



Autorità per l'energia elettrica e il gas

ANNUAL REPORT
TO THE EUROPEAN COMMISSION
ON REGULATORY ACTIVITIES AND THE STATE OF
SERVICES IN THE ELECTRICITY AND GAS SECTORS

31 July 2009

SUMMARY/ MAIN DEVELOPMENTS OVER THE LAST YEAR

Developments in the Electricity Market

In the course of 2008, significant progress was made in the electricity wholesale market with the promotion of conditions favouring more competition and transparency of trading. The current system is formed by a spot regulated market (MPE) managed by the Italian Electricity Market Operator (GSE), and a number of forward markets allowing participants more flexible management of their energy portfolios. The organisation of forward markets is currently under regulatory review intended to favour their development.

In 2008 the liquidity of trading increased and there appeared encouraging signs in terms of market concentration.

Electricity demand in the Day-Ahead Market (MGP) was equal to 337 TWh, up 1.8% over the previous year. Trading in the Power Exchange amounted to 232,6 TWh, up 4.8% over 2007, consolidating the upward trend in average market liquidity, from 59.6% in 2006, 67.1% in 2007 and 69.0% in 2008. The average purchase price in the Power Exchange (PUN) was equal to 86.99 €/MWh, up 16 €/MWh (+22.5%) over the previous year. A particularly significant event was the peak in October when the average purchase price reached its record high of 99.07 €/MWh (+41.8% compared to October 2007) due to fuel costs. The fall in the prices of oil and the exacerbation of the international economic crisis contributed to a sizeable reduction of the PUN in November and December 2008.

The HHI concentration index, calculated at the level of zones in relation to the actual sales of energy and to both accepted and unaccepted sale offers, evidences an improvement in competitive structure on the supply side. More specifically, the periods during which satisfactory concentration levels were recorded (HHI < 1.800) have increased even further in the Northern macro-zone and progress was observed also in the Southern macro-zone. Obstacles to the attainment of fully competitive structures persist in the zones of Sicily and Sardinia, where the HHI index never reaches values below the threshold of 1800. The marginal market participant index was significantly lower than that of 2007, indicating a tendency towards the improvement of competition.

In 2008, income from congestion charges in the national transmission network received at the MGP increased significantly to 156 million euro compared to 121 million euro in the previous year (by 29%). On the other hand, extension to the Swiss border of the terms for cross-border congestion charging already adopted on the other borders, zeroed out income from congestion charges in foreign zones, since this charge is paid in advance at the time of the explicit auction.

The maximum installed net capacity on 31 December 2008 was equal to 98.625 MW, more than half of which held by the first three market operators: Enel (44%), Edison group (8.6%) and Edipower (8.2%). However, the HHI index for installed net capacity shows a reduction in the degree of market concentration from 2,126 in 2007 to 1,921 in 2008.

In 2008 the net balance of cross-border power exchanges was down from the previous year. More specifically, power demand was 339.5 TWh very close to that of 2007, net national production was 307 TWh (increasing by 1.9%), while net trade equalled nearly 40

TWh, down 13.5% from 2007. The analysis of flows on each border shows an increase of imports from Slovenia and Greece, respectively, 46% and 2.9%) and a fall in imports from France (-14.9%) and Switzerland (-16.2%). There was a strong increase in exports mainly attributable to Greece (+55.3%) and Switzerland (+516.5%).

The rules established for cross border exchanges in 2008 and confirmed for 2009 foresee joint allocation of interconnection capacity on all borders (French, Greek, Austrian, Slovenian and Swiss) by explicit auctions organised on an annual, monthly and daily basis. The rules for access to interconnections – *Access rules to France-Italy, Switzerland-Italy, Austria-Italy, Slovenia-Italy, Greece-Italy interconnections* – were developed by Terna jointly with the other grid operators and approved by the Authority.

In 2008, about 299 TWh were sold on the retail market to a total of some 36 million customers. In the retail market, three corporate groups attained a market share greater than 5% in 2008: Enel (47.2%), Edison (6.0%) and A2A (5.6%).

