -30.5% in electricity generation, -31.2% in public service activities and 2.4% in commerce and services). The only sector to buck the trend was the domestic sector. The average consumption of these customers fell (from 841 to 806 m³ per year) for those served in the protected-tariff market, but rose from 890 to 925 m³ per year for those served in the free market. Most of the solid increases recorded in consumption in the free market were more than offset by parallel reductions in the protected-tariff market. As a result, taking the market overall (excluding gas consumed for system operations), in 2013 the domestic sector accounted for 26.3%, or 16.6 G(m³), of all gas consumed; apartment blocks with domestic user profiles purchased 4.5%, or 2.8 G(m³), commerce 11.8%, corresponding to 7.5 G(m³), industry 32.1%, or 20.3 G(m³), electricity generation 23.4%, or 14.8 G(m³), and finally public service activities 2%, or 1.3 G(m³). A more accurate picture of the share consumed by industry and electricity generation would include consumption for system operation. Taking this item into account, their shares of the total of 73.8 G(m³) for the end market rose to 29% and 32.7% respectively. The share of volumes purchased on average on the free market rose from 76.7% from 72.1% in 2012. Naturally this share becomes larger the further one moves from the domestic sector to sectors in which gas constitutes an input in the production process and where the use of gas is more intensive. In fact the share of volumes purchased in the free market was 24% in the domestic sector, 54% for apartment blocks, 92% in commerce and services, 99% in industry (94.2% including gas consumed for system operation), 100% in electricity generation (61.3% including gas consumed for system operation) and 89% in public service activities.

The quantities sold in 2013 in the end market fell overall by 1.9% (4.4% if consumption for system operation purposes is taken into account). With the exception of commerce and services and public services, in which consumption increased, all sectors reduced their purchase volumes compared with 2012. The decrease in gas purchases for electricity generation was especially large (-12.6%), due in part to the fall in electricity production – which in periods of crisis is impacted by general levels of economic activity – and in part to extremely strong competition from renewable energy sources in electricity generation.

The divergence in sales to the end market (excluding consumption for system operation) by consumption sector and customer size (Table 4.7) confirms several analyses offered in the past: the greater the customer size, the greater the share of the free market. The share of consumption covered by the free market is on average 8% for customers in the first two consumer classes (less than 5,000 m³ per year and 5,000 - 50,000 m³ per year), 6% for the third class (50,000 - 200,000 m³ per year), 12% for the fourth (200,000 - 2,000,000 m³ per year), 15.9% for the second last (2-20 million m³ per year) and 27% for the last (over 20 million m³ per year).

Regarding the presence of consumption in the tariff-protected non-domestic classes (and over 200,000 m³ for apartment blocks or 50,000 m³ in other non-public-service activities) a little has already been said above: the customers in question had never made a choice to move to the free market, despite being entitled to, yet their numbers will gradually diminish to zero as a result of

the new provisions. The quantities involved are in any case small, totalling 56 M(m³), i.e. 0.09% of the overall market.

Table 4.7 End market by customer type and size, 2013

M(m³)

SECTOR	CUSTOMERS BY ANNUAL CONSUMPTION CLASS (m ³)						TOTAL
	< 5,000	5,000- 50,000	50,000- 200,000	200,000- 2,000,000	2,000,000- 20,000,000	> 20,000,000	
PROTECTED-TARIFF							
MARKET	12,634	1,860	270	17	0	0	14,781
Domestic	12,218	348	4	0	0	0	12,571
Apartment blocks, domestic use	111	1,004	191	3	0	0	1,309
Commercial and services	17	83	29	6	0	0	136
Industry	240	327	35	6	0	0	608
Electricity generation	47	98	11	1	0	0	157
Public service activities	0	0	0	0	0	0	1
FREE MARKET	4,989	4,951	3,697	7,772	10,047	17,101	48,557
Domestic	3,747	148	110	35	17	0	4,058
Apartment blocks, domestic use	36	1,009	379	90	2	0	1,516
Commercial and services	66	325	222	272	268	0	1,153
Industry	950	2,471	1,630	1,272	535	0	6,857
Electricity generation	190	997	1,345	5,968	7,897	3,787	20,183
Public service activities	0	1	11	135	1,329	13,314	14,789
TOTAL	17,624	6,811	3,967	7,788	10,047	17,101	63,338

Source: Annual Survey of Regulated Sectors.

4.2.2.1 Monitoring of price levels in the retail market and of the level and effectiveness of market opening and competition

In order to monitor prices in the retail market, the Authority uses two surveys:

- average conditions concerning the supply of natural gas, conducted in accordance with Resolution ARG/gas 64/09 of 8 May 2009, a quarterly survey of monthly data regarding prices charged to sellers to domestic and non-domestic customers, broken down into consumer classes and sectors;
- the survey conducted as part of the Annual Survey of Regulated Sectors, which collects data for the previous year, broken down into various detailed categories (type of market, consumption sector and class and type of connection).

As already explained in Chapter 3 (see Section 3.2.2.1), the Authority has also established a system for monitoring the both the gas and electricity retail markets (TIMR), under which sellers in the end markets for electricity and natural gas (serving over 50,000 withdrawal points) must provide the Authority with quarterly data regarding average monthly electricity prices charged in the end market, together with several other indicators (see following section). Starting from January 2012,

the average prices collected by the Authority in accordance with Resolution ARG/gas 64/09, exclusively for sellers obliged by the TIMR, come together under this monitoring system. By virtue of an institutional agreement, however, all information collected in accordance with Resolution ARG/gas 64/09 is communicated every six months to the Ministry of Economic Development, which sends it to Eurostat in order to comply with the obligations set out in Directive 2008/92/EC of 22 October 2008 concerning a Community procedure to improve the transparency of electricity and gas prices charged to industrial end-users.

Information from the second survey, in contrast, is used for the statistical analyses conducted by the Authority, and especially for the information providing the basis for the Annual Report.

The provisional analysis of the information collected in the survey conducted by the Authority concerning 2013 shows that last year the average gas pre-tax price charged by retailers or wholesalers operating in the end market was (weighted by quantities sold) was 44 c€/m³ (Table 4.8). The price in 2012 was 45.5 c€/m³. Overall, therefore, the average cost of gas in Italy fell by 3.3%.

Table 4.8 Average end-market prices net of taxes

c€/m³; annual consumption classes expressed in m³

TYPE OF CONTRACT AND CUSTOMER BY ANNUAL CONSUMPTION CLASS	2009	2010	2011	2012	2013
PROTECTED-TARIFF SERVICE	48.8	44.6	50.4	57.7	59.0
Less than 5,000	49.5	46.4	52.5	60.1	60.2
Between 5,000 and 50,000 ^(A)			43.1	48.2	52.2
Between 50,000 and 200,000 ^(A)			42.6	48.1	50.5
Between 5,000 and 200,000 ^(A)	46.6	38.3	43.1	48.2	51.9
Between 200,000 and 2,000,000	46.3	34.7	37.9	40.6	48.8
Between 2,000,000 and 20,000,000	36.0	29.0	30.4	45.9	-
Over 20,000,000	-	-	-	-	-
FREE MARKET	30.9	30.6	34.9	40.7	39.4
Less than 5,000	43.8	47.0	53.6	61.3	63.8
Between 5,000 and 50,000 ^(A)			44.9	51.5	50.9
Between 50,000 and 200,000 ^(A)			40.6	48.4	43.9
Between 5,000 and 200,000 ^(A)	42.2	38.7	43.1	50.3	47.9
Between 200,000 and 2,000,000	33.0	31.2	34.5	41.1	36.6
Between 2,000,000 and 20,000,000	29.7	27.6	30.8	36.9	33.8
Over 20,000,000	27.9	29.0	33.1	36.8	32.7
TOTAL	36.6	34.8	39.3	45.5	44.0

(B) Until 2010 the price was recorded for a single class of customers with consumption between 5,000 and 200,000 m³.

