

# ANNUAL REPORT 1999

(summary edition)  
April, 30<sup>th</sup> 1999

---

## Index

### 1. STATE OF THE SERVICES: THE INSTITUTIONAL CONTEXT

#### Institutional and Legal Developments

- The liberalisation of the electricity and gas markets
- Legislative Decree no. 79 of 16 March 1999: the AEEG's new powers
- The new law for consumers
- Administrative decentralisation in the energy field (Legislative Decree no. 59 of 31 March 1998)
- The reform of the SPLs (Servizi Pubblici Locali - Local Public Utilities or LPU)
- Municipal utilities: ownership structure and changes
- Review of regulations governing privatisations

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

#### Tariff reform

- New regime for wheeling (Decision no. 13/99)
- Preparatory measures for tariff setting
- Two-monthly tariff adjustments

#### Promoting competition and new market structures

- The AEEG's observations and recommendations on the implementation of EU Directive 96/92
- Accounting and administrative unbundling
- Long-term contracts for supplies to high-consumption users
- Energy sold by independent producers with small hydro-electric plants
- Notice served to ENEL SpA regarding its obligations to buy electricity surpluses
- Research into incentives for electricity from renewable sources

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

- Reorganisation of the CCSE (Cassa Conguaglio per il Settore Elettrico – Compensation Fund for the Electricity Sector).
- Reduction in nuclear decommissioning charges
- Recommendations on the adjustment of prices and contributions set by CIP Decision no. 6/92
- Contributions introduced by the CIP decision no. 34/90 on energy produced from renewable sources
- Special tariffs for earthquake zones

#### Control activities

- Action against infringements of existing tariff regulations
- Inspections
- Small electricity companies

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

#### **Towards tariff reform**

- Tariff trends in 1998
- Tariff indexation criteria for urban distribution networks
- Prices for hospital supplies

#### **Promoting competition and market structure**

- Implementation of EU Directive no.98/30: the AEEG's observations
- Accounting and administrative unbundling

#### **Enquiries and monitoring activities**

- Enquiries opened and concluded

#### **Monitoring and supervisory activities**

- Intervention in cases of infringements of current tariff regulations

### **4. OPERATIONS CARRIED OUT UNDER LAW NO. 481/95: SERVICE STANDARDS AND CONSUMER AFFAIRS**

#### **Service regulation and control**

- Monitoring service standards
- Defining reliability of supply indicators in electricity

#### **Consumer protection and information**

- Results of the consumer satisfaction survey
- Transparency of gas bills
- Consumer protection

### **5. RELATIONS WITH OTHER PUBLIC BODIES**

- Relations with the Government and Parliament
- Relations with other Italian institutions
- Relations with international and foreign institutions
- Consultations with interested parties

#### **Litigation pending**

#### **Monitoring and supervisory activities**

#### **Communications and external relations**

### **6. PERSONNEL AND FINANCIAL MANAGEMENT**

- Personnel
- Financial management

### **GLOSSARY**

# 1. STATE OF THE SERVICES: THE INSTITUTIONAL CONTEXT

## Institutional and Legal Developments

### The liberalisation of the electricity and gas markets

In the past two years the public utilities in Europe and Italy have been involved in a process of liberalisation and opening up of the markets to competition. The public utilities have also been affected by the phenomenon of growing integration among the advanced economies, leading to changes that have been largely determined by technological and institutional factors.

Energy occupies an intermediate position in this respect. The opening up of this sector follows that of telecommunications and the media, where technological development is more intense, and precedes that of the postal services and railways, where technological advances are slower.

With the exception of the UK and Scandinavia, in European countries the process of liberalisation was triggered by EU market integration policy: Key directives include EU electricity Directive no. 96/92 of 19 December 1996, implemented in Italy by Legislative Decree no. 79 in early 1999; and EU natural gas Directive no. 98/30, whose deadline for implementation is August 2000.

These two reforms affect two sectors which are very different from an economic, institutional and ownership point of view. The electricity sector is larger than the gas sector: four times bigger in terms of investment and employees, and twice as big in terms of turnover. It is characterised by a dominant vertically integrated company, and numerous smaller generating companies. Moreover, penetration among end users is more ramified in the electricity sector. The two sectors are, of course, still strongly interdependent, in that natural gas is used to produce energy and will increasingly be used for this purpose in the future, especially in view of growing environmental concerns.

From an institutional point of view, following the 1962 nationalisation the electricity sector became a legal monopoly working alongside a natural monopoly. In the gas sector, on the other hand, as far as supply, transport and storage are concerned, there are *de facto* - but not legal - monopolies, while distribution is very fragmented in terms of both geography and size.

The two sectors are also very different in terms of ownership and regulation. Namely, the liberalisation and privatisation of the electricity sector came after the regulatory authority had been set up, whereas the gas sector was privatised prior to its institution.