According to Terna, sales to customers benefiting from protected tariffs¹ amounted to nearly 90 TWh in 2008, reaching a total of more than 32 million customers, down 19% from 2007. Domestic customers, which make up 83% of the protected-tariff market in numerical terms (nearly 27 million), accounted for 67% of the volumes purchased (nearly 60 TWh).

In 2008 some 192,000 customers, (estimated on the basis of days of use criterion) were covered by safeguard provisions² amounting to a total consumption of about 13 TWh. About three quarters of this was for industrial/commercial uses (other than public lighting and uses subject to special tariffs) with a prevalence of medium-voltage connections.

Sales on the liberalised market in 2008, calculated from Terna statistics net of sales under the safeguard-provision amounted to 195 TWh, a 10% increase on 2007. A breakdown by type of customer shows that 96% of these volumes concerned other uses, that is uses other than domestic and public lighting, corresponding to 65% of the nearly 2 million customers on the liberalised market.

In the retail electricity market, the Authority has on the one hand refined the regulatory instruments previously adopted to foster its development and, on the other, developed stepwise changes to the regulatory framework with the objective of securing a more rapid transition towards the new competitive market. Thus, measures were introduced designed to: expose final consumers more directly to price signals so as to obtain a more coherent effect on consumption; facilitate and standardise information flows between the former supplier, the distributor and the new user of the dispatch service required to enable switching; specify the terms for suspension of supply in case of end consumers' default in payments or non-compliance of the sales company. As regards the safeguard service, the Authority intervened both to verify compliance of providers of the service with the

¹ Protected-tariffs are provided to domestic customers and small businesses connected to the low-voltage grid which have never entered into a sales contract in the liberalised market. The service is provided by sales companies and by distributors with less than 100,000 customers connected to their system, based on the prices and commercial quality conditions set by the Authority.

² The safeguard service is reserved for customers that are not entitled to protected-tariff conditions and that are, even only temporarily, without a power purchase contract in the liberalised market. As from 1 May 2008, the service is provided by sales companies selected on the basis of competitive bids.

standards and to improve the tendering process for the period 2009-2010. In addition, a number of resolutions were issued aiming at improving data collection and analysis in the retail electricity market, so as to have a greater number of elements on which to base appraisal of the real impact of competition in retail sales.

The complaints, petitions and notifications examined by the Authority - from both individual customers and consumer associations - increased 79%. In the period between 1 April 2008 and 31 March 2009, out of the 8,691 communications sent to the Authority, 6,323 (73% of total) were referred to the electricity sector. The number of complaints in the electricity sector alone increased by 103% from the previous year. Complaints accounted for 92% of the communications received, enquiries for 5% and notifications for the remaining 3%.

A little over 50% of all complaints in the electricity sector, was directed against suppliers operating exclusively in the liberalised market. This is a typical situation in the early phases of market opening and has been observed in other countries opening their retail market to competition. Complaints addressed the following main aspects: invoicing (36,4%); significance and application of contractual clauses in both the liberalised market and the protected-tariff service (18.9%); market-related issues (17.2%); connections (8.2%); quality of supply, voltage and outages (5%); suspension of service (4.2%); tariffs (2.1%); bills and their transparency (2%); power meters (1.9%); commercial quality (0.7%); metering (0.4%).

As regards network tariffs, the average national tariff covering transmission, distribution and measurement increased by 1.7% in 2009 compared to 2008, from 2.152 €/kWh to 2.188 €/kWh. Increases were largely due to the high inflation rate (+2.4%), recorded in the months preceding the annual update, and used in the formula applied to update operating costs in the price-cap methodology. The increase in tariffs further reflects the rise in gross and net invested capital, resulting from the investments made by suppliers and the effect of the revaluation of such investments.

Given the exceptional gravity of the economic recession, the Authority has introduced an optional transmission revenue guarantee mechanism to be accessed no later than 31 July 2009 and designed to limit the risk related to possible fluctuations of power demand which in extreme cases may jeopardize the national transmission grid investment plan.