Source: Annual Survey of Regulated Sectors.

Protected-tariff service customers paid an average of 59 c€/m³ for gas, while the average price paid by customers in the free market was 39.4 c€/m³; the overall price difference between the two markets, therefore, was 19.6 c€/m³, an increase of 2.6 c€/m³ compared with the previous year. This price difference, which was higher than the largest gap recorded in 2009 (18 c€/m³), is naturally affected by the respective shares of the different consumption classes in terms of volumes sold within each of the two markets. As has already been seen, the average customer size in the free market is much higher (Table Table 4.7), a factor compounded by the larger number of

customers directly connected to the transmission network,²⁵³ who do not pay the distribution and storage components, as well as the presence of a more flexible pricing system, in which price indexing formulas respond more strongly and rapidly to structural changes in the international markets, although the changes introduced with effect from 2012 in updates to the economic conditions of reference established by the Authority tend to lead in the same direction. Looking in detail at the individual consumption classes, it can be seen that it is mainly medium-sized and large customers in the free market that enjoy the most favourable conditions. In addition, starting from 2010, smaller customers (with consumption up to 5,000 m³ per year) are offered less favourable conditions by the free market than by the protected-tariff service. As a rule, it can be said that the ability to obtain more economically advantageous conditions is directly proportional to the size of the customer, as their knowledge of the market is greater and they give greater attention to contractual conditions. Furthermore, as already mentioned previously, in the presence of major structural changes in international markets, some types of offers in the free market can penalise customers that have signed up to them.

The smallest class of customers under the protected-tariff service, with consumption of less than 5,000 m³ per year, paid 60.2 c€/m³ on average. This price is in line with the average national figure for economic conditions of supply calculated for a domestic customer that consumes 1,400 m³ per year, which in 2013 was 58.6 c€/m³ (or 89.1 c€/m³ post-tax). As consumption increases, the price naturally tends to decrease. The presence of prices and volumes for the higher consumption classes indicates that there are customers that have remained under the protected-tariff service contractual conditions established by the Authority. In the free market, customer size affects prices even more strongly: the smallest customers, in fact, pay around 31 c€/m³ more than the largest. Higher consumption levels generally make lower per-unit prices possible. Specifically, distribution tariffs have a much higher impact for small consumers (the average cost to cover distribution in 2013 was around 12 c€/m³ for the average consumer using 1.400 m³ per year and paying according to the conditions set out by the Authority), while larger consumers not connected to the distribution network do not even pay this component. In addition, consumption by small consumers is more highly dependent on the weather, which entails higher storage and transmission charges.

It is also interesting to observe the large difference in average prices not only in relation to type of contract and customer size but also consumption sector, as shown in Table 4.10.

In the protected-tariff market, the largest category is that of small customers (0 - 5,000 m³), typically domestic, who in 2013 paid an average of around 60 c€/m³, closer to the service average (59 c€/m³), while in the free market the overall average price was close to the price paid by medium-to-large consumers, with consumption between 200,000 and 2,000,000 m³ per year.

In the comparison between the two markets, the results depend on the type and size of consumer.

For the smallest domestic customers the protected-tariff service is cheaper (-5.2 c€/m³, -7.9%), while for annual consumption between 5,000 and 200,000 m³ the price is almost identical in the two markets, while for the higher consumption classes the free market is cheaper. For apartment blockings using gas for domestic purposes the free market is generally cheaper, whereas for

²⁵³ Over 95% of gas consumed in the “domestic + apartment blocks, domestic use + commercial and services” segment was withdrawn from the distribution network, while in the case of “industry and electricity generation” approximately 80% of gas consumed was off-taken from the national or regional transmission system.

productive activities (public service, commerce and other services, industry and electricity generation) the free market is cheaper for all consumption classes.

Table 4.9 End-market retail prices by market, consumption sector and customer size, 2013

c€/m³; annual consumption classes expressed in m³

TYPE OF CONTRACT AND SECTOR	CUSTOMERS BY ANNUAL CONSUMPTION CLASS						TOTAL
	< 5,000	5,000-	50,000-	200,000-	2,000,000-	> 20,000,000	
		50,000	200,000	2,000,000	20,000,000		
PROTECTED-TARIFF SERVICE	60.2	52.2	50.5	48.8	-	-	59.0
Domestic	60.2	52.2	45.6	53.8	-	-	59.9
Apartment blocks, domestic use	55.6	50.2	49.5	48.1	-	-	50.6
Public service activities	64.8	56.9	52.8	51.0	-	-	56.8
Commercial and services	64.4	56.0	54.0	47.2	-	-	59.1
Industry	62.9	54.8	52.6	47.2	-	-	57.1
Electricity generation	56.8	53.0	48.1	44.4	-	-	50.1
FREE MARKET	63.8	50.9	43.9	36.6	33.8	32.7	39.4
Domestic	65.4	52.3	43.6	41.3	38.3	-	63.6
Apartment blocks, domestic use	57.6	55.4	53.1	46.5	35.2	-	54.3
Public service activities	62.0	52.5	49.0	43.4	35.5	-	46.3
Commercial and services	59.2	50.4	44.5	39.9	35.9	-	47.1
Industry	56.9	47.0	40.9	35.3	33.4	33.4	35.4
Electricity generation	62.3	50.5	45.2	39.7	34.8	32.5	32.7
TOTAL	61.2	51.3	44.4	36.6	33.8	32.7	44.0

Source: Annual Survey of Regulated Sectors.

Monitoring of level of transparency, including compliance with transparency obligations, and level and effectiveness of market opening and competition.

The purpose of the retail market monitoring system (which has already been described in detail in Chapter 3 and in the previous section) is to enable the Authority to observe the conditions under which retail gas sales operate on a regular, systematic basis, including market openness, competitiveness and transparency, as well as the level of participation and satisfaction on the part of final customers.

With regard to domestic customers, the Authority has also introduced instruments designed:

- to improve knowledge and understanding of the market and of its rules. Instruments to this end include the publication *Atlante dei diritti del consumatore di energia (Atlas of Energy Consumer Rights)* and the adoption of a resolution concerning transparency in billing documents;
- to make it easier for consumers to evaluate and choose energy offers in the free market. Such instruments include *Trova offerte* and the obligation for sellers to provide final customers with a cost comparison document before the conclusion of the contract.

