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## Index

### THE REGULATORY AUTHORITY FOR ELECTRICITY AND GAS: SETTING UP AND START OF OPERATIONS

- Setting up and start of operations
- Regulations and procedures within the Authority's sphere of competence
- Funding

### OPERATIONS CARRIED OUT UNDER LAW NO. 481/95: ELECTRICITY

#### Towards tariff reform

- Rationalisation and incorporation of surcharges in tariffs
- The treatment of electricity produced from waste products
- New electricity surplus prices
- Guidelines for wheeling, supply and connection charges
- Proposals for wheeling charges
- Proposals for supply charges
- Tariff proposals for domestic consumers
- Proposals for tariff compensation
- Proposals for connection contributions

#### Measures concerning the review of norms and functions

- Review of tariff adjustments introduced by CIP resolutions no. 15/93 and 17/93
- Criteria for defining nuclear decommissioning costs
- Reorganising the CCSE

#### Promotion of competition and new market structures

- Principles and criteria for accounting and administrative unbundling
- Formal enquiries into ENEL's planned joint-venture
- Import-export licences
- Incentives for renewable and assimilated energy sources

### OPERATIONS CARRIED OUT UNDER LAW NO. 481/95: GAS 16

#### Towards tariff reform

- Tariff monitoring and control
- Principles for tariff review
- New criteria for adjusting tariffs for natural gas distributed through urban networks

#### Promotion of competition and market structures

- The proposed European directive on gas: recommendations to the government
- Survey on gas distributing companies
- Survey on primary distribution

- Formal enquiries

## **Unbundling criteria**

# **OPERATIONS CARRIED OUT UNDER LAW NO. 481/95: CONSUMER AFFAIRS**

## **Information and defence of consumers' interests**

- Consultations with consumer associations
- Survey on consumer satisfaction and the effectiveness of services

## **Control and regulation of service quality**

- State of implementation of Citizens' Charters in the regulated services

## **Quality of the electricity service**

- Differences in quality standards
- Meeting Citizens' Charters standards
- Applications for refunds
- Reliability of Supply

## **Quality of the gas service**

- Differences in quality standards
- Meeting standards set out in the Citizens' Charters standards
- Applications for refunds

## **Regulation of service standards: the Authority's proposals**

- Terms and conditions of contracts
- Proposals for guaranteed standards
- Proposals for overall standards

## **Consumer rights**

- Information and transparency
- Consumer protection and information
- Complaints and queries
- Formal enquiries pending
- Enquiries

# **RELATIONS WITH OTHER BODIES AND ORGANISATIONS**

## **Relations with other public bodies and organizations**

## **International and bilateral relations**

## **Consultations with interested parties**

# **STRUCTURE, PERSONNEL AND FINANCIAL MANAGEMENT**

## **Functioning and structure**

**Recruitment of personnel**

**Financial management**

**APPENDIX A "TARIFFS AND SURCHARGES BEFORE 30 JUNE 1997"**

**APPENDIX B "QUALITY STANDARDS"**

# THE REGULATORY AUTHORITY FOR ELECTRICITY AND GAS: SETTING UP AND START OF OPERATIONS

## Setting up and start of operations

The *Autorita' per l'energia elettrica e il gas* (Authority for Electricity and Gas – AEEG) was established on 4 December 1996, when it met for the first time following the appointment of its members by Presidential decree of November 1996.

The Chairman (Prof. Pippo Ranci) and two members (Prof. Giuseppe Ammassari and Prof. Sergio Garibba) were designated by the Prime Minister in June 1996. Their nominations were subsequently submitted for scrutiny to the relevant Parliamentary Committees, which expressed their approval in September 1996.

Finding premises, setting up offices and recruiting a first group of staff meant the AEEG did not become operational until early 1997. Its first steps, based on the autonomy granted by its constitutive law, were to draw up its own internal rules, in particular those relating to organisational and functional issues (Decision no. 5/96), staffing and professional grading (Decision no. 7/96), and accounting and budgeting (Decisions no. 3/96 and 59/97).

Once the internal rules on organisation and functioning had been published, 23 April 1997 marked the end of the start-up phase, with the transfer to the AEEG of all functions previously attributed to other public bodies (Articles 2.14 and 3.1 of Law no. 481/95).

## Regulations and procedures within the Authority's sphere of competence

The AEEG has drawn up regulations to govern its relationships with interest groups and the implementation of procedures for the adoption of general measures.

Article 2.23 of its constitutive law lays down that the AEEG shall conduct periodic hearings with associations, surveys on consumer satisfaction and the effectiveness of services, and special hearings. The AEEG consequently approved regulations relating to periodic and special hearings (Decision no. 44/7) and general decision-making procedures (Decision no. 61/7).

Under the terms of Article 2 b) of the constitutive law, regulations relating to individual measures, the out-of-court settlement of consumer complaints and the transferral of functions from other institutions, shall be issued by the Prime Minister's office.

## Funding

Under the terms of Article 2 of Law no. 481/95, the regulated utilities are required to finance the AEEG through contributions of 0.001% at most of their revenues for the previous year. The means of payment are laid down in a decree issued by the Ministry of Finance together with the Ministry of the Treasury. The contribution rate may subsequently be adjusted by the Minister for Finance "in accordance with the costs incurred in covering the effective running expenses" of the AEEG.

The AEEG has been granted financial autonomy, that is, it can determine its own financial requirements, while the Ministries of the Treasury and of Finance are empowered to levy the contributions, determine how they are assessed and set their rate.

An important question arising during the setting up phase was that of establishing who should actually pay the contributions. The AEEG's institutional mandate and the notion of a public utility service justify the definition of the contributors as all bodies subject to regulation. This results in the regulated services being identified as carrying out all those economic activities that are of public utility, that is, the whole sector providing those services, independently of whether they are provided under licence or authorisation. Liability to pay would remain unchanged, even in a market structure different from the present one: although the opening up of these sectors would necessarily reduce the scope for tariff setting, it would in no way change the regulatory powers designed to guarantee access to the grid and defend the interests of the general public.

## OPERATIONS CARRIED OUT UNDER LAW NO. 481/95: ELECTRICITY

The AEEG's measures in the sphere of tariff regulation and market structure may be divided into a first set of structural measures designed to provide an initial outline for the future market framework and a second set of contingent measures to deal with issues left unresolved by the previous regulatory regime, as well as to help set up the new system on a consistent and transparent basis.

The structural tariff-related measures include the rationalisation of surcharges and their incorporation in tariffs, the terms for energy produced from waste products, the redefinition of electricity surplus prices and recommendations on the review of supply and wheeling charges (see "Towards tariff reform").

The contingent measures involve the review of some past decisions taken by the CIP (*Comitato Interministeriale Prezzi* - Interministerial Price Committee), and refunds made to ENEL and its suppliers following nuclear decommissioning and the reorganisation of the CCSE (*Cassa Conguaglio per il Settore Elettrico* - Compensation Fund for the Electricity Sector). This is a government body whose main task is to collect and redistribute, mainly to ENEL but also to other producers and distributors, any funds deriving from the incorporation of surcharges in tariffs (see "Measures concerning the review of norms and functions").

As far as promoting competition and new market structures is concerned, the most important measures have been to establish criteria for the accounting and administrative unbundling of the vertically-integrated electricity companies, and to open a formal enquiry and make observations and recommendations on the system of import-export licences. Activities of a more contingent nature include the treatment of energy produced from renewable and assimilated sources.