Since 2005, power transmission and nationwide dispatch have been operated by Terna which owns over 97% of the high voltage grid. The model adopted for the Italian electricity system corresponds to ownership unbundling. As of 31 December 2008 29,99% of Terna's shares were owned by the reference shareholder *Cassa depositi e prestiti* (Loan and Deposit Fund); Enel and the asset manager Pictet Asset Management held 5.1% each of the capital, while the remaining 60% was allotted between institutional and retail suppliers.

The process of strong generation capacity expansion started in 2004-05 continued in 2008. Net installed power at the end of 2008 amounted to 99.4 GW compared to a summer and winter peak demand of, respectively, 55.3 and 52.2 GW with a theoretical reserve margin

of 45%, which however does not take into account plants under maintenance and/or rehabilitation or of the decrease in peak demand from the previous year, caused by the serious economic downturn, particularly at winter peak (- 8.2%).

As a whole, net capacity increased by 6.2% over the previous year, by far the strongest increase in the last five years. As in previous years, capacity growth came mostly from thermoelectric plants (more than 75%) followed by wind plants (17%) and, thirdly, photovoltaic plants (4.4%) whose overall power capacity is expected to overtake that of geothermal plants in the course of 2009. The generation structure was however dominated by thermoelectric and hydroelectric plants, with 74% and 21% of the total, respectively, whereas wind power plants accounted for only 3.7% of installed power. With the continuous expansion of generating capacity over the last few years, power availability at the peak has noticeably increased, reaching 63.2 GW in 2008 compared to 60.4 GW in 2007.

The electricity balance significantly improved in 2008 for two basic reasons: reduction in demand by 0.7% with respect to 2007 and the strong increase in hydroelectric generation potential. As regards renewable sources the leap forward in wind power generation (+59.5%) also deserves mention even outperforming geothermal generation (6.4 vs. 5.2 TWh). The upswing in renewable energy generation, unburdened by fuel costs, contributed to limit recourse to thermal generation – which was down 2.1%.

The strong recovery of hydroelectric generation (+18.3%) after several years of decline due to poor rainfall, has significantly changed the conditions for international energy trade, resulting in a significant cut back in imports (-12%) and an even more significant increase in exports (+30%) in comparison with the previous year. The more favourable electricity import to export ratio was in any case favoured by the reduced electricity demand.

The restructuring and re-powering of the generating plants continued throughout 2008, particularly with the construction of gas-powered combined-cycle plants and wind power plants. The new thermoelectric capacity installed since 2002 amounts to more than 17 GW; in addition another 6.5 GW are planned for commissioning by 2012, while applications for authorisations correspond to a capacity of 22 GW. The outlook for wind capacity growth is even more dynamic. As of 31 December 2008, around 950 applications for connection to the transmission grid remained outstanding, corresponding to an overall capacity of more than 50 GW, or 50% of existing generating plants nationwide.

Forecasts for new installed capacity show a marked imbalance between southern and northern Italy. The South and Islands are expected to host 47% of the new thermoelectric capacity and 97% of wind power and photovoltaic capacity installed since 2002, overall 62% of the new capacity. The North, on the other hand is expected to host 43% of thermoelectric capacity and less than 1% of wind and photovoltaic capacity, in all 30% of the new capacity in total. Such disparity may aggravate existing transmission problems unless the power grid is suitably upgraded in critical nodes in useful time.

Most of the criticalities witnessed in previous years have in fact persisted; despite some improvements, the situation has frequently worsened as a result of insufficient capacity of transmission lines and/or unsuitable transformer capacity in VHV and HV stations. Risks of overloading are exacerbated by the energy market. The separation of the Day-Ahead Market (MGP) into zones following inter-zone congestions caused by grid limitations results on the one hand in reduced efficiency due to the use of less competitive generating plants to the detriment of more cost-effective plants and, on the other, in the determination

of congestion surcharges payable by suppliers and indirectly by end-users. Some 70% of dispatching surcharges originated in the Islands, Central and Southern Italy and Calabria, which as a whole account for only 21% of electricity demand in Italy.

In the course of 2008, new infrastructures were commissioned which are very significant for the national transmission grid. Among these is the completion and entry into service of the Mendrisio – Cagno merchant line between Italy and Switzerland. Several other grid development projects contemplated in the previous Terna Plans are now being implemented, many of which are planned to be commissioned in the course of 2009 and in the years thereafter.