Switching

According to the information provided by natural gas transmission and distribution operators, the percentage of switching customers, i.e. the number of customers that changed supplier during the 2013 calendar year,²⁵⁴ was 5.9% of the total, or 45.12% measured in terms of volumes of gas consumed by those who switched (Table 4.10). As usual, both percentages were higher than those seen the previous year, although the 2013 figures for non-domestic users were probably influenced by switches to the free market induced by the regulatory changes described previously.

Table 4.10 Switching rates, final customers

CUSTOMERS BY SECTOR AND ANNUAL CONSUMPTION CLASS	2012		2013	
	CUSTOMERS	VOLUMES	CUSTOMERS	VOLUMES
Domestic	4.5%	5.2%	5.5%	7.4%
Apartment blocks, domestic use	5.9%	8.2%	6.5%	11.9%
Public service activities	7.7%	16.3%	15.2%	27.5%
Other uses	8.2%	54.8%	9.9%	58.5%
of which:				
up to 5,000 m ³	6.7%	8.5%	7.8%	12.1%
5,000-50,000 m ³	12.9%	14.2%	16.9%	20.2%
50,000-200,000 m ³	20.8%	21.5%	23.5%	28.2%
200,000-2,000,000 m ³	30.9%	35.3%	29.7%	41.0%
2,000,000-20,000,000 m ³	64.4%	69.6%	60.3%	71.2%
over 20,000,000 m ³	70.4%	56.8%	67.2%	56.3%
TOTAL	4.7%	45.2%	5.9%	56.1%

Source: Annual Survey of Regulated Sectors.

The number of consumers who spontaneously changed supplier in 2013, as in previous years, was low but indicative of a steady increase (as has been the case since 2008): the percentage of customers who switched at least once in fact was 5.5%, corresponding to 7.4% in volume terms. The percentage of apartment blocks with a domestic use profile that switched to another supplier was one per cent higher at 6.5%, accounting for 11.9% of total consumption in the relevant consumption sector. 15.2% (equivalent to 27.5% in volume terms) of entities that managed a public service activity decided to change supplier: a relatively high percentage, although this is specifically one of the categories forced by law to leave the protected-tariff market and thus to change contract. Finally, consumers in the “other uses” category that switched supplier represented 9.9% of the total in terms of customers, and 58.5% in terms of volume. As always, and

²⁵⁴ The questions were asked in such a way that switching could be measured according to the European Commission definition. The questionnaire already used in previous years was therefore repeated, in which switching is measured as the number of changes of supplier during a given period of time (a year), including:

- re-switching, when a customer changes twice or more in the selected time period;
- switch-backs, when a customer returns to the initial or previous supplier;
- switches to a company in competition with the incumbent or vice versa.

If customers change their area of residence, the switch is recorded only if they move to a different supplier from the existing incumbent in the new area. In addition, a change of economic conditions with the same supplier does not constitute switching, including cases in which a new contractual formula is chosen or a change from a protected to a free-market tariff is offered by the same supplier or a subsidiary thereof.

as is to be expected, the higher their consumption levels, the more actively customers seek better contractual conditions and prices; that is, when their spending on gas purchases rises to significant levels.

Table 4.11 Switching rates by region and type of customer, 2013

REGION	DOMESTIC		APARTMENTS/BLOCKS, DOMESTIC USE		OTHER USES		PUBLIC SERVICE ACTIVITIES		TOTAL	
	CUSTOMERS	VOLUMES	CUSTOMERS	VOLUMES	CUSTOMERS	VOLUMES	CUSTOMERS	VOLUMES	CUSTOMERS	VOLUMES
Piedmont	5.6	6.3	7.0	10.1	10.1	64.6	25.3	45.3	6.1	54.0
Aosta Valley	1.4	1.6	4.1	6.5	5.9	46.4	19.4	13.1	2.2	37.6
Lombardy	5.1	6.5	7.0	9.9	10.5	53.4	16.2	22.2	5.5	43.8
Trentino Alto Adige	2.3	2.6	3.3	3.0	7.6	55.7	3.2	2.0	2.9	46.4
Veneto	5.1	6.0	8.3	11.9	11.2	61.6	21.1	35.1	5.7	49.7
Friuli Venezia Giulia	5.4	6.1	7.3	10.7	12.4	48.5	18.1	37.1	5.9	41.5
Liguria	4.3	5.6	4.9	6.3	8.0	79.3	13.8	41.7	4.5	58.8
Emilia Romagna	4.6	5.3	3.4	3.8	9.3	52.1	23.3	27.4	5.1	43.7
Tuscany	7.1	8.2	7.3	11.1	11.1	57.6	23.6	38.0	7.4	47.9
Umbria	6.8	7.9	6.8	11.1	10.8	51.5	19.9	49.8	7.2	43.7
Marche	5.4	6.8	5.4	6.9	10.1	63.8	12.8	22.4	5.8	47.4
Lazio	6.0	7.7	7.8	10.7	6.4	64.8	5.7	33.5	6.0	49.6
Abruzzo	6.5	8.0	6.4	10.4	9.7	45.3	16.8	37.9	6.9	36.9
Molise	8.1	10.3	5.4	2.5	12.2	81.2	7.4	14.7	8.3	66.7
Campania	6.6	8.0	7.0	4.1	9.3	57.9	7.8	11.6	6.7	47.6
Puglia	5.5	6.2	4.3	4.0	7.2	32.6	8.3	13.9	5.5	28.5
Basilicata	5.1	6.1	3.5	19.2	11.3	64.6	17.3	24.6	5.5	48.1
Calabria	5.9	6.9	3.6	3.1	8.3	28.7	8.0	15.5	6.1	26.0
Sicily	6.2	7.1	5.1	3.5	7.8	17.7	3.6	8.5	6.2	16.6
TOTAL	5.5	6.6	6.5	9.0	9.7	22.1	15.2	28.7	5.8	13.6
NORTH	5.0	6.0	6.3	8.7	10.2	56.9	19.4	29.6	5.4	46.8
CENTRE	6.4	7.8	7.3	10.4	9.5	59.2	12.7	33.4	6.6	47.5
SOUTH & ISLANDS	6.0	6.9	5.7	5.3	8.4	33.1	7.7	13.0	6.1	29.2

Source: Annual Survey of Regulated Sectors.

Taking into consideration the geographical fragmentation of the gas market, levels of switching at the regional level, broken down also by customer type, are shown in Table 4.12. In 2013, domestic customers located in Central Italy were more dynamic compared with the rest of Italy, with higher average switching rates than the national average, while switching rates in the North were mainly in productive uses. The regional figures are fairly even overall, especially in the zones of the Centre-North and in the sectors with less intensive consumption.

In the case of domestic users, the percentages changing supplier in Central Italy were 6.4% in terms of customers and 7.8% in terms of volumes, against a national average of 5.5% (customers) and 6.6% (volumes). Comparable figures are seen concerning switching by apartment blocks with domestic consumption, which is also higher in the Centre compared with the national average (7.3% against 6.5% in terms of customers and 10.4% against 9% in terms of volumes). In both of these consumption sectors the figures by main areas were different, but not hugely so.

A greater gap between rates in the North, in the Centre and in the South and Islands (in that order) can be seen in public service activities (where the rates in the North were more than double those in the South) and, in less markedly, in other uses.