## TOWARDS TARIFF REFORM

### Rationalisation and incorporation of surcharges in tariffs

The process of rationalising and incorporating surcharges in tariffs was initiated by Legislative Decree no. 473/96, which was subsequently amended and converted into Law no. 577/96, *Disposizioni urgenti in materia di trasparenza delle tariffe elettriche* (Urgent provisions regarding the transparency of electricity tariffs). Under the terms of this law, from 30 June 1997 thermal and other surcharges should be incorporated in tariffs, according to normal competitive and market conditions, provided they were not intended as state revenue (1). The AEEG's mandate is therefore to simplify and rationalise the tariff system.

AEEG Decision no. 70/97 provided for the incorporation of all surcharges in tariffs (2). The tariff system was modified so as to separate out those components linked to fossil fuel price trends. Then the surcharges and the existing variable component of the tariff were brought together into two parts, called "part A" and "part B" of the new tariff. Part A comprises the variable part of the pre-existing tariff, as well as the incorporated surcharges covering past costs and incentives for production from renewable and assimilated sources, including that component of the ordinary thermal surcharges (amounting on average to 9 lire/kWh) set aside for this purpose. Part B, which is linked to fossil fuel prices, includes fuel tax and the ordinary thermal surcharge, net of the above-mentioned component (fig.1).

In tandem with the incorporation of surcharges in tariffs, the AEEG also rationalised the system of contributions to electricity producers to cover variable fuel costs. The new method aims to provide incentives for efficient plant management. The refund mechanism for variable thermal production costs - effectively a pass-through mechanism based on documented costs - on which the previous system was based, has been replaced by one which promotes efficiency in the choice of the fuel mix for the thermal generation of electricity. The new system has the following features:

- a variable unit cost is allocated for thermoelectricity produced in Italy, independently of the type of fuel used. The contribution for imported electricity cannot be higher than that set for domestically-produced thermoelectricity;

- this cost is determined by assessing a basket of fossil fuels listed on the international markets, on the basis of a set level of per unit consumption for Italian thermoelectrical plants. This factor is included in Part B of the (new) tariff (see Appendix A);
- Part B of the tariff (which goes to cover contributions to producers) is up-dated every two months, whenever the price of the fuel basket rises by over 2%. The tariff adjustment mechanism is such as to guarantee the balancing of the new "energy costs account", managed by the CCSE, through which the contributions are paid.
- the mechanism defining the amount of energy for which contributions are paid favours reductions in thermoelectric production and imports, both in absolute terms and as a proportion of total production. It therefore becomes cheaper for companies to replace thermoelectric production with production from non-fossil sources.

This Decision also takes into account the need to speed up the settlement of the past thermal charge deficit, the gradual opening of new plants using renewable sources and the decision pending on charges for nuclear decommissioning.

### **The treatment of electricity produced from waste products**

In Decision no. 5/98, the AEEG decided to assign to energy produced from waste products and non-fossil fuels the same contribution as for electricity generated by fossil fuels, under Decision no. 70/97. The aim of this Decision is twofold:

- to use resources more efficiently by employing materials that cannot be used in other production processes in the place of mainly imported fossil fuels, with a resulting saving in primary sources and possible benefits for the trade balance;
- to improve environmental protection, insofar as the use of non-recyclable waste is used to produce energy reduces the amount of waste to be disposed of.

### **New electricity surplus prices**

A peculiarity of the Italian electricity system is that ENEL is required to buy at set prices any electricity generated by third-party producers in excess of their requirements. There are basically two criteria, introduced by Law no. 9/91, for setting the selling prices of these so-called surpluses:

- the notion of "avoided costs", according to which the buyer shall not pay any more for the surpluses than the costs that would otherwise be incurred if it were to produce the same amount of electricity itself;
- the stimulus to use renewable and assimilated sources through incentives incorporated in the surplus price structure, differentiated according to type of plant.

The need to review these criteria stems from two factors:

- the new balance between electricity demand and supply in Italy as a consequence of the increase of ENEL's production capacity;
- the sharp growth in surpluses (which saw an overall rise of 220% between 1990 and 1996), underpinned by a significantly higher rate of increase for selling prices (+76% between 1990 and 1996) than is the case for the average cost of energy sold by ENEL.

The AEEG laid down new criteria for prices following ENEL's unilateral decision to suspend the payment of electricity surpluses in July 1997.

#### **New criteria for electricity surplus prices**

*CIP resolution no. 6 of 29 April 1992, together with Ministry of Industry decrees dated 25 September 1992 and 4 August 1994, established that surplus producer prices were to consist of three components based on the notion of avoided costs relating respectively to plant,*

management and fuel, plus a fourth "incentivizing" component applicable only to plants using renewable and assimilated sources.

AEEG Decision no. 108/ 97 on electricity surplus prices lays down that:

- the allowed avoided cost of fuel for surpluses sold at peak time is fixed at a level equivalent to the allowed cost of the fuel used for the national production of thermoelectricity, while from 1 January 1999 the allowed cost of surpluses sold at non-peak time will be fixed at a level equivalent to the average variable cost of national production (the values are those set by the AEEG in Decision no. 70/97);
- the avoided costs relating to plant and running costs are to be reduced gradually over time;
- the index measuring whether sales are conducted in a correct and proper manner is to be reviewed. This is linked to the value of that part of the surplus price that reflects the plant and management avoided cost in order to: a) make surpluses sold at peak time even cheaper (when these surpluses replace energy that ENEL would generate using higher-cost plants); b) provide further incentives for the sale of surpluses by running-water hydro-electric plants up to 3 MW (the so-called "mini-hydros"), wind-powered and photovoltaic plants, plants using urban solid waste and plants equipped for urban district heating using renewable or assimilated sources.

AEEG Decision no. 108 of 28 October 1997 corrects any distortions in allocation in that the surpluses replace electricity that ENEL could produce at a lower cost using existing plants. Generally speaking, it is the AEEG's intention to abandon a government-set price regime for the sale of surpluses produced from renewable or assimilated sources. This will be made possible by the opening up of the electricity market, which will in turn be boosted by the adoption of the European directive on the internal energy market.

This Decision also aims to start a transition from the present situation, when there is a sole buyer for electricity surpluses, towards a future scenario when surpluses will be freely traded on the market. To this end, in November 1997 the AEEG presented to the government a recommendation for liberalising the sale of electricity surpluses(3).

### **Guidelines for wheeling, supply and connection charges**

The first step in reviewing the present tariff system was to circulate in June 1997 the AEEG's *Criteri per la definizione del nuovo ordinamento tariffario* (Criteria for the definition of new tariff regulations), a document setting out the overall objectives behind the new tariff regulations and the methodological criteria on which they are based.

This document was circulated to invite comment and interested parties were consulted during special hearings. The AEEG also collected written observations from the interested parties.

In 1998 the AEEG drew up another, more analytical document called *Linee guida per la regolamentazione delle tariffe dei servizi di vettoriamento a fornitura dell'energia elettrica e dei contributi di allacciamento* (Guidelines for regulating electricity wheeling, supply and connection charges), which sets out the regulatory instruments the AEEG intends to adopt to move towards new tariff regulations. This document was circulated in March 1998, together with a consultation paper containing *Linee guida per la regolamentazione della qualità del servizio di fornitura dell'energia elettrica* (Guidelines for regulating service standards in the supply of electricity).

Interested parties were consulted on both documents during hearings in April 1998.

The latter document sets out the regulation of wheeling, supply and connection charges as the first step in the transition towards new tariff regulations for the whole electricity sector.

Generation and transmission tariffs will be reviewed separately. It should be pointed out here that it is at the generation stage that competition will be introduced most easily, as indicated in the European internal market directive for the electricity sector.

### **Proposals for wheeling charges**

The review of wheeling charges and their respective adjustment mechanisms is designed to bring them into line with actual service costs and to improve efficiency. The tariff regulatory

framework put forward for third-party energy wheeling already contains some features of the regulatory system that will be introduced for transmission activities.