However, many of the 100 plus interventions that are critical for the operation of the national transmission grid are now at a standstill waiting for the necessary authorisations or in any case slowed down by lengthy bureaucratic procedures at the national and local levels. Excluding grid-connections, the average time elapsing between the date of application for authorisation and actual commissioning can be estimated at nearly 6 years. This is only an average calculated over all projects with waiting time as low as two years to more demanding local projects which can remain blocked for even longer than 10 years. Most of the latter projects are critical for the efficient operation of the electricity grid, such as the 380 kV Sorgente – Rizziconi line designed to increase transmission capacity between the Continent and Sicily, allowing reduction in price differentials.

Developments in the gas market

Based on the preliminary calculations on the data collected in the annual survey which the Authority conducts on the state of electricity and gas markets, in 2008, there were 78 gas suppliers in the wholesale market. This number has almost doubled since the complete opening of the gas market in 2003. The overall volume traded by wholesalers grew 8.2% with respect to 2007, but this was the result of a 23.3% increase in sales on the wholesale market and a 9.0% fall in direct sales to final consumers. This ongoing trend over the last few years seems to indicate increasing specialisation in the wholesale market accompanied by growing liquidity. Overall gas volumes sold by Eni fell by nearly 6 percentage points, those of other large suppliers were down 3.2%, while those of small suppliers grew 15.2% and of medium-sized supplier even more, by 17.1%. In 2008, 34 companies (up from 27 in 2007) declared sales volumes on the wholesale market greater than 300 M(m³). These companies accounted for 96.2% of total sales in this market which continues to be highly concentrated even though decreasingly so; more specifically, the share of the first 3 companies Eni, Enel Trade and Edison decreased to 50.2% (compared to 59.8% last year); that of the first 5 companies, which in addition includes Plurigas and Gaz de France fell to 59% (from 67.8% in 2007).

Direct imports account for 60% of wholesaler's gas procurements. Some 23% of the gas procured on the wholesale market is purchased from other traders (at the border or at the city gate), almost 10% is purchased at the PSV (Virtual Balancing Point) and 7% is produced domestically. Domestic production is virtually all under the control of the Eni group, except for a small contribution from Edison and minor volumes from other small producers. A significant part (almost 20%) of imports of medium sized importers is purchased from Eni outside the border. Imports are the main source of procurement particularly for large companies, while purchases on the wholesale market and at the PSV

increase in importance with decreasing company size. Purchases at the PSV, typically in small sized lots, are concentrated with very small wholesalers who accounted for 36% of these sales.

Adding together the gas volumes purchased by wholesale companies from Eni both within and beyond the national borders, indicates that significant fractions of the gas available to these companies can be credited to the incumbent. For the Enel group, it amounts to 15%, for Edison it is a much sturdier 38.6%. A little over one third of the gas available to large and medium sized groups originates from Eni, while smaller groups are less dependent on ENI but in any case for over 15% of their resources.

In 2008, transactions at the PSV reached 14.9 G(m³), increasing by 54% over the level of 2007 and reaching almost one fifth of overall national consumption. Of these, nearly 1.1 G(m³) were volumes purchased by Eni and transferred by *gas release* transactions pursuant to measures adopted by the Italian Antitrust Authority. As from 2004, and especially over the last three thermal years, the PSV grew very significantly in importance both in terms of volumes exchanged and number of transactions. This was facilitated by measures adopted by the Ministry for Economic Development (MSE) and by the Authority which introduced a number of regulatory changes intended to increase liquidity, with a view to promoting the creation of a regulated gas capacity market.

In order to contribute to the creation of a truly regulated gas wholesale market (a gas exchange), the Authority has for some time started a consultative process aiming at the definition of a market based balancing system and at the solution of critical issues related to the measurement and assignment of withdrawals. In any case, there remains one critical issue which cannot be solved through regulatory means - namely the absence of an independent dispatcher, that is a third-party entity (such as Terna in electricity) providing the necessary services with impartiality. A final aspect that deserves mention regards the failure to legally extend the antitrust ceilings due to end in 2010. Hopefully, alternative solutions will be found to overcome the elusion of the ceilings observed so far and to enable other operators, already present in large numbers but still largely dependent on ENI's gas imports, to compete effectively on the market.