Complaints and reports

In the period between 1 January and 31 December 2013 there were 15,648 communications regarding the gas sector (around 36.8% of the total). Compared with 2012, the number of communications increased by 18%, for the same reasons as those already illustrated for the electricity sector. Compared with 2012, no significant differences were observed in the ratio between the number of requests for information and the number of complaints.

Table 4.12 Communications regarding the gas sector received by the Energy Consumers' Helpdesk in 2012 and 2013

	2012		2013	
	GAS	TOTAL ^(A)	GAS	TOTAL ^(A)
Complaints	13,253	34,065	15,114	41,779
Requests for information	437	1,799	534	2,210
TOTAL COMMUNICATIONS	13,690	35,864	15,648	43,989

(C) Total for electricity, gas and dual fuel sector.

Source: Energy Consumers' Help-desk.

The most common subjects of communications for the sector gas received by the Helpdesk in 2013 that can be classified were the following: bonuses 4,506 (29%), billing 5,754 (37%), the market 2,005 (13%), contracts 1,854 (12%), and connections and works 627 (4%). In these percentage ratios, compared with 2012, it is possible to observe in particular a decrease – albeit a slight one – in complaints regarding the gas bonus and an increase in those regarding billing, the market, contracts, and connections and works.

With regard to billing, the main issues regarded consumption (on-account billing, adjustment payments and requests for corrections), compliance with correct billing schedules, meter reading or the use of meter readings communicated by the customer.

Regarding the free market, most communications regarding alleged infringements of the Business Code of Conduct approved by the Authority, issues relating to change of supplier and double billing. With effect from 1 June 2012, market issues have also included complaints handled according to the special procedure for unsolicited contracts.

With regard to contracts, most communications regarded the right to terminate contracts and supply, changes of supplier and cutting off of gas supplies/arrears and overdue payments.

Finally, with regard to connections and works, complaints were mainly about issues relating to the activation and taking over of contracts and the time required to effect these operations.

Table 4.13 Subjects of communications relating to the gas sector received by the Energy Consumers' Helpdesk in 2013

SUBJECTS	TOTAL	SHARE
Billing	5,754	37%
Market	2,005	13%
Bonuses	4,506	29%
Contracts	1,854	12%
Connections/Works	627	4%
Prices and tariffs	166	1%
Technical quality	32	0%
Metering	286	2%
Commercial quality	198	1%
Outside competence	220	1%
TOTAL CLASSIFIED	15,648	100%

Source: Energy Consumers' Help-desk.

4.2.2.2 Recommendations on final selling prices, investigations, inspections and imposition of measures to promote competition

Final selling prices

The Authority's analyses and recommendations concerning final selling prices are the same for the electricity and gas sectors and have already been described in detail in Section 3.2.2.2 (to which the reader is referred).

With reference to the gas sector alone, it should be stressed that, in its brief of 8 July 2013,²⁵⁵ the Authority noted a decrease in bills, in large part as a result of the far-reaching reform of the wholesale supply chain, which during the year in question brought about the complete start-up of the economic-merit-based balancing market. At the end of 2011 it commenced with Italian wholesale gas prices much higher than in other European countries. Thanks to the launch of the national economic-merit-based balancing market, in 2012 the price spread between the Italian natural gas spot market and the main European hubs gradually declined to zero. With regard to system charges in the gas market, the current situation is different from the one in the electricity market. In fact, the dominant share of consumers' spending overall is the on the primary material and taxes, while general system charges constitute an extremely small part of total spending. The Authority has indicated however that the situation may undergo considerable changes as a result of the additional, significant growth expected in the parafiscal component RE – to cover energy efficiency measures under the mechanism of white certificates – above all due to the activation, in 2013, of the new incentivisation mechanism for energy efficiency measures and the development of small-scale renewable energy resources for heat generation, the "Thermal Energy Account" [*Conto energia termico* (CET)], the costs of which will have to be financed entirely through natural gas tariffs.

²⁵⁵ Resolution 298/2013/l/com.

Surveys, inspections and imposition of measures for efficient promotion of competition

With reference to the activities conducted by the Italian Regulatory Authority, three investigations or sector inquiries were concluded (regarding conditions of sale of electricity and gas on the free market, transparency of billing documents, and billing procedures/times) in common with the electricity sector and therefore illustrated in detail in Section 3.2.2.2.

With regard to only the gas sector, the **sector inquiry on procedures for provision of the balancing service** concerning the period between 1 December and 31 May 2012, launched by the inquiry in 2012, was updated in 2012.²⁵⁶

As part of the inquiry, in 2013 alleged illegal practices were reported on the part of Stogit against Speia during the period from April 2010 to March 2011. As a result, in March the Authority launched²⁵⁷ a proceeding for the adoption of prescriptive measures vis-à-vis Stogit and Speia, in relation to possible anomalies in the management of withdrawals of gas from the strategic reserve.

The proceeding was closed²⁵⁸ on 22 October, with the following provisions:

- no provisions would be adopted against Stogit, there being no evidence of behaviour designed to impede the restitution of gas withdrawn by Speia;
- Speia would be asked to submit a reconsignment plan for the gas withdrawn from the strategic reserve.

On 31 October, after the expiry of the term for submission of the reconsignment plan by Speia, the Authority recommended²⁵⁹ to the Ministry of Economic Development the cancellation, pursuant to article 7, paragraph 2, of the Ministerial Decree of 26 September 2001, of the authorisation to sell gas granted to Speia, as a result of its failure to pay for the gas withdrawn from the strategic reserve. On 21 January 2014, the Ministry of Economic Development communicated that, with effect from 1 February 2014, Speia would be struck from the list of operators authorised to sell gas published by the ministry.

During 2013, the Authority also conducted intensive monitoring and oversight activities aimed at verifying the conditions of provision of public utility services (quality of service, safety, free and open access to networks, markets, tariffs, tariff subsidies, production incentives, etc.) and determining the advantages and improvements of the services supplied to customers and final consumers. Following its inspection activities, the Authority can adopt prescriptive measures (such as orders to cease behaviour that is damaging to users, serving formal notices to comply) and fines

²⁵⁶ With Resolution 282/2012/R/gas of 5 July 2012. The period which is the subject of the inquiry, was described in detail in last year's Annual Report, was subsequently extended, with Resolution 444/2012/R/gas of 25 October 2012, until 23 October 2012; following a new communication in which Snam Rete Gas reported a case in which the guarantees granted by a user had not been recognised by the issuing institution.

²⁵⁷ With Resolution 91/2013/S/gas of 4 March 2013.

²⁵⁸ With Resolution 463/2013/E/gas of 22 October 2013.

²⁵⁹ With Resolution 490/2013/E/gas of 31 October 2013.

or reinstatement commitments in cases where non-fulfilment or violations of legislation are noted, and can also establish the administrative recovery of amounts unduly received.

Of the 135 inspections and requests for information on the part of the Authority in 2013 (in collaboration with other institutions and the Guardia di Finanza, the Italian Tax Police), as part of its oversight and monitoring activities on the application of energy regulations, 75 regarded the gas sector. The main areas in which it acted regarded gas quality (degree of odourisation, calorific value and pressure) and the safety of the service.