#### **The Authority's proposal breaks down wheeling charges as follows:**

- *charges to cover the infrastructural costs of grids and transformation plants. These, which vary according to the time of day, will be set by the wheeling company and will be up-dated according to a price-cap mechanism;*
- *energy tolls for losses on the grid. These tolls will be determined by the AEEG according to the geographical location of the generating plants and final consumers;*
- *use-of-system charges for ancillary services provided by the transmission operator. These will be set and up-dated by the AEEG.*

*Surcharges may also be applied to cover system charges that are currently covered by the components included in Part A of the tariff. Thus, it will be possible to break down these charges and divide them among all electricity consumers, both eligible and franchised.*

#### **Proposals for supply charges**

The review of supply charges aims to reflect real cost conditions, by gradually eliminating cross-subsidies between different categories of consumers to make supply companies more efficient, give them greater flexibility and present consumers with a wider choice.

As for regulating the distribution and sale of electricity, which is what supply basically is, the proposal is to replace the present tariff-setting system with a price-cap mechanism.

This mechanism varies according to the class of consumer, with a system of general rules applicable to all classes except for low-voltage domestic consumers, for whom a system offering greater protection is provided.

On the basis of this proposal, consumer categories will be defined according to the voltage-level of their supply and whether they are domestic or non-domestic consumers or belong to a separate category covering consumption for public lighting.

*The proposed regulation mechanism requires each provider to offer at least one **"regulated" tariff option** offering **specific service standards** set by the AEEG so as to avoid discrimination among consumers of the same category. The regulated tariff options will be subject to a **double constraint** for each category of consumer:*

- *on revenues from tariffs that the provider may receive annually from all consumers within a specific category choosing regulated tariff options;*
- *on revenues the provider may receive from each consumer choosing a regulated tariff option.*

*Providers will have the power to decide whether to offer other tariff options, without discriminating among consumers of the same category, the revenues from which will not be subject to regulation. Any offers must be approved by the AEEG in advance. All tariff options, whether regulated or not, must meet the AEEG's supply standards.*

#### **Tariff proposals for domestic consumers**

The regulatory mechanism for domestic consumers provides for:

- a tariff option, set by the AEEG, which must be offered to all consumers except those eligible for the "social" tariff option;
- a "social" tariff option, also set by the AEEG, for low-income consumers only. Unlike the current system, where eligibility is determined by consumption levels, the proposed system will use living standards as a benchmark.

The constraints and tariff options applied to domestic consumers will be periodically up-dated by a price-cap mechanism for that part of the revenues corresponding to supply (distribution and

sales) and transmission costs. For the part corresponding to generation costs, at least until new generation charges are introduced, up-dating will reflect the criteria currently laid down for Part B of the tariff, linked to the rate of increase of energy cost contributions resulting from the mechanism set out in Decision no. 70/97.

### **Proposals for tariff compensation**

In accordance with Law no. 481/95, tariff constraints on prices paid by final users will be the same, for each specific consumer category, all over Italy. However, tariff standardisation will have to be made compatible with the different structures and supply cost levels in various parts of the country. These differences may in part be attributed to the different organisational and management models adopted by the providers, but they are also determined by local demographic and consumption factors.

The tariff regulation system should therefore acknowledge these differences in costs that cannot be put down to suppliers' choices or behaviour by introducing a special compensation system. This compensation system would be based on standard costs that would be applied locally to providers. Any differences between these costs and the tariff revenues allowed by the constraints would be compensated by balancing items which may have a positive or negative value.

### **Proposals for connection contributions**

Connection contributions are paid by consumers for connection to the distribution network, which involves either extending the network to reach the consumer or adapting existing connections. These contributions cover only part of the costs borne by the providers for connections to the network. The remaining costs are met through the supply tariffs.

The regulatory mechanism proposed by the AEEG lays down that all contributions are to be set separately from supply prices. As connections are not part of a continuous service, charges for these should be interpreted as a one-off access charge. Moreover, in the future connections could be offered under competitive conditions.

## **MEASURES CONCERNING THE REVIEW OF NORMS AND FUNCTIONS**

### **Review of tariff adjustments introduced by CIP resolutions no. 15/93 and 17/93**

Article 5 of Legislative Decree law no. 50/97, converted with amendments into Law no. 122/97, lays down that the AEEG shall review the tariff adjustments introduced by the CIP in its resolutions nos. 15/93 and 17/93, on the basis of a new formal enquiry and the procedures drawn up by the AEEG itself under Law no. 481/95.

In Decision no. 77/97, the AEEG opened a formal enquiry into the tariff adjustments introduced by the above CIP resolutions, which at the time were justified "*in order to reconcile the economic and financial objectives of the providers with the more general objectives of social well-being, environmental protection and the efficient use of resources*". In November 1997, the findings of the enquiry were submitted to the interested parties for consultation. Following an extension of the enquiry in Decision no. 28/98, the AEEG decided that the stated objectives justified the tariff adjustments made by the CIP.

In the light of these findings, in Decision no. 28/98 the AEEG also decided to open a formal enquiry to examine ENEL's undertaking with the Ministry of Industry, Trade and Crafts, to work towards environmental protection and the efficient use of resources.

### **Criteria for defining nuclear decommissioning costs**

Following the results of the 1987 referendum on nuclear power, work on power stations under construction (Montalto di Castro and Trino II) was suspended and those still in operation were subsequently closed down (Caorso, Trino I and Latina). Between 1987 and 1990, the CIP had

adopted various measures to shut down these power stations permanently, and to set up an interministerial committee to assess the costs of stopping/suspending work on them. Some of its directives also envisaged compensation to ENEL for the costs incurred as a result of nuclear decommissioning. To cover these costs without creating an additional burden on the national budget, the CIPE (*Comitato Interministeriale per la Programmazione Economica* – Interministerial Committee for Economic Planning) had planned to introduce a tariff surcharge. According to assessments made by the CIP between 1990 and 1994, these costs amounted to over Lire 10,700 bn, of which almost 9,000 falling to ENEL and about 1,800 to sub-contractors. On the basis of CCSE estimates, on 1 January 1998 ENEL was still owed approximately Lire 2,200 bn and the subcontractors about 600. As set out in the AEEG's constitutive law (Article 3.2), its tasks include assessing the costs of nuclear decommissioning and ensuring the fairness of the criteria adopted.

## **Reorganising the CCSE**

During 1997 and early 1998, the AEEG had two aims vis-à-vis the CCSE. Considering that functions previously attributed to other public bodies were transferred to the AEEG under its constitutive law, the first measures it took were to guarantee the functioning of the current tariff compensation system. In particular, two Decisions on organisation were adopted and three regarding parameters for managing accounts in the light of Decision no. 70/97. Subsequently, possible changes to the present system (Article 3.6 of Law no. 481/95) were examined in the light of the adoption of regulations contained in European directive 96/92/EC and the drawing up of new tariff regulations. To this end, the AEEG set up a special committee to examine the legal framework within which the CCSE operates, also in order to define the tasks and functions performed by other public bodies for the management and control of the fund.

## **PROMOTION OF COMPETITION AND NEW MARKET STRUCTURES**

### **Principles and criteria for accounting and administrative unbundling**

In Decision no. 99/97 the AEEG started to draw up a directive on accounting and administrative unbundling for vertically integrated electricity companies, as laid down in Law no. 481/95. In May 1998, the AEEG circulated a consultation paper containing the guidelines for accounting and administrative unbundling as a basis for hearings with the interested parties. The proposal circulated by the AEEG sets out a system of accounting and administrative unbundling based on the definition and breakdown of the different "activities" within companies, each of which is to be managed as though it were a separate company. The responsibility for asset management and periodical reports on each activity (generation, transmission and supply) would be attributed to a "manager", whose tasks and responsibilities would be similar to those of an entrepreneur running a company. This manager would assume responsibility for applying the AEEG's future directive, and would be required to supervise and report to the company's board, its auditors and the AEEG. In such a way, arm's length contractual relations would be introduced within the same company. Accounting unbundling aims to meet the requirement for transparency on the part of the AEEG, consumers and competitor companies in view of the liberalisation of the electricity sector and the tariff reform. The final directive on accounting unbundling might impose further requirements in order to meet the AEEG's information needs.