The above-mentioned Decree no. 79 for the reorganisation of the electricity system was passed in 1999, the objective being to liberalise and increase the degree of competition in the sector, and to foster competitiveness in the national electricity system. The independence of the transmission network operator and its development through cost effective tariffs, a satisfactory flow of investments, and adequate quality and safety standards, are guaranteed in this context by the *Autorita' per l'energia elettrica e il gas* (Authority for Electricity and Gas – AEEG).

In the gas sector, the aim of the enabling act issued by Parliament for the implementation of EU Directive no. 98/30 (article 41, law no. 144 of 17 May 1999) is to change those aspects of the sector that no longer meet supply requirements in an open market context, and to reduce secondary distribution fragmentation by fostering integration processes.

### Legislative Decree no. 79 of 16 March 1999: the AEEG's new powers

The AEEG's new powers, as laid down in decree no. 79/99, can be broken down according to type, content and order of priority. They consist of three kinds of measure: decisions, recommendations (largely to the Ministry of Industry and Trade) and opinions (obligatory but not binding).

The **decisions and recommendations** cover the following:

- technical-economic conditions of access to the grid (article 3, paragraph 1), establishing a non-discriminatory right of access for companies provided they conform to the technical regulations governing the service and its reliability. Some of these conditions, together with access charges, have already been set out by the AEEG in its Decision no. 13/99;

- directives to the transmission network operator on the technical regulations covering generation plants, distribution networks and interconnection circuits (article 3, paragraph 6);
- an outline for contractual agreements between the transmission network operator and the network owners (article 3, paragraph 8), which defines the criteria governing management, maintenance, development, rent tariffs, procedures to adopt in cases of malfunctioning or breach of agreement, sanctions and compensation, as well as the role of the Regions;
- recommendations for setting electricity system charges (article 3, paragraphs 11 and 12);
- recommendations on the role of the single buyer, directives on the stipulation of sales contracts by the same, and, finally, the setting of appropriate tariffs to finance and promote the efficient functioning of the single buyer (article 4, paragraphs 2, 6 and 9);
- terms and technical regulations for bilateral contracts with eligible clients (article 6, paragraph 1).

Decree no. 79/99 confers on the AEEG further decision-making powers regarding priority in the despatching of energy produced from renewable sources; regulations for small, isolated networks; the recognition of and requirements for eligible client status; reciprocity criteria and the allocation of import capacity for eligible clients; and the economic and environmental compatibility of imports from non-EU countries.

This decree also confers responsibility for activities requiring special procedures, such as settling disputes over access or setting congestion charges deriving from grid and market constraints resulting from individual bilateral contracts.

### **The new law for consumers**

Law no. 281 of 30 July 1998, which implemented EU Directives on consumer rights, gave consumers' associations full legal recognition, entitling them to intervene in the defence of consumers, and defined new consumer protection measures. The latter include the power to order the regulated industries to cease any action considered to constitute unfair practice towards consumers, to reinstate previous terms and conditions, and to publicise any action taken in the national daily press. This law, which sets out basic consumer rights such as health, proper information and respect of quality standards, joins the existing legislation on misleading advertising, consumer credit, travel, faulty goods and sales carried out off the company's premises.

Law no. 281/98 set up the *Consiglio nazionale dei consumatori ed utenti* (National Consumers' Council) within the Ministry for Industry and Trade. The Council provides advice and recommendations on bills affecting consumers and on the implementation of Community policies, encourages out of court settlement of disputes and liaises with corresponding organisations in other Community countries. This law also set up a register of recognised national consumer associations at the Ministry.

### **Administrative decentralisation in the energy field (Legislative Decree no. 59 of 31 March 1998)**

This Legislative Decree implements section I of law no. 57 of 15 March 1997 and is part of a gradual decentralisation of the decision-making process according to principles of subsidiarity, as set out in the Constitution (article 5, point V). In the energy field, the decree allocates tasks to the state, the Regions and the local authorities on the basis of a "residual" criterion, whereby any matters not assigned to the state or the local authorities are by exclusion conferred to the Regions. Thus, the state is in charge of defining national energy policies and coordinating regional policies, and standardising some technical procedures regarding, for example, plant construction. It is also entrusted with functions of national importance such as scientific research or the construction of power stations over 300 MW. Local authorities are responsible for monitoring energy savings, as well as for other functions laid down by regional legislation. The Provinces have the task of defining and adopting development programmes for renewable sources, authorising the installation and operation of production plants, and controlling the energy efficiency of thermoelectric plants. According to the "residual" criterion, the Regions grant subsidies to pilot projects using alternative energy sources or reactivating hydroelectric

plants, and issue laws on the energy auditing of buildings. In line with Legislative Decree no. 112/98, Decree no. 79/99 involves the Regions in the management of incentives for the use of renewable sources.

### **The reform of the SPLs (Servizi Pubblici Locali - Local Public Utilities or LPUs)**

Under law no. 142 of 8 June 1990, public utilities can be managed in the following ways: directly by the local authorities themselves, by third parties, by setting up a "special" company, or through a state-controlled *SpA* (*Società per Azioni* - joint stock company). Law no. 142/90 has been partly modified by other laws and more changes have been included in bill no. AS 1388-ter, which is in effect a reform of law no. 142/90. Central to the reform of the SPLs is the decision to award some services - such as gas and water supply, urban waste disposal and public transport, but not electricity supply - exclusively by tender according to the rules of market competition, on 9-15 year licences. In order to reduce the phenomenon of cross-subsidies, which are common in the case of the former municipal utilities, companies already holding a licence are not allowed to bid for tenders outside their area.