4.3 Security of supplies

Legislative Decree no. 93/11, in implementing the Third Energy Package (*Terzo pacchetto energia*), assigns the functions and powers referred to in this section of the Annual Report to the EC (i.e. monitoring the balance between energy supply and demand, forecasting future demand and available supply, additional capacity and measures for covering peak demand or falls in supply) exclusively to the Ministry of Economic Development.

5 CONSUMER PROTECTION AND DISPUTE RESOLUTION IN ELECTRICITY AND GAS

5.1 Consumer protection

Compliance with Annex 1 of Directive 2009/72/EC

Articles 37, paragraph 1, letter n), and article 41, paragraph 1, letter o), of Directives 2009/72/EC and 2009/73/EC require that the regulator, if necessary in collaboration with other Authorities, guarantee that their consumer protection measures, including those in Annex 1, are effective and applied. Table 5.1 illustrates the implementation status in Italy of the measures set out in this annex.

Table 5.1 State of implementation of measures set out in Annex 1.

PARAGRAPH 1	LETT.	IMPLEMENTATION STATUS
<i>Customers have a right to a contract with their electricity/gas supplier that specifies a series of aspects.</i>	a)	<p>This obligation is covered by Annex A to Resolution ARG/com 104/10 (Business Code of Conduct), which sets out the information that must be provided before the conclusion of a contract and the main clauses which, although they are set out independently by the two parties, must be included in a contract. The same Business Code of Conduct also requires that the final customer be provided with the contract in a durable medium.</p> <p>Currently the only compensation which is not yet provided regards late billing, while in cases of inaccurate billing the regulation regarding corrections to bills allows the customer to obtain compensation in the event of delays of over 90 days in the correction of a bill already paid. For customers served under the enhanced protection regime (electricity sector) or the protected-tariff regime (gas sector), compliance with the obligation is provided by Resolutions 200/99 and 229/01.</p>
<i>Customers are given adequate notice of any intention to modify contractual conditions and are informed about their right of withdrawal when the notice is given.</i>	b)	<p>Article 13 of the Business Code of Conduct requires that customers must receive 90 days of notice with regard to modifications to contractual conditions and that they have the right to withdraw from the contract at no cost if they do not agree with the new conditions. The right to unilateral modification must be expressly provided for in the contract, otherwise it may not be exercised.</p>
<i>Customers must receive transparent information on applicable prices and tariffs and on standard terms and conditions in respect of access to and use of electricity and gas services.</i>	c)	<p>Article 10 of the Business Code of Conduct stipulates that contracts must contain a section which clearly summarises the costs borne by customers for the supply of electricity and gas.</p> <p>In addition, Title IV of the Business Code of Conduct stipulates that at least domestic customers receive a comparison of annual costs which customers would face if they signed up for a specific offer complete with an illustration of any costs connected with a request for different services.</p>
<i>Customers are offered a wide choice of payment methods.</i>	d)	<p>There are no obligations connected with a wide choice of payment methods.</p> <p>Nevertheless, for customers served under the enhanced protection regime or the protected service regime, at least one payment method must be free.</p>

<p><i>General terms and conditions shall be fair and transparent, and given in clear, comprehensible language.</i></p> <p><i>Customers shall be protected against unfair or misleading selling methods.</i></p>		<p>Article 10 of the Business Code of Conduct stipulates that contracts must be printed in a legible font and drawn up in language that is clear and comprehensible for all final customers.</p> <p>In the electricity and gas sectors, Resolutions 153/2012/R/com and 266/2014/R/com have strengthened and extended the preventive measures already anticipated in the Business Code of Conduct designed to counter potential unfair practices against final customers when a new contract is signed; in addition, a voluntary procedure to reinstate the contractual situation prior to any unrequested contract has been developed.</p> <p>Furthermore, general powers in the matter of unfair or misleading selling methods are vested in the <i>Autorità garante della concorrenza e del mercato</i> (the Italian Competition Authority).</p>
<p><i>Customers are not charged for changing supplier.</i></p>	e)	<p>Final customers are not charged for changing supplier.</p>
<p><i>Consumers benefit for transparent, simple and inexpensive procedures for dealing with their complaints.</i></p>	f)	<p>Regulation of the commercial quality of sales (Annex A to Resolution ARG/com 164/08) stipulates that sellers must deal fully with customer complaints within 40 calendar days of receiving them. Failure to comply with this obligation entails the payment of automatic compensation for the customer.</p>
<p><i>Consumers benefit from information about their rights regarding universal service (electricity customers) of their right to be supplied at reasonable prices (gas customers).</i></p>	g)	<p>The relevant information for consumers can be found on the Authority's website, in the specific publication <i>Atlante dei diritti del consumatore di energia</i>. This information is also available from the Energy Consumers' Helpdesk, which constitutes a single national contact point for both the electricity and the gas sector.</p>
<p><i>Consumers can have at their disposal their consumption data and shall be able to allow any registered supply undertaking to access, by explicit agreement and free of charge, their metering data.</i></p>	h)	<p>In course of definition.</p>
<p><i>Consumers are adequately informed of actual consumption and costs frequently enough to allow them to regulate their own electricity consumption.</i></p>	i)	<p>Data collected by the distributor on a monthly basis for the electricity sector and with a frequency according to annual consumption for the gas sector (monthly, quarterly or every four months) is illustrated in the bill.</p>
<p><i>Consumers receive a final closure account following any change of supplier, no later than six months after the change of supplier has taken place.</i></p>	j)	<p>There are no obligations connected with the time for issuing the final closure account.</p>
<p>PARAGRAPH 2</p>		
<p><i>Member States shall ensure the implementation of intelligent metering systems that shall assist</i></p>		<p>In the electricity sector the roll-out of smart meters is virtually complete.</p> <p>In the natural gas sector, with Resolution 631/2013/R/gas of 27 December 2013, the Authority has updated the timeframe for the roll-out of gas meters: for small</p>

the active participation of consumers in the electricity and natural gas supply markets.	customers with meters in classes G4 and G6, different obligations have been introduced in accordance with the size of distribution undertakings.
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Guarantees regarding access to consumption data

Legislative Decree no. 93/11 requires that the Authority must, within 6 months of publication of the Decree (31 December 2011), adopt new rules or modify existing rules in such a way as “to enable consumers to have access to relevant consumption data and oblige distribution companies to make consumers’ data accessible to sellers, ensuring the quality and timely provision of the data”.

The regulation concerning billing, which was completed in 2010 (see 2011 Annual Report to the European Commission), enables customers to be informed about their actual consumption data. Furthermore, through complaints and requests, customers can request this data from the retailer, who will request it from the distributor.

Considering the extremely widespread use of smart meters in the electricity sector, final customers have access to the current consumption figure in terms of power and energy as well as the consumption figures broken down into peak/off-peak/mid-level hours used for the most recent bill via an electronic display.

Lastly, Italian legislation requires the Integrated Information System [*Sistema informativo integrato* (SII)]²⁶⁰ to develop – through a central registry of withdrawal points and an operator accreditation system – procedures for centralised management of communications of consumption data and the development of the respective services. The first implementation phase commenced and was concluded during the course of 2012 (see Section 3.2.2.1).