### **Formal enquiries into ENEL's planned joint-venture**

#### *The ENEL-ENI agreement*

In May 1997, ENEL and ENI signed a joint venture agreement to set up a company to operate in the liberalised energy market. Given its importance to the future structure of the energy

market, on 8 May 1997 the AEEG opened a formal enquiry to assess the possible effects of this agreement on the markets it regulates.

At the end of the enquiry, the AEEG highlighted some of the problems the agreement might create and made its recommendations accordingly. In particular, it recommended that ENEL should disinvest from its generation plants in such a way as to ensure equal opportunities for future operators on the free market and to hand over plants to the jointly-held company, without creating any cost imbalances between the free and the franchised markets. ENI was advised to ensure equal treatment in the supply of gas to all electricity producers.

Finally, the AEEG recommended that both companies adjust the total capacity of the new company to take account of the real size of the free market so as not to damage the interests of new entrants. It also asked that the new company adopt transparent forms of control and funding, as well as procedures for selling stakes to ensure equal opportunities to buyers. The AEEG also monitors other industrial initiatives undertaken by ENEL with operators in the energy and telecommunications sectors, both to assess any possible repercussions such initiatives might have on the future market structure, and to guarantee that ENEL meets the accounting and administrative unbundling requirement during the business diversification process.

### **Import-export licences**

In October 1997, the Ministry of Public Works asked the AEEG for its opinion on an application made by ENEL the previous August for a long-term import-export license. In this application, ENEL asked for its licence to be extended for a further forty years (that is, until 2032 on expiry of the supply licence issued in 1992, when it became a joint-stock company), with an increase in annual volume from 30,000 to 40,000 GWh, leaving the tolerance margin unchanged at 20%. On 13 December 1997, the AEEG expressed its opinion (Decision no. 133/97), based on legal and economic considerations, to the effect that such a long extension was damaging for competition, particularly with respect to access and interconnections to the grid, and in view of the adoption of the European directive.

### **Incentives for renewable and assimilated energy sources**

In Decisions no. 47/97 and no. 104/97, the AEEG decided to examine the legal framework governing incentives for electricity produced from renewable and assimilated sources, and to assess the costs involved. To this end, a committee of external experts was set up with the support of internal technical staff. Under the above Decisions, the committee's remit was to examine the legal framework, the role of other public bodies, selling prices, and ways of implementing CIP Decision no. 6/92, as well as any related disputes.

## **OPERATIONS CARRIED OUT UNDER LAW NO. 481/95: GAS**

In 1997 the AEEG's operations in the gas sector consisted primarily of collecting data and information to be used as benchmarks for tariff setting, as well as for proposals and reports on market structure and supply conditions, with particular emphasis on tariff review mechanisms. These included recommendations to the government on the European directive creating an internal gas market, preliminary reports on the future directives on the accounting and administrative unbundling of gas companies, and formal enquiries into primary distribution and distribution to end users. Alongside these activities, the AEEG has also handled and settled disputes between license providers and operators.

## **TOWARDS TARIFF REFORM**

Unlike electricity, natural gas is sold mostly to large-scale consumers at negotiated prices monitored by the AEEG, while tariffs are applied to smaller consumers.

### **Tariff monitoring and control**

Since taking over the gas tariff monitoring and control functions previously exercised by the Ministry of Industry, Trade and Crafts, the AEEG has embarked on a process of systematically checking that the tariffs applied by the distribution companies comply with the standard cost and tariff adjustment parameters set out in the Ministerial Decree of 19 November 1996.

In carrying out these checks, the AEEG has pursued enquiries already being conducted by the UPICA (*Uffici Provinciali Industria Commercio Artigianato* - Provincial Industry and Trade Departments), while reserving the right to serve injunctions or impose the sanctions laid down for any tariff regulation infringements (Decision no. 51/97).

Firstly, the database compiled from the gas companies' records, as provided by the Ministry of Industry, Trade and Crafts, was up-dated and completed in order to reveal any errors in tariff setting. Errors were found in about 40% of the files examined. In cases where the errors had led to a change in the tariff structure, the AEEG asked the providers for clarification and, where necessary, instructed them to refund their consumers. Requests by the AEEG for clarifications or for adjustments to be made in the first quarter of 1998 led in 33 municipalities to reductions in tariffs.

A second area of activity was that of providing consumers and service operators with information on, and an evaluation of, the criteria adopted for tariff setting. The need expressed by providers and consumers to understand tariff mechanisms testifies to the complexity and lack of transparency of the current system, confirming the need for an overhaul of the tariff system.

### **Principles for tariff review**

In 1997 the AEEG drew up a preliminary outline for a gas tariff review, covering both the methods used to define standard costs and the criteria adopted for setting tariffs for the various categories of consumers.

The criteria underlying this review include:

- adequate cost coverage;
- transparency of costs in the various phases of the gas cycle and in tariff zones, and the curbing of cross-subsidies;
- compatibility with the future structure of the sector, which will be pluralistic and less integrated, also as a result of the adoption of the European directive;
- assumption of tariff-setting responsibilities by distributors;
- simplification of criteria to determine allowed revenues according to set parameters;
- tariff convergence for similar levels of consumption.

Changes to the tariff system must be introduced gradually to prevent any sudden fluctuations in companies' profitability margins and in consumer prices. Special regulations will also have to be drawn up for gases other than natural gas distributed through pipelines and for areas undergoing development.

### **New criteria for adjusting tariffs for natural gas distributed through urban networks**

In the last few years the price of gasoil recorded by the Ministry of Industry, Trade and Crafts, which is the indicator used for periodic adjustments to gas tariffs, has been growing at a higher rate than international gasoil prices. This phenomenon, which reflects the fact that the gasoil market in Italy is becoming increasingly marginal, has led to higher natural gas tariffs than would have been the case on the international energy market. To rectify this anomaly, the AEEG changed the gas tariff adjustment mechanism. This is only a temporary measure as tariff fixing in general is to be reviewed and cannot in any case be enforced for more than eight months.

Decision no. 41/98 established that natural gas tariff adjustments would be based on the lower of the following two levels: either the six-monthly average for gasoil prices recorded by the Ministry of Industry, Trade and Crafts, or the "CIF Mediterraneo" gasoil price, taken to be the most representative indicator of international market trends.

## **PROMOTING COMPETITION AND MARKET STRUCTURE**

### **The proposed European directive on gas: recommendations to the government**

Decision no. 129/97 presented to the government the AEEG's recommendations on the European Parliament's proposed directive on common rules for the internal natural gas market. These recommendations concern the introduction of non-discriminatory standards and criteria for the future organisation of the market; the adoption of accounting unbundling to guarantee transparency in primary distribution; tariff regulation for third-party access; the definition of eligible clients for the purchase of natural gas on the competitive market; derogation of third-party access in relation to take-or-pay contractual constraints to be granted under the protection of Community institutions, in a transparent manner and without obstructing the opening up of the market.

In the recommendations, the AEEG sees the opening up of the market as a vital step in promoting competition and efficiency in the natural gas sector, and in improving the competitiveness of Italian companies on the European market. It therefore recommends avoiding or removing from the text of the directive any clauses that might leave margins for discrimination among operators, constitute possible barriers to entry or penalise the competitiveness of Italian industry. The AEEG also suggests that solutions should be sought to protect new operators, eligible clients with a weak negotiating position and the franchised market.