Consumption of natural gas in 2008 remained stagnant for yet another year: the MSE puts the figure for gross domestic consumption (inclusive of losses of about 1.5 G(m³)) at 84.88 G(m³), compared to 84.90 G(m³) in 2007. Based on the preliminary results of the annual survey conducted by the Authority on the evolution of the gas sector, sales to the retail market in 2008 were equal to 69.9 G(m³). Adding 13.45 G(m³) of self-consumption (gas directly consumed in generating plants of manufacturing companies), then the overall volume of gas consumed in Italy comes to 83.38 G(m³), almost identical to the value of 83.39 G(m³) indicated by the MSE. The sector breakdown of final consumption was 41% in power generation, 36% in the domestic sector, 21% in industry and of 2% in other sectors (agriculture, road transport and non-energy uses).

The level of market concentration (inclusive of self-consumption) has diminished in comparison with the previous year: the share of the first three groups fell to 63.4% from 66.5% in 2007. Moreover, as in the previous year, the market share of Eni sales has fallen further (37.5% against 42.7% in 2007) in favour of Enel (15.4% against 13.8% in 2007) and Edison (10.5% against 10.1% in 2007). On top of this, the number of market participants

with a share above 5% increased by one new entrant, the A2A group originated from the merger of the two pre-existing groups (Aem Milano and ASM Brescia). Excluding self-consumption, the number of groups with sales exceeding 5% of the total is down to 3 (Eni, Enel and E.On with an overall share of 62.3%). As might be expected, concentration levels have increased in electricity generators because of the large gas volumes required to fuel their power plants and not resold to the retail market, while there is no significant change in concentration for sales to the other consumption sectors.

Around 1.2% of all final customers changed supplier in 2008, corresponding to 34.1% in terms of gas volumes. Switching rates increase strongly with the size of customers, which explains the apparently much greater rate of switching in volume terms. Large gas consumers are generally energy intensive industries which are continually looking for opportunities to reduce their energy costs and are purposely organised to make informed choices. In the retail market, after almost 7 years of full market opening, sales under protected tariffs remain stable at around 28% of the total. The 72% of total volumes purchased on the liberalised market appear less of a success if viewed from the perspective of number of customers. In this case the shares are reversed with only 7% of all customers served by the liberalised market and 93% still under the protective measures provided for by the Authority. In other words, the liberalised market is still a prerogative of large customers and has not yet involved the mass market; the percentage of domestic customers in the liberalised market is down to little over 4%).

As in 2007, the data for 2008 confirm the tendency for smaller suppliers to specialise increasingly in the protected market with diminishing overall sales. In fact, the smallest companies sell most of their gas to domestic customers, small business and services; as much as 56%, in the case of the smallest of the categories surveyed. The smaller the company, the more likely it is that its market will coincide with what used to be its "historic" catchment area prior to liberalisation. The share of gas sold by the larger groups to households, small business concerns and services are similar; on the other hand, significant differences emerge in the sales to electricity plants, reflecting the different corporate structure of the groups. Thus, although Enel has no self-consumption, it sells significant quantities of gas to electricity generation companies within the group (around 57% of total sales). On the other hand, Edison sells as much as 63% of its gas to electricity generators (a large part of which belong to its group) and manufacturing companies with self-consumption, leaving a smaller fraction of its gas for sales to customers other than large industrial consumers.

Over the last year, the average price of gas (weighted with the quantities sold), net of taxes, quoted by sales companies and wholesalers operating on the retail market was equal to 39.24 €/m³. The same price in 2007 was equal to 32.29 €/m³. As a whole, therefore, the price of gas in Italy increased by 21.5%; a high yet not unexpected value given the oil price rally of 33.8% in the same period and considering that the price of gas is linked to that of oil. Customers in the protected market paid on average 47.46 €/m³ for gas while 36.01 €/m³ was the average price paid by customers in the liberalised market. The price increase from 2007 was however very different in the two markets; compared to a 10% average increase in the price of gas sold in the protected market, the gas sold in the liberalised market exhibited a much higher increase of 28%. The difference is to some extent attributable to regulatory protection but also to the very different average size of customers.