Public service obligations

The public service obligations contained in Legislative Decree no. 93/11 (article 35, paragraphs 2 and 35, paragraph 3), in addition to those illustrated below and relating to vulnerable customers, refer to:

- the right to switch supplier within 3 weeks of requesting to do so;
- the right to have access to transparent information regarding tariffs and economic conditions as well as minimum contractual conditions;
- the measures necessary to guarantee consumers the dissemination to final customers of the checklist for consumers drawn up by the European Commission containing practical information about their rights;
- in order to promote energy efficiency, the establishment of criteria on the part of the Regulatory authority to promote optimisation, on the part of electricity companies, of the use of electricity, including through the provision of services for rational energy management, by developing innovative supply formulas and introducing smart metering systems and networks.

²⁶⁰ Resolution ARG/com 201/10 of 17 November 2010.

Since 2008, Acquirente Unico has provided an Energy Consumers' Helpdesk, which provides final customers with information through its call centre.

With reference to domestic customers, the Authority has introduced instruments to:

- improve knowledge and understanding of the market and its rules. Initiatives to this end include the publication of the Atlas of Energy Consumer Rights (*Atlante dei diritti del consumatore di energia*) and the adoption of the resolution regarding transparency in billing documentation;
- facilitate evaluation and choice of offers in the free market. Initiatives to this end include Trova offerte and the obligation for sellers to provide final customers with a cost comparison document before the conclusion of the contract.

Memoranda of understanding have also been entered into with consumer associations to promote consumer information.

The Business Code of Conduct for the Sale of Electricity and Gas to Final Customers ("*Codice di condotta commerciale della vendita di energia elettrica e gas ai clienti finali*")²⁶¹ regulates (by broadly implementing the provisions of the Third Energy Package) the right to access transparent information regarding tariff conditions as well as minimum contractual conditions for final customers.

Switching procedures were strengthened by the Authority in 2011,²⁶² particularly with regard to information flows between distributors and sellers relating to the transfer of data and timeframes so that sellers can use the data within a guaranteed time. Communication standards have also facilitated these information flows. 2011²⁶³ also saw the introduction of the term of 3 weeks in the switching procedures provided for by Directives 72/2009/EC and 73/2009/EC.

Definition of vulnerable customers – electricity sector

With reference to the electricity sector, Legislative Decree no. 93/11 does not provide a specific definition of "vulnerable customer" (as in the gas sector: see below). Nevertheless, article 35 concerning public service obligations and consumer protection stipulates that all domestic consumers and small businesses (with fewer than 50 employees and a turnover of less than 190 million euros) who do not choose their supplier on the free market are served under the protected-tariff regime (article 1, paragraph 2 of Decree Law no. 73 of 18 June 2007 converted into law by Law no. 125 of 3 August 2007). It also stipulates that in relation to the development of competitive conditions in the retail market, the Ministry of Economic Development, following monitoring operations conducted at least every 2 years, may adjust – in particular with regard to industrial customers – forms of provision of the **protected-tariff service**. Each year, charges for the protected-tariff service are updated on a quarterly basis.

Since January 2009, for electricity supplies, a protection mechanism has been in place specifically for domestic customers in situations of economic hardship or with severe health problems who receive an electricity **bonus** or discount. As of 31 December 2013, 2.1 million households had

²⁶¹ Annex A to Resolution ARG/com 104/10.

²⁶² Resolution ARG/com 146/11 of 27 October 2011.

²⁶³ Resolution ARG/elt 210/11 of 29 December 2011.

made use of the mechanism at least once, while the bonus was active for 942,864 households in 2012 and the number of households that had received an electricity discount as a result of physical hardship was 23,647. The related costs are covered by proceeds from a specific component paid by customers who do not benefit from the bonus, which for 2013 was adjusted at the same time as the tariff update.

In 2012 modifications to regulation of the electricity bonus were introduced for customers with serious health conditions (electricity bonus for physical hardship),²⁶⁴ as described in detail in last year's Annual Report.

Definition of vulnerable customers – gas sector

Legislative Decree no. 93/11 defined as “vulnerable” domestic customers non-domestic customers with consumption of less than 50,000 S(m³) per year and uses for public service activities or by public or private entities that provide a recognised activity of assistance, including hospitals, nursing and rest homes, prisons and schools. The same Legislative Decree also provided for the Authority to continue temporarily to establish reference prices which gas sales companies must, under public service obligations, include among their commercial offers.

This provision was subsequently modified by Decree Law no. 69 of 21 June 2013; article 4, paragraph 1, stipulates that “*exclusively for domestic customers*”, under public service obligations, the Authority temporarily continues to establish reference prices which gas sales companies must include among their commercial offers. As a result of the modification, the Authority intervened²⁶⁵ in order to clarify that the obligation to offer protected-tariff economic conditions as set out in the integrated code governing retail sales of natural gas [*Testo integrato vendita gas (TIVG)*], regards only final domestic customers and no longer vulnerable customers. Specifically, the following are still entitled to the **protected-tariff service**:

- consumption points owned by a domestic customer;
- consumption points for apartment blocks for domestic use, with consumption of not more than 200,000 S(m³) per year.

The following, in contrast, are no longer entitled to the protected-tariff service:

- consumption points owned by users relating to public service activities;
- consumption points for different uses, with consumption not over 50,000 S(m³) per year.

The Authority also adopted provisions to ensure the concrete implementation of the modifications introduced by Decree Law no. 69/13 and at the same time to guarantee adequate information for non-domestic final customers affected by the modifications.

Decree Law no. 69/13 was converted into law by Law no. 98 of 9 August 2013, confirming the termination of the protected-tariff service for non-domestic final customers. The Authority

²⁶⁴ Modifications introduced with Resolution 350/2012/R/eel of 2 August 2012, in application of the Decree issued by the Ministry of Health on 13 January 2011 concerning electrically-powered life-supporting medical equipment (*Individuazione delle apparecchiature medico-terapeutiche alimentate a energia elettrica necessarie per il mantenimento in vita di persone in gravi condizioni di salute*) and the provisions of the Interministerial Decree of 28 December 2007.

²⁶⁵ Resolution 280/2013/R/gas of 28 June 2013.

subsequently acted²⁶⁶ in order to bring the provisions of the TIVG in line with the measures set out in the Decree Law as converted into law.

In parallel with the above, in the last two years the Authority has made provisions to reduce the dependence of the economic conditions for the supply of natural gas on long-term gas import contracts (the so-called “gas reform”) by gradually introducing a weighting mechanism between such contracts and the prices set on the short-term gas markets (spot markets) which for some time have been characterised by a situation of excess supply due to the availability of unconventional gas and a fall in demand. Specifically, in implementation of the measures contained in Decree Law no. 1 of 24 January 2012, the Authority determined²⁶⁷ that with effect from the second quarter of 2012 new prices for the raw material component are to be calculated – starting initially with a 3% share – on the basis of prices set on the European spot market, with reference to the Dutch Title Transfer Facility (TTF) platform. This share, which rose to 5% over the course of the year, was set to 20% with effect from the second quarter of 2013²⁶⁸. These measures have increasingly enabled a coupling with spot market prices, which are lower than those stemming from long-term contracts, and from the very start allowing increases in the raw material component to be contained in 2012, followed by a slight reduction in the component in the first quarter of 2013, a sharp reduction in the second quarter (for the typical customer -7.2%, or -2.7 c€/m³) and a further fall in the third (-0.6 c€/m³). Thus trend was reflected in the total price, which after peaking at 92.78 fell to 88.44 c€/m³ in the third quarter of 2013, with a reduction of 4.7%.