### **Survey of gas distribution companies**

A survey of gas distributing companies was conducted in 1996 in order to up-date basic company data, as well as the technical, economic and geographical specifications of the tariff zones, their respective tariff structures and service indicators. This allowed a detailed picture of the distribution sector to be built up for the first time. As part of this survey, the AEEG also started to collect the financial statements of the gas companies. Information on over 300 companies has been obtained for 1993-96, which will allow the companies' compliance with the

new regulations to be monitored. Further surveys are being planned on licensing and on the state of the infrastructure.

### **Survey of primary distribution**

The selling price of gas imported by SNAM or produced by AGIP (over 94% of total consumption in 1997) does not distinguish between transport and storage costs. In view of a free market for transport, storage and despatching, where several providers will have right of access to the network, transport and auxiliary service costs must be separated from the raw materials costs, and transmission tariffs set accordingly.

In early 1998, the AEEG opened a survey into primary distribution in order to analyse and assess costs and profitability margins in each phase. Once this has been completed, the criteria for regulating access to the network can be set, in consultation with sectorial operators. A significant part of the tariff paid by consumers (about 30% net of tax) is formed upstream of final distribution, and consists of transmission costs borne by producers/importers for the use of storage, transport and despatching facilities

### **Formal enquiries**

Formal enquiries have been opened by the Authority on the basis of queries or complaints it has received. These can be broken down into three types of dispute: between municipalities and distribution companies, between consumers and the companies, and between the companies themselves. The Authority has opened formal enquiries into two particularly important cases.

### **UNBUNDLING CRITERIA**

Accounting and administrative unbundling for the distribution companies is necessary both to ensure transparency for consumers and to obtain the information needed to regulate the sector. The European directive on gas itself refers to transparency in the accounts of vertically integrated companies, which will have to present separate accounts for their transport, storage and distribution activities.

Whereas joint-stock companies are at present under no obligation to keep separate accounts for gas and other company activities, the special local authority companies are already required to keep separate accounts under Presidential Decree no. 902/86.

Accounting procedures for companies directly run by local authorities is also very complex from the unbundling point of view. Their accounts must meet public administration standards and cannot therefore be easily reclassified for such purposes.

## **OPERATIONS CARRIED OUT UNDER LAW NO. 481/95: CONSUMER AFFAIRS**

Under its constitutive law, the AEEG's task is to promote the protection of consumers' interests, taking full account of government and EU policies. To this end, Law no. 481/95 provides the AEEG with a variety of regulatory tools (directives, injunctions, sanctions, inspections and formal enquiries) and guarantees (assessing complaints and queries, and handling litigation). In the AEEG's first year of activity, attention was focused on assessing quality standards in the regulated sectors by means of a survey on how the Citizens' Charters were being implemented and the extent to which their standards were being met. This was a first step to the presentation of a proposal on the regulation of quality standards in the supply of electricity. Action to guarantee consumer rights has led to the setting up of a special unit to handle consumers' complaints and queries. Analysis and assessment of these complaints and queries might lead in the future to sanctions being imposed and to the out-of-court settlement of disputes.

## **INFORMATION AND DEFENCE OF CONSUMERS' INTERESTS**

The AEEG works with consumers and consumer associations sharing the same regulatory objectives. The direct involvement of consumers and consumer associations in the regulatory process assumes a decisive role in those services that will no longer be run as monopolies, in which the consumers' role has traditionally been a passive one. The role of consumers' associations, which represent a wide variety of interests, is to exercise their acquired rights and broaden their scope, transforming the consumer into an active player.

### **Consultations with consumer associations**

Consumer associations have been consulted in special hearings to decide on the incorporation of surcharges in electricity tariffs (Decision no. 70/97) and the fairness of the tariff increases introduced by CIP resolutions no. 15/93 and no. 17/93, which some consumer associations appealed against (4).

Consumer associations also attended the hearings held in late April 1998, when the AEEG presented its recommendations on a tariff review and on the regulation of quality standards for electricity.

In 1997 meetings were held both on the quality standards set out in the Citizens' Charter and on plans for a survey to assess domestic consumers' satisfaction and expectations regarding the electricity and gas services.

### **Survey on consumer satisfaction and the effectiveness of services**

In 1997 the AEEG conducted its first national survey into consumer satisfaction and expectations. This provided a detailed overview of the situation, which will allow the AEEG to identify priorities for any directives, and provide a benchmark for the future.

This survey, which was limited to domestic electricity and gas consumption, was planned to analyse and assess the following:

- the degree of consumer satisfaction in relation to the main quality factors and the ranking of these factors;
- consumer expectations regarding those services for which the Authority is able to set specific quality standards;
- the general views of consumers on transparency, tariffs, licensing agreements and freedom of choice;

- general information on the role and activity of the AEEG.

## **CONTROL AND REGULATION OF SERVICE QUALITY**

### **State of implementation of Citizens' Charters in the regulated services**

In 1997 the Authority started a survey, based on data supplied by providers, on the quality standards actually achieved in 1996 against those set out in the Citizens' Charters. The aim of the survey was to collect data to discover whether quality standards were being met and whether refunds were being made in cases of failure to meet guaranteed standards, as laid down in the Prime Minister's decree of 18 September 1995. A similar survey for 1997 was started in early 1998.

### **QUALITY OF THE ELECTRICITY SERVICE**

The information collected in the survey was supplied by the providers, who compared their results with the standards they had themselves set out in their Citizens' Charters, a factor that must obviously be taken into consideration when interpreting the data.

Four main observations can be made from a first evaluation of the results (5):

- the quality standards reported by the providers vary significantly;
- according to data supplied by the providers themselves, guaranteed quality standards have basically been met;
- in cases where guaranteed standards have not been met, consumers have hardly ever asked for the refunds to which they are entitled under the Citizens' Charters;
- there are wide geographical disparities between reliability of supply levels (the most important quality factor in the electricity service) reported by providers against overall standards

### **Differences in quality standards**

According to the 1996 guidelines for drawing up Citizens' Charters, each provider was expected to set their own quality standards independently. These would then be published in their Citizens' Charter. The ENEL's Citizens' Charters set out quality standards that often varied considerably over its various distribution areas (147 in all). A comparison of standards in ENEL areas with those of other providers shows a much greater variety in the latter.

### **Meeting Citizens' Charter standards**

On their own responsibility, providers presented the AEEG with data on the quality levels achieved in 1996 against the quality standards set out in their Citizens' Charters. On the basis of random assessments made by the AEEG, which reserves the right to check on the accuracy of the data provided, the declared quality standards would appear to have been satisfactorily met. This could also be partly due to the fact that companies had set themselves "prudent" standards in the first year the Citizens' Charter was implemented (the year to which the survey data refer).

It should be pointed out that while the actual quality levels were systematically measured by ENEL in its distribution areas, some local electricity companies failed to measure their quality levels and so did not meet the standards.

### **Applications for refunds**

The overall guidelines for Citizens' Charters in the electricity sector state that each provider should identify at least four quality indicators for which automatic refunds must be applied if the guaranteed standard is not met. Providers issuing Citizens' Charters have indicated which standards are eligible for automatic refunds. In almost all cases, therefore, the refunding procedure has consisted of applications from consumers who have experienced poor service. However, the number of consumers actually applying for refunds has been negligible and this can largely be put down to the fact that consumers are not aware that the Citizens' Charter exists<sup>(6)</sup>. This confirms the need to review the current procedure for refund applications.

### **Reliability of Supply**

ENEL now adopts standard criteria for measuring reliability of supply, although not all operators are as yet using the same system of measurement. The findings of the survey on reliability of supply conducted by the AEEG cover only those areas of the country covered by ENEL. These results are the first step in building up a complete overview of reliability of supply in Italy, to which will be added data on local companies and other suppliers as soon as the problem of adopting common measures has been satisfactorily solved.