Assessment of complaints, petitions and notifications from individual consumers and consumer associations increased 79% in 2008, substantiating the trend observed in previous years. In the period between 1 April 2008 and 31 March 2009, the number of communications regarding the gas sector, a total of 2,368, amounted to 27% of all communications sent to the Authority, representing an increase of 55% over the previous year; of these, 94% relate to complaints, 4% to enquiries and the remaining 2% to notifications. Communications related to the gas sector are significantly less numerous (nearly one third) than those related to the electricity sector, as a result of the lower number of customers involved and of the lower degree of development of the market. Probably, the lower number of complaints – especially as regards supplier switching and the application of the Commercial Code of Conduct - is also due to the lower propensity for supplier switching and the limited availability of market offers.

In this situation, the Authority is in any case continued in its intent to ensure increasingly equitable conditions for all competing suppliers: meaning increased availability of information and easier terms for supplier switching, network service costs and accessibility. Equally in view of better transparency designed to protect consumers, the Authority has steadily continued its activity in the field of metering. For gas meters, in particular, the Authority's regulatory activity has been made more stringent by enforcement of immediate replacements of old and malfunctioning metres free of charge, identification of missing consumption profiles and gradual, full modernisation of installations with innovative electronic meters.

As regards infrastructures, it is worth drawing attention to the fact that, in general, tariff systems governed by independent Authorities are proving to be an indispensable anti-cyclical instrument favouring investments and, consequently, contributing to overcome the crisis and re-launch the economy, based on their characteristics of transparency and predictability which reduce the risk for financiers and shareholders alike. For the Italian infrastructural system, in particular, the Authority has long adopted regulatory measures based on incentives, in the contention that safer and more efficient network services are of primary interest for both households and businesses. Ever since 2005, the Authority has granted extra returns (for periods of up to 15-16 years) for all investments intended to increase gas supply and diversify sources. Similarly, for new investment in transport, storage and regasification, a pre-tax return averaging more than 10% in real terms has been guaranteed (9.7% for transport, 10.6% for regasification plants and 11.1% for storage).

Security of supply issues were of less concern considering that, for the third consecutive year, natural gas consumption in 2008 remained practically unchanged at around 85.0 G(m³), which even represents a decline from the 2005 level of 86.3 G(m³). After the strong increase in natural gas consumption in early 2008, caused by the relatively rigid climatic conditions, the increase in price and the recession over the rest of the year reduced consumption both in relative and absolute terms, resulting in no appreciable change as opposed to the previous year. The fall in consumption was particularly strong from

November given the negative impact of the economic crisis in the industrial sector, continuing into the early months of 2009, despite the unusually cold winter.

The current economic crisis is such that no easy forecasts of a recovery in consumption levels can be made. Most of the recent analyses agree on a probable 8 to 9% fall in 2009 compared to 2008, corresponding to a demand of around 78 G(m³), assuming an average winter. The target of 100 G(m³) which, based on forecasts made during the previous years, was expected to be attained around 2010, will hardly be achieved before 2012 - 13. Moreover, there appears to be a clear tendency to exercise greater caution in forecasting demand growth, in the light of the current crisis and, even more so, given the European obligations on efficiency and energy saving, the development of renewable sources in electricity generation and the reduction of greenhouse gas emissions by 2020.

The long term declining trend in natural gas production, both onshore and offshore, continued in 2008 when it was down to 9.2 G(m³), compared to 9.7 in 2007 and 11.0 in 2006. Classical indicators of exploration and production activity continued their historic decline, despite the strong growth of prices of oil and gas beginning in 2007 and continuing into the summer of 2008. With the oil price slump in the second half of 2008, the cost-effectiveness of upstream investments has decreased even further. At the end of 2008, documented reserves amounted to as little as 99 G(m³) and the reserves-to-production ratio, which remained stable at 13 to 14 years in the previous decade, is now down to less than 11 years.