With the fourth quarter of 2013 the process of reforming methods for calculating the conditions of supply under the protected-tariff service was fully completed. Reference to long-term contracts was completely eliminated and replaced 100% with the spot market price. Pending the Italian spot market becoming fully operational, as provided for by Legislative Decree 93/11, reference continued to be made to prices on the Dutch TTF market. However, in addition to modifying reference prices, the reform has changed the structure of the calculation mechanism, modifying its items and their content. Specifically the new gas (raw material) component, in addition to the purchase cost on the TTF market (represented by the item $P_{FOR,t}$), includes the following items:

- transmission costs from the market to the Virtual Trading Point [*Punto di Scambio Virtuale* (PSV)] of the Italian trading platform, managed by Snam Rete Gas (items Q_{Tint} , $Q_{T_{PSV}}$ and $Q_{T_{MCV}}$);
- the costs of gas provisioning activities and risks connected with them (CCR), including, for example, fluctuating weather conditions (with consequent effects on prices) and misalignments between quantities purchase and actually sold (volume risk).

The old items QE (the energy component) and QCI (the wholesale cost component) have been eliminated and replaced by the aforementioned items.

The new calculation formula also made it necessary to modify a number of the components relating to infrastructure costs. Firstly, the transport component (QT) has been reformulated to take into account the part already included in the raw material. The latter also implicitly includes

²⁶⁶ Resolution 457/2013/R/gas of 17 October 2013.

²⁶⁷ Resolution 116/2012/R/gas of 30 March 2012.

²⁶⁸ Resolution 125/2013/R/gas of 28 March 2013.

storage costs, both in relation to seasonal modulation (the difference between requirements and prices in summer and winter) and to cover exceptional events. As a consequence the old component QS (storage) has been eliminated.

On the other hand, the transition to the new system has made it necessary to introduce adjustment mechanisms, which consist of the following items:

- the graduality component (GRAD), to cover the costs that sales companies must bear in order to restructure their gas portfolio in order to obtain an appropriate distribution of short- and long-term contracts;
- the pro-renegotiation component (CPR), to incentivise the renegotiation of long-term contracts in order to bring their conditions into line with the economic and regulatory changes that have taken place, in addition to funding a mechanism for partially protecting final customers from the greater price volatility that characterises short-term/spot markets.

In terms of its effects on the typical domestic customer, the completion of the reform in the fourth quarter of 2013 led to a reduction of 2.2 c€/m³ in the overall price, or -2.5% compared with the previous quarter.

In the first quarter of 2014 the price remained stable, as the seasonal increase in the price of the raw material was offset by the reduction in the component for distribution tariffs and in the component set aside for the fund for energy efficiency initiatives (RE). In the second quarter of 2014 (starting from 1 April) another significant price decrease was seen (3.26 c€/m³, or -3.8%), ascribable principally to the raw material component, the reduction in which was partially absorbed by the renegotiation component (CPR).

The net change since the reform was launched is a decrease of approximately 10 c€/m³ (over 10%) in the overall price.

Legislative Decree no. 93/11 stipulates, in accordance with the provisions of article 30, paragraphs 5 and 8, of Law no. 99 of 23 July 2009, that the criteria and procedures for the supply of natural gas be established and updated under the framework of the **last resort service** [*Fornitori di ultima istanza* (FUI)] for all vulnerable customers who find themselves without a supplier for reasons beyond their control.

Regarding the vulnerable customers, pursuant to Legislative Decree no. 93/11 (article 7, paragraph 7) and the Ministerial Decree of 7 August 2013, they have the right to the last resort service: disconnectable final customers, i.e. domestic customers, including apartment blocks with consumption of not more than 200,000 S(m³) per year and other customers with consumption of not more than 50,000 S(m³) per year who, for reasons beyond their control, are without a supplier; non-connectable final customers, i.e. those using gas for the provision of public service activities who for whatever reason, find themselves without a supplier. The abovementioned provisions are echoed in the provisions set out by the Authority within the framework of the TIVG, which regulates the conditions for provision of the FUI.

Guidelines for conducting the competitive procedures for selecting undertakings to provide the FUI service are contained in the Ministerial Decree of 7 August 2013. The Authority implemented

the provisions, by regulating²⁶⁹ the guidelines issued by Acquirente Unico for the selection of FUI undertakings. Acquirente Unico, following the publication on its website of the rules for the procedures, carried out the selection of the entities and published the results of the procedure of selection of FUI undertakings for the 2013-2014 thermal year. Specifically, for each main geographical area the list of undertakings selected as FUI operators and the annual quantity of gas offered were published.

Since 2009, for supplies of natural gas, a protection mechanism has been active specifically for domestic customers in situations of economic hardship.

At 31 December 2013, 626,869 gas customers benefited from the **gas bonus** for economic hardship. Their application, once they had undergone all of the checks regarding eligibility requirements on the part of local authorities, were declared eligible for the bonus, after checks by gas distributors. The number of households that received the bonus, at least once the mechanism had come into operation, was 1.2 million. In 90% of cases they also benefited from the electricity bonus.

In order to cover the cost of application of the gas bonus, the Authority introduced into the compulsory tariff for natural gas distribution and metering services two components, GS and GST, borne by customers other than domestic customers. The value of the component is set at the same time as the tariff adjustment. These funds collected from customers are supplemented by funds borne by the State budget.

Measures common to both the electricity and gas sectors

The phenomenon of **unrequested contracts** concerns cases in which final customers are induced to conclude electricity and/or natural gas supply contracts which they actually do not wish to have, by unfair business practices on the part of sellers with the aim of acquiring such contracts through the activation of switching procedures at the expense of the customer and the previous seller, who would have been entitled to continue supplying the customer. Given the growing number of reports received in recent years from final customers and consumer associations, the Authority considered that it was necessary to take steps to stem this phenomenon, not least because of its negative impacts on the development of competition in the retail energy market. Following an analysis and detailed consultation process, regulations in the matter were drawn up²⁷⁰ in April 2012 and described in detail in last year's Annual Report. The Authority also instituted ad hoc monitoring of the phenomenon of unrequested contracts which, in addition to enabling its evolution over time to be evaluated, also enables a list of unrequested sellers to be published, i.e. a ranking list providing information regarding their performance, based on the monitoring data. The list is designed to make transparent, complete information available to consumers so that they can make an informed choice of electricity and/or gas supplier.

In June 2013, the Authority launched²⁷¹ a proceeding in order to draw up provisions concerning regulation of the monitoring of unrequested contracts as well as criteria, information and means of publication of the aforementioned list of unrequested sellers. At the same time it set out²⁷² its

²⁶⁹ Resolution 362/2013/R/gas of 7 August 2013.

²⁷⁰ Resolution 153/2012/R/com of 19 April 2012.

²⁷¹ Decision 244/2013/R/com of 6 June 2013.