The data covers unscheduled power cuts (failures and other faults caused by external events) reported by each provider, as cuts can only be technically recorded by the companies themselves. Data is for 1996 and relates only to low-voltage consumers (households, artisans, traders, services and small businesses). Medium-voltage consumers (medium and large companies and services) are not included.

Reliability of supply can be expressed in terms of either the frequency or the duration of unplanned cuts. The indicator used in the survey was "minutes lost per consumer", that is, the overall duration of unplanned cuts experienced on average by consumers during the year. The AEEG survey based on ENEL data on the reliability indicators set out in the Citizens' Charter reveals a lack of homogeneity between the various areas of the country, even those which are geographically similar. The survey presents data on the frequency and duration of unscheduled cuts in the Italian regions, using an average of the indicators for urban, semi-urban and rural areas provided by ENEL, weighted according to the distribution of consumers in each area. Even where population density is the same, the data show marked differences between urban or rural areas in the north and in the centre-south of the country.

## **QUALITY OF THE GAS SERVICE <sup>(7)</sup>**

### **Differences in quality standards**

Quality standards vary considerably in the gas sector too - with a comparison of minimum and maximum quality standards showing greater uniformity among providers with over 100,000 consumers.

### **Meeting Citizens' Charter standards**

Providers recorded the quality levels they achieved in 1996 against the quality standards contained in the Citizens' Charters and passed this information on to the AEEG. Although the AEEG reserves the right to check the accuracy of the data provided, the results of the survey generally meet the declared standards. This may again be due to the providers having set themselves "prudent" standards during the first year of the Citizens' Charter (the year to which the survey data refer).

### **Applications for refunds**

The overall guidelines for Citizens' Charters in the gas sector state that each provider should identify at least four specific indicators which, if not met, will entitle individual consumers to a refund. Providers must also set out their own procedures for deciding on and making refunds. A small number of gas providers have, at their own initiative, introduced automatic refunds for failure to meet standards, while the remainder have introduced procedures to deal with refund applications from consumers.

The survey conducted by the AEEG shows that the number of refunds actually paid out is clearly higher than the number of applications received directly from the consumers, indicating that almost all payments were made on the basis of automatic refund procedures. These are not, however, very efficient: in 1996, out of a total of 5,825 consumers entitled to refunds for failure to meet the quality standards set out in the Citizens' Charters, only 867 actually received payment. The small number of consumers applying for refunds highlights not only a low awareness of the Citizens' Charters among consumers but also the fact that the procedure for handling refund applications from consumers is not very effective.

## **REGULATION OF SERVICE STANDARDS: THE AUTHORITY'S PROPOSALS**

The Authority has drawn up a consultation paper on the regulation of quality standards in the supply of electricity (*Linee guida per la regolamentazione della qualità del servizio di fornitura di energia elettrica*). Published in March 1998, this was discussed with the interested parties at the periodic hearings in April 1998.

The Authority's proposals pursue four main objectives:

- to guarantee basic standards for all consumers;
- to introduce comparative mechanisms and incentives to raise standards;
- to introduce a standard system of reliability indicators;
- to promote efficiency and safety in the use of energy, and to publish more information to encourage consumers and consumer associations to participate in the process.

To this end, the Authority intends to draw up measures to:

- regulate the terms and conditions of contracts to protect consumers;
- introduce guaranteed standards subject to automatic refunds;
- define, monitor and improve the overall quality and reliability of supply standards.

These measures will be introduced gradually.

### **Terms and conditions of contracts**

The AEEG's proposals have the twofold objective of protecting consumers and standardising the main terms and conditions applied by providers all over the country, including:

- frequency of meter readings and minimum transparency standards for bills;
- availability of guaranteed time bands for appointments;

- time limits for restoring voltage within the levels set out in technical specifications;
- procedures to warn consumers of any planned cuts;
- procedures for sending reminders for unpaid bills and warnings in the case of disconnection;
- interest on late payment;
- procedure for estimating consumption in cases of meter malfunctioning;
- minimum standards of quality and reliability of supply;
- special conditions for the elderly and the disabled.

The supply conditions and standards laid down by the AEEG's directives will be adopted by providers and will be gradually up-dated and amended by the AEEG to take account of any new requirements.

### **Proposals for guaranteed standards**

The AEEG intends to define guaranteed standards subject to automatic refunds for each class of consumer. A set of indicators has been put forward for guaranteed standards for low-voltage domestic consumption, low-voltage non-domestic consumption and medium-voltage consumption.

Guaranteed levels will be adapted over time so as to introduce gradual improvements to the quality of the service, taking tariff adjustments into due account. Indicators for guaranteed standards have not been set for high-voltage consumption because of the different types of contracts involved, also in view of the opening up of the electricity sector as envisaged in European Directive no. 96/92/EC.

### **Proposals for overall standards**

Data on the quality and reliability of supply will be published in comparative reports. Firstly, the AEEG will use overall standards as a means of moral suasion vis-à-vis providers, by publishing comparative company data on reliability levels.

There would also be scope for using overall standards more forcefully. For instance, providers might be fined or license providers informed when overall standards are not being met - in other words, some overall standards would be transformed into guaranteed standards subject to automatic refunds. Finally, ways of introducing general refunds (that is, price discounts) to consumers will be examined in cases where reliability is below standard.

When prices are being up-dated, a quality-linked factor will be added to the price-cap mechanism to incentivize improved reliability of supply; this is also intended to reduce the geographical disparities between one part of the country and another.

To this end, a national system of quality and reliability indicators will be tested.

## **CONSUMER RIGHTS**

The tools most directly concerned with consumer protection that were made available to the AEEG by Article 2 of its constitutive law consist of general and individual measures which include:

- checking the suitability of the measures taken by providers to ensure an efficient service that is accessible to all and meets the required quality standards;
- directives aimed at improving supply, including any necessary technical, legal and economic adjustments;
- circulation of information on conditions of service in order to ensure transparency, competition and choice of supplier for consumers;

- intervention in individual cases to stop any action prejudicial to the rights of consumers;
- promoting the out-of-court settlement of disputes.

### **Information and transparency**

One of the AEEG's tasks, as set out in Article 2, is to ensure that the conditions of service receive the widest possible publicity and to circulate them in order to guarantee transparency, competition and choice of supplier for consumers. The AEEG intervenes in this field to fill any information gaps in order to defend the weakest consumers and help create market conditions in cases where the market is unable to operate autonomously.

Within this area, the tools available to the AEEG are basically its general directives as set out in Article 2.12.h., which call for transparent bills and contracts, the collection of data from providers and the circulation of information.

### **Consumer protection and information**

Since April 1997, the AEEG has been receiving complaints about both the electricity and gas sectors. As well as complaints made directly by consumers and consumer associations, complaints have also been advanced by other public bodies, particularly by the Ministry of Trade, Industry and Crafts, and by the Antitrust Authority. By 30 April 1998 the AEEG had received 101 written queries and complaints.

### **Complaints and queries**

Complaints from domestic consumers have chiefly concerned problems over disconnection for unpaid electricity bills, such as disconnection when bills had already been paid, balances owed to consumers or payments due that were actually lower than the reconnection costs. Related to these are complaints over the late arrival of bills with the result that consumers were unable to pay on time and were charged interest for late payment.