Despite virtually unchanged demand gas imports increased by nearly 3 G(m³) in 2008, as a result of the drawdown on stored gas amassed over the previous years in preparation for the winter of 2006 - 07. Procurement from abroad is quite diversified in comparison with the majority of the EU Member States. In 2008, imported gas quantities originated from nine countries with a concentration index (HHI) of 2.500. However, 66% of imports came from two non-EU countries (Algeria and Russia). The degree of diversification should improve appreciably as early as in 2010 with new gas supplies from Qatar made possible by the entry into operation of the LNG terminal off the coast of the Rovigo in the Adriatic Sea. In a longer term perspective after 2012, further progress is foreseen with gas supplies from the Middle East and the countries of the Caucasus.

The expansion of capacity implemented since 2007 in the TAG and TTPC pipelines carrying gas supplies from Russia and Algeria, respectively, and the commissioning of the Rovigo regasification plant will result in an average continuous import capacity of nearly 350 M(m³)/day in the gas year 2009 - 10, as compared with 285 in 2006 - 07. In addition, the new pipelines and regasification plants that are planned to enter into operation in the coming years should allow an annual import capacity surplus over demand under highest security conditions from 11 G(m³) in 2008 to values of around 20 - 25 G(m³) over the next 5 to 7 years. For the sake of comparison, in 2005 there was a capacity deficit of 3 G(m³) and in 2006 a surplus of as little as 2 G(m³) in highest security conditions. Despite the apparent surplus import capacity foreseen over the next few years, there continues to be great concern over the long time required from design phase to construction and commissioning of importation facilities, chiefly regasification plants, and storage units. By way of example, the Rovigo regasification plant designed in 1999 required at least seven years before the necessary authorisations could be obtained; the last one, Integrated Environmental Authorisation was issued in January 2009, only six months prior to entry into operation. Equally for storage, the lengthy red-tape and local vetoes risk creating

serious problems for winter natural gas stocks, irrespective of the development of importation capacity. Of the 14 plants identified over the last 7 years, only the Cotignola – San Potito plant received the necessary authorisations and is ready for development, which in any case will require at least 3 to 4 years. The majority of other projects are meeting opposition from local communities.

Public service issues and consumer protection

In 2008, major regulatory changes in consumer protection and public service obligations consisted in the implementation of full market opening and the introduction of new discount schemes for vulnerable customers.

In view of the implementation of full market opening, the main regulatory thrust of the Authority in 2008 was directed towards effectively enabling end-customers to make informed choices between a variety of commercial offers and reducing information asymmetries due to the complexity and specificity of the services provided. Over and above reforms in the existing regulation (transparency directives, commercial Codes of Conduct and supplier switching procedures), the Authority gave special attention to the development of information tools designed to support customer choice, more specifically: a “Consumer’s Window”, a call-centre run by the Single Buyer, for handling such issues as liberalisation, regulation and complaints; and an “Offer Finder”, an online interactive search tool for comparing the various commercial offers available in the electricity market.

As regards discounted tariffs, in 2008 the Authority issued the rules for a new tariff scheme for vulnerable customers of the electricity sector which provides for a 20% discount on the average electricity expenditure of low-income households, large families and families with patients using a life-saving medical device. Also, legislative decree of 29 November 2008, known as “anti-crisis Decree”, entrusted the Authority with monitoring functions on the internal market and on end-user gas and electricity prices; moreover, it extended the provisions on special tariff schemes for vulnerable customers from electricity to the natural gas market. On this basis, also in 2008, preparatory activities were launched for developing a tariff scheme intended for vulnerable customers, which envisages a 15% discount on the average household gas expenditure.

The regulation of end user prices for the protected market (domestic and small business) remained unchanged from 2007. One and a half year’s after full market opening, the vast majority of domestic customers, in both the gas and the electricity sectors, have stayed with the protected market but signs of switching to the liberalised market are increasingly visible. On the other hand, non-household consumers continue to move from the protected to the liberalised market as in previous years. There are no detectable signs of switching back from the liberalised to the protected market in either the electricity or gas sector and in any consumer category; this would seem to imply that Italy’s end-user price regulation, designed to protect consumers in the transition to the liberalised market, has no distorting effects on competition.