²⁷² Consultation 245/2013/R/com of 6 June 2013.

guidelines in relation to further indicators to develop as part of monitoring activities, the general characteristics of the list of unrequested sellers, and the indicators to be used for the purpose of constructing the final score and its relative weight.

Also in June, the Authority launched a preliminary investigation regarding transparency of billing documentation, as mentioned in Section 3.2.2.2. With regard to transparency of billing documents, the Authority has made provision for specific measures in the natural gas sector with a view to the reform of the related economic conditions which, as highlighted in the section on the reform of the natural gas market, modified, eliminated and added a number of components applied to final customers under the protected-tariff service. To this end, the Authority acted ²⁷³ to establish how the various components should be displayed in the bill, by modifying the structure and terminology of the items in the “*Quadro di dettaglio*” in the bill.

It also updated ²⁷⁴ the **Glossary** containing the most commonly used terms in billing documents in order to take into account both of changes in terminology resulting from the application of regulation provisions adopted by the Authority – with particular reference to measures concerning natural gas reform – and of the modifications provided for by primary legislation and, specifically, to take into account modifications relating to the area of gas protection established by Decree Law no. 69/13 (article 4, paragraph 1), converted into law with Law no. 98/13.

²⁷³ Resolution 293/2013/R/com of 4 July 2013.

²⁷⁴ Resolution 500/2013/R/com of 7 November 2013.

5.2 Dispute management

The **Conciliation Service for Energy Customers** (*Servizio conciliazione clienti energia*) was established²⁷⁵ by the Authority in 2012 in order to manage disputes, in implementation of article 44, paragraph 4 of Legislative Decree no. 93/11, through the availment of *Acquirente unico*. The service has been operational in a trial phase since 1 April 2013. This trial phase, which is preliminary to its becoming fully operational, will last until 31 December 2015. The Conciliation Service is one of the voluntary procedures for the extrajudicial settlement of disputes and is available to final customers in the electricity and gas sector for the resolution of problems that arise with their operator that have not found a solution with a complaint.

The service is provided entirely online and consists in virtual meetings before an impartial, external conciliator who possesses specific expertise in mediation and energy matters. It is a “universal” conciliation system in terms of its scope of application, both with regard to potential users of the service and to the variety of disputes subject to the procedure. The service can be activated at no charge by domestic and non-domestic final customers in the electricity sector entitled to the enhanced protection regime and customers in the gas sector deemed vulnerable for disputes with a distributor or seller of electricity and/or natural gas, with the sole exception of disputes regarding taxation or fiscal issues. As the procedure is on a voluntary basis, each operator has the right to choose whether to participate in each individual procedure or not. During the trial phase, the service will be extended to prosumers, i.e. electricity consumers and producers at the same time, exclusively for systems with an output of up to 10 MW.

The Conciliation Service is in line with developments in European Union legislation concerning Alternative Dispute Resolution (ADR), the latest being Directive 2013/11/EU of the European Parliament and of the Council of 21 May 2013 on the alternative resolution of consumer disputes, which modifies Regulation (EC) No 2006/2004 and Directive 2009/22/EC, currently being transposed. The characteristic of universality is further strengthened by the right for customers with limited computer skills or access to receive assistance in the procedure and if necessary to be represented by consumer associations. Specifically, associations of domestic consumers receive economic assistance drawn on the fund deriving from penalties imposed by the Authority for providing such assistance and representation, based on a project (PAC) proposed by the Authority and approved by the Ministry of Economic Development. In addition, a protocol between the Authority and associations of non-domestic customers has been established which makes provision, among other things, for initiatives regarding access to ADR instruments. The Authority has set up a list of operators participating in the conciliation procedures as an additional means of promoting and giving visibility to their participation in the Conciliation Service procedure and, at the same time, of providing final customers with information about the extrajudicial resolution of disputes that are available for them to use. Registration on the list, which is broken down into distributors and sellers, is voluntary: operators may indicate the extrajudicial dispute resolution procedures available, including procedures based on the joint conciliation model. If the operator indicates the Conciliation Service, it is bound to participate in the procedure in question for a time that is equivalent to the period scheduled for the trial phase of the service and for a period of not less than two years. For all other procedures, the operator in any case is obliged to update the list whenever the requirements for the procedures indicated cease to apply. In the first year of the trial period for the service, despite the fact that it had not been widely publicised, a total of 1,002

²⁷⁵ Resolution 260/2012/E/com of 21 June 2012.

requests for activation of the service were received. Most of the activation requests were from domestic final customers and the electricity sector. The main subjects of dispute for which the Conciliation Service was activated regarded billing, which included, among other things, disputed settlements, meter readings, own meter readings, consumption, billing periods, correction of bills and metering. The subject of the dispute is indicated by the final customer during completion of the online form for activation of the procedure, based on cases set out in the guide provided. Most requests to activate the Conciliation Service were admitted to the procedure (73%); in 22% of cases the administration office of the Conciliation Service notified the final customer that the request was inadmissible, mainly due to the failure to submit supporting documentation or failure to comply with the timeframes required by the regulation. The remaining 5% included, in addition to procedures still being processed by the administration department at the time that the data was collected, cases in which the operator had dealt with its customer's problems by other means, thus using the Conciliation Service as an input for the measure. In 44% of admissible requests, the operator participated in the procedure, with 88% of disputes (out of all procedures concluded) being resolved in such cases. Specifically, operators who voluntarily registered on the dispute resolution procedure list and specified the Conciliation Service recorded a 96% positive outcome rate. Failures to participate in the Conciliation Service, which constituted 51% of admissible requests, in the first year of operation of the service, are mainly accounted for by two operators. Most of the operators that participated in conciliation process procedures adopted the practice of suspending – during the procedure – actions to recover receivables, developing a best practice in the area of self-regulation on the part of operators for the benefit of final customers.

Specific information on the subject of extrajudicial dispute resolution can be found on the web page “The Conciliation Service for Energy Customers” (*“Il Servizio conciliazione clienti energia”*) contained in the Authority's website and is also provided by the Helpdesk's call centre. The promotion of the conciliation procedures for the energy sectors increases awareness among consumers of the instruments that they may activate to protect themselves and allows them to be involved in the broader regulatory processes in the sector. Between mid-February and mid-March 2014, pages regarding conciliation were viewed 3,500 times, with reference to the specific page on the Authority's website and the *Atlante dei diritti del consumatore di energia* (Atlas of Energy Consumer Rights). With regard to calls to the Helpdesk call centre, between April and December 2013, 9,261 requests for information about conciliation were received, while in the first quarter of 2014 alone 5,531 were received. The Authority continues to support joint conciliation procedures both by training the staff of consumer associations involved in conciliation procedures and by paying the associations a contribution in cases in which the dispute is successfully resolved by the procedure. In addition, the Authority monitors trends in joint conciliation procedures through the specific reports submitted every year by the main operators that have signed the protocols with associations of final customers. On the basis of this monitoring, it emerges that the protocols make it possible to gradually overcome any limitations relating to subject matter for access to the specific procedure, showing how extending the range of conciliation procedures for energy market customers has generated a “virtuous circle” in conciliations which on the one hand provides an incentive to make procedures already existing in the sector more efficient and on the other guarantees the effectiveness and efficiency of customer protection measures.