Another common complaint among domestic consumers concerned bills based on estimated consumption, especially when meters had not been read by consumers and few readings of the actual consumption had been made. Complaints from non-domestic consumers largely concerned reliability of supply, and the correct definition and application of tariffs. Collective complaints were mainly about the gas sector, and referred to wrongly applied tariffs affecting certain categories of consumers and delays in the construction of grids or in supply. Cases were reported of providers using their discretionary powers to select which tariffs to apply, with the result that some consumers were penalised, while others were favoured (for example, incorrectly funding discounts on Tariff T1 by increasing Tariffs T2 and T3). Finally, reports also revealed problems on the interpretation and application of the criteria adopted to set Tariff 4. The AEEG has examined these complaints in detail to see whether there are grounds for further action. It has also provided information on the regulations and their application, when requested to do so. In some cases, the AEEG's intervention has allowed disputes to be settled informally.

### **Formal enquiries pending**

During 1997 the AEEG collected detailed information concerning the complaints and queries it had received from providers. Formal proceedings against an electricity provider led to the AEEG issuing an injunction to defend the rights of an industrial consumer who was being overcharged. This order obliged the provider to comply with the terms of the contract and allowed the consumer to pay only the amount actually owed.

Formal enquiries have also been opened into some companies distributing natural gas for domestic use for applying the tariff system wrongly and into the supply conditions for hospitals consuming over 300,000 m<sup>3</sup>/year as laid down by the agreement between SNAM and the distribution companies. A company that had not complied with repeated requests from the AEEG to provide documentation was ordered to do so.

## **Enquiries**

Written and telephone enquiries were mainly about electricity and gas tariffs. In the case of the former, it emerged that consumers have great difficulty in understanding the tariff system and that the explanations being offered by providers are clearly inadequate. On the other hand, the major difficulties involving gas tariffs stem from the variability of the tariffs themselves, which change according to tariff zone, even when the same type of contract is being applied. At present, there are 1,100 tariff zones and some 7,000 tariffs. Enquiries are also often about taxes, whose rates vary according to the different tariffs.

Enquiries in both sectors relate to a large extent to the way in which consumption is measured and estimated, as this is based primarily on a system of estimates followed by billing, that is not easy for consumers to understand.

The AEEG replied to these enquiries in writing, drawing up special fact sheets to illustrate the tariff system; further action was taken where necessary.

## RELATIONS WITH OTHER BODIES AND ORGANISATIONS

### RELATIONS WITH OTHER PUBLIC BODIES AND ORGANIZATIONS

Under its constitutive law, the AEEG is required to provide the government and Parliament with consultation services, recommendations and reports on matters falling within its remit. As a national regulatory and supervisory body, it is also consulted on the definition, adoption and implementation of Community law.

Recommendations were made to the Prime Minister on changes to the proposed European directive on gas (Decision no. 129/98(8)). At the request of the Prime Minister's office, an opinion was provided on the draft *Legge quadro sulle problematiche dell'esposizione a campi elettrici, magnetici ed elettromagnetici* (Framework law on problems of exposure to electric, magnetic and electro-magnetic fields(9)). A recommendation regarding the liberalisation of the electricity surpluses market (Decision no. 122/97) was sent to the Ministry of Industry, Trade and Crafts. An opinion was presented to the Ministry of Public Works on ENEL's application for a new license to import and export electricity (Decision no. 133/97 (10)).

The AEEG made recommendations to the government, the presidents of the Chamber of Deputies and the Senate, the CONSOB (the Italian stock-market regulator) and the Antitrust Authority concerning the results of its preliminary enquiry into a joint-venture by ENI and ENEL (Decision no. 4/97 (11)).

It has also started to work with CONSOB and the Antitrust Authority on areas of common interest.

On 24 September 1997 the AEEG was asked by the Chamber of Deputies' *Commissione Attività Produttive* (Industrial Affairs Committee), as part of its formal energy enquiry, to express an opinion on the main problems in the electricity sector and on the setting up of its operations in view of the liberalisation of the markets it regulates(12). On 12 March 1998 the AEEG presented recommendations on the regulation of electricity tariffs and service standards to the Senate's *Commissione permanente per l'industria, il commercio e il turismo* (Standing Committee on industry, trade and tourism).

Consultations with the Ministry of Industry, Trade and Crafts were held through the year on subjects of common interest. These included the questions of interruptible supply contracts and the use of waste products and fuels other than traditional fossil fuels in thermoelectric power stations (Decision no. 5/98).

### INTERNATIONAL AND BILATERAL RELATIONS

The AEEG participates in the IEA Regulatory Forum, organised by the OECD's International Energy Agency, and the European Electricity Regulation Forum, organised by the Council of Europe and the European Commission (JDG XVII, Energy Directorate), to discuss problems regarding the implementation of the European directive on the internal electricity market.

The AEEG is also an observer in the group set up by the European Commission to monitor the adoption of the above-mentioned directive(13).

During the year the AEEG met and exchanged information with independent regulators in other countries, particularly with Spain's CNSE (*Comision Nacional del Sistema Eléctrico*) and Portugal's ERSE (*Entidade Reguladora do Sistema Eléctrico*).

Numerous representatives of Italian and foreign institutions, banks, companies, consultancies, research institutes and experts, have visited the AEEG to gather information on its activities and on expected changes to the regulated energy services in Italy.

### CONSULTATIONS WITH INTERESTED PARTIES

As required by its constitutive law, the AEEG has defined its own internal rules for hearings with consumer associations, business and trade associations, trade unions and environmentalist groups (14). These periodic hearings are governed by procedures that allow the associations themselves to table specific subjects for discussion. Special hearings can also be called by the

associations themselves on specific subjects or themes. Before holding regular or special hearings, the AEEG circulates consultation papers containing recommendations or draft measures for comments and observations. Consultations are conducted in conditions of maximum transparency.

In 1997 special hearings were held with the interested parties as part of the formal enquiry conducted into the ENI-ENEL agreement to set up a joint-venture in the electricity sector, as well as during the enquiry into electricity surpluses, opened in July 1997 and completed by Decision no. 108/97 (surplus prices). Special hearings were held during the proceedings for the adoption of Decisions no. 70/97 (incorporation of surcharges in electricity tariffs) and 28/98 (review of price adjustments adopted by CIP resolutions nos. 15/93 and 17/93). In both cases consultation papers were circulated in advance.

Between 20 and 30 April 1998 the first regular hearings with all interested parties were held, during which the AEEG's activities were illustrated and its plans for the next six months set out. In particular, the recommendations on electricity tariffs and quality regulation contained in the consultation papers circulated in March 1998 and June 1997 were discussed.

## **STRUCTURE, PERSONNEL AND FINANCIAL MANAGEMENT**

### **FUNCTIONING AND STRUCTURE**

The internal rules passed with Decision no. 5/96 govern the functioning and structure of the AEEG, distinguishing between the decision-making and control functions attributed to the board, and the management function attributed to the senior executives. Following a transitory phase, with Decision no. 166/97 the AEEG formally established itself as a matrix structure, based on three operative areas backed by four service units.

It is structured as follows:

- Electricity Area;
- Gas Area;
- Consumer Affairs Area broken down into two divisions: consumer affairs and service standards;
- Administration and Personnel Unit broken down into: administration, personnel and accounting;
- Legislative and Legal Unit;
- Research and Documentation Unit;
- External and Press Relations Unit.

Special units have also been set up to deal with specific, short-term projects or complex procedures employing resources from various areas.

### **RECRUITMENT OF PERSONNEL**

With Decision no. 102/97, the AEEG approved its staff plan of 80 units broken down as follows: 16 senior executives (1 director general, 15 other senior executives), 37 officers, 24 administrative staff and 3 non-administrative workers. This small number of non-administrative workers stems from the decision not to overburden the organisation with auxiliary services that can be more efficiently provided by outsourcing.

In order to be immediately operative, the AEEG decided to take on an initial group of experienced staff, some of whom were seconded from other public bodies (14 permanent posts). Alongside the permanent staff, since February 1997 other staff have been hired on two-year contracts, which can only be renewed twice. In this case too, candidates were selected on

the basis of their CVs and in-depth interviews. At 31 April 1988, 31 people were employed on short-term contracts, of whom 13 officers, 16 administrative staff and 2 non-administrative workers. The AEEG has also employed 5 external consultants, and 10 members of staff seconded from other public bodies. Overall, staff are well qualified and highly specialised. Almost all have a secondary school education, about 70% are graduates and most senior executives and officers have previous experience in the regulated sectors.

## FINANCIAL MANAGEMENT

With Decision no. 3/96, the AEEG approved its accounting and budgeting rules. The rules govern its financial management (budget, annual statement, income and expenses), asset management and the types of contracts it stipulates .

The AEEG's annual statement is set out according to the criteria used by the public administration. The financial management is based on an annual budget approved by the AEEG.

In its first financial year, characterised by a lack of initial financial and residual assets, income (amounting to a total of Lire 18.8 bn) exceeded expenditure (Lire 12.7 bn) and determined an administrative surplus. Together with capital improvements such as the purchase of computer equipment, other movable goods and library materials, this surplus translated into assets worth Lire 6.6 bn (see Table 1).

Income is derived almost exclusively from contributions paid by the electricity and gas providers. These contributions are paid by 31 July each year, in proportion and according to the criteria set by the Ministry of Finance in a decree issued together with the Ministry of the Treasury. The decree issued on 30 July 1996 established that providers had to pay 0.0004% of their revenues for the 1995 financial year, which raised Lire 18.5 bn of income.

On the expenditure side, almost 50% of the total went on personnel and institutional expenses. To curb costs, the recruitment of temporary rather than permanent staff was preferred, especially for payroll, IT support services, security and chauffeuring services. Recruitment was handled by specialist agencies, appointed by tender.

Lire 1.5 bn were spent on rent and maintenance of premises. About Lire 400 mn of these went on refurbishing the Milan head office in Piazza Cavour and adapting it to staff requirements. Capital expenditure amounted to just over Lire 1 bn, including expenses for computers and basic library facilities. There was no expenditure for the purchase of vehicles.

**Table 1 - Synopsis of the annual statement 11<sup>th</sup> November 1996 – 31 December 1997**

	<b>Billion lire</b>	<b>Percentage</b>
<b>INCOME</b>	<b>18,76</b>	<b>100,0</b>
<i>Contributions by regulated operators</i>	<i>18,51</i>	<i>98,7</i>
<i>Other revenue</i>	<i>0,25</i>	<i>1,3</i>
<b>EXPENSES</b>	<b>12,73</b>	<b>100,0</b>
Running expenses:	11,69	91,8
<i>Institutional expenses</i>	<i>1,80</i>	<i>14,2</i>
<i>Personnel</i>	<i>4,44</i>	<i>34,8</i>
<i>Cons</i>	<i>2,84</i>	<i>22,3</i>
<i>Rent and maintenance of premises</i>	<i>1,50</i>	<i>11,8</i>
<i>Other expenses for goods and services</i>	<i>1,11</i>	<i>8,7</i>
Capital expenses	1,04	8,2
<b>Administrative surplus</b>	<b>6,03</b>	<b>-</b>

## Appendix A "Tariffs and surcharges before 30 June 1997"

### Tariffs before 30 June 1997

Before the AEEG's Decision no. 70 of 26 June 1997, the price paid by final consumers was made up of three components: the tariff itself, surcharges and tax.

The "tariff" had, and still has, a "two-part" structure consisting of a fixed part (or power charge), irrespective of the amount of energy consumed, and a variable part which is proportionate to energy consumption.

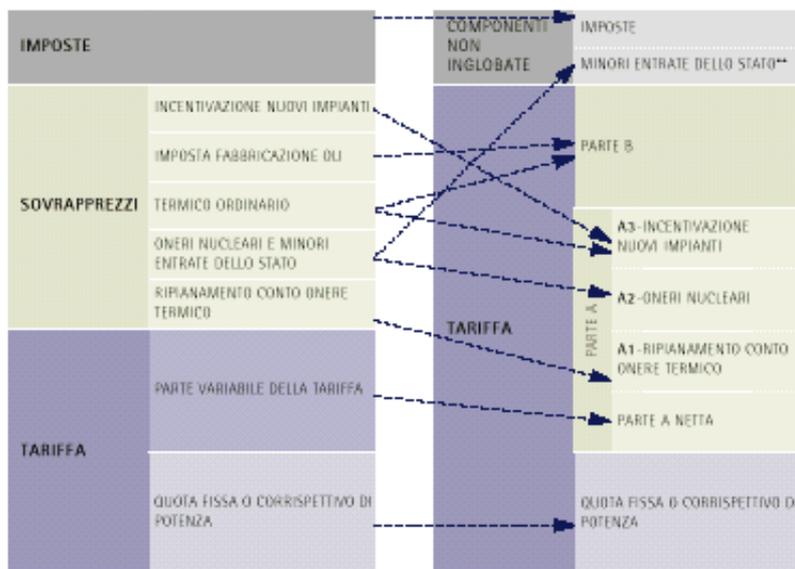
The following "surcharges" on the tariff had been introduced gradually for a variety of reasons:

- the ordinary thermal surcharge paid into the "thermal charges" account in the CCSE to fund contributions made to Italian electricity producers and electricity importers;
- the quota for thermoelectric producers paying tax on fuel oils used to generate electricity;
- the additional temporary tax to cover the ordinary thermal charge account for 1994-95;
- the additional increase in the ordinary thermal surcharge to refund ENEL and other sub-contracting companies for nuclear decommissioning charges;
- tax to cover contributions to electricity producers using renewable and assimilated sources..

An additional surcharge was also introduced to compensate the state for the loss of tax revenue resulting from the implementation of Law no. 9/91. This surcharge was abolished by AEEG Decision no. 136/97, applicable as from 1 January 1998, as the fall in revenue – equivalent to about Lire 400 bn a year – had been made up.

"Taxes" include revenue taxes paid to the state and extraordinary taxes paid to local authorities and provinces, which are determined according to consumption, and VAT, which is applied to the total invoiced sum before tax.

FIG. 41 CAMBIAMENTI DELLA STRUTTURA TARIFFARIA ALLA LUCE DELLA DELIBERA 70/97 DELL'AUTORITÀ



(\*\*) Componente soppressa con decorrenza 1/1/1998

## Appendix B "Quality standards"

### Guaranteed and overall standards

*Guaranteed standards apply to specific services to be guaranteed to consumers. They are usually expressed as maximum or minimum thresholds applied to the quality indicators for each single service of the "divisible" type, that is, that can be offered to consumers on an individual basis. For example, guaranteed standards for electricity include:*

- the maximum time limit for connection;
- the maximum time limit for re-connection in cases of unplanned cuts.

*In cases of failure to meet guaranteed standards, automatic refunds or compensation may be payable to consumers, except where this failure can be attributed to causes unrelated to the company.*

*Overall standards, on the other hand, apply to the overall services provided to consumers. These services may be either "indivisible" or "divisible". In the case of "indivisible" services (ie those that cannot be offered singly to each individual consumer), overall standards may be expressed as average values for quality indicators. In the case of "divisible" services, the standards may set maximum or minimum (quality) thresholds for consumers.*

*For instance, the following might be overall standards in the supply of electricity:*

- the average number of unscheduled cuts per consumer, or the average duration of cuts per consumer;
- the minimum percentage of consumers whose meter has been read at least once, or who have read their own meter in a given period.

*Overall standards are less stringent than guaranteed standards since they acknowledge the fact that some consumers may be provided with a service that is worse than the overall standard. They start off by helping to keep certain phenomena under control and, with the exception of "indivisible" services, may subsequently be converted into guaranteed standards to offer consumers greater protection.*