From an economic point of view, the SPL debate focuses on separating the management and the guidance and control functions, the former being conferred on the company and the latter on the local authority. Although this separation may seem effective in theory, it is less so in practice, as it is difficult to make any clear distinction between the two roles.

The ownership of the networks is mixed, some being owned by the companies and others by the local authorities. The AS 1388-ter bill has been drafted so as to enable companies to take over the management, but not the ownership, of strategically relevant parts of the network. This would also streamline tendering procedures, as licences could be granted without any ownership having to be transferred.

Gas distribution is characterised by excessive fragmentation, which reduces its economic viability. Two possible courses of action are indicated: either to promote a geographical concentration, as was the case with water, or to allow operators to achieve economies of scale on their own by means of suitable incentives. The latter option seems preferable in view of the low investments that would be needed to reorganise the service.

### **Municipal utilities: ownership structure and changes**

1998 saw an intensification of the reorganisation process involving the electricity, gas and water sectors (Italy has about 500 public utility companies – data provided by *CISPEL*, *Confederazione Italiana dei Servizi Pubblici degli Enti Locali* – Italian Confederation of Public Utilities run by Local Authorities). Generally-speaking, this phenomenon is also tied to the financial recovery requirements set out in the Stability and Growth Pact drawn up in the context of European Monetary Union.

The debate focused on three aspects: institutional reform, change of ownership and restructuring. The most significant events in the energy sector were the transformation of some municipal utilities into *SpA*'s (joint stock companies). Part of their capital was floated, although the state is still the majority shareholder; this is partly to benefit from tax relief in the three years following the transformation, as laid down in law no. 427/93.

So far, only the larger companies have been transformed into *SpAs*: AEM in Milan, AEM in Turin, AMGA in Genoa, META in Modena, ASM in Rovereto, ACEAGAS in Trieste, SEABO in Bologna, ASM in Brescia, AMPS in Parma, AGSM in Verona, ACEA in Rome and CIS in Forlì. These companies will be able to play a significant competitive role locally, both because of consumer loyalty, as they are often associated with high quality standards, and because they are situated in areas of the country with high per capita income, where economies of scale in distribution can be more easily exploited.

There are two further areas of change, which mainly involve the electricity companies. On the one hand, the creation of regional and intra-regional agreements among different producers for energy purchasing and exchange. And on the other, the interesting phenomenon of local companies diversifying production into adjacent sectors, the most common of which are water supply, waste disposal and telecommunications. In the near future, this second aspect will play an important role in the economic and financial restructuring of the SPL sector.

### **Review of regulations governing privatisations**

In January 1999 the government presented a decree bill to reform the privatisation system (AC 5601) which, if passed by Parliament, will significantly affect the role and tasks of the regulatory authorities. The main aim of the bill is to draw up a *Testo Unico* (consolidated act), bringing together all existing regulations on the sale of public assets and bringing them into line with EU directives on fair competition. The most significant pieces of legislation so far have been: law no.359/92, which allowed the transformation into *SpAs* of the state-holdings INA (*Istituto Nazionale delle Assicurazioni* – National Insurance Institute) and ENEL SpA (*Ente Nazionale per Energia Elettrica* – National Electricity Board); law no. 474/94, which defined the procedures for selling stakes in the above while allowing the Ministry of the Treasury to maintain control over the privatised company, albeit only through a minority stake (*golden share*); and the consolidated act on finance (Legislative Decree no. 58/98), and regulations governing the banking sector (law no. 461/98).

Bill AC 5601 sets out the general and specific criteria the government will have to follow in drawing up the Legislative Decree. The former include privatisation in order to strengthen competition, simplification of privatisation procedures, and procedures for the attribution and execution of ownership rights by the Ministry of the Treasury.

The specific criteria are: dispensation from public accounting rules for privatisation; privatisation procedures (flotations, tenders and negotiations to be conducted according to the rules of fair competition); and the necessary go-ahead required from the Parliamentary Committees, from the competition authority and, if one exists, from the regulatory authority of the sector in question, for any privatisations involving the public utilities.

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

The AEEG's operations in the electricity sector focused on three main areas: tariff reform as set out in the course of 1997 (such as wheeling charges, two-monthly tariff adjustments and the incorporation of past surcharges in tariffs); restructuring in order to increase competition (including observations on the government document on the implementation of EU Directive no. 96/92); and the review of norms and functions.

### Tariff reform

#### New regime for wheeling <sup>(1)</sup>(Decision no. 13/99)

Like all of the AEEG's provisions, Decision no. 13/99 is the result of consultations with operators and representatives of all interested parties on the proposals contained in its document *Linee guida per la regolamentazione delle tariffe dei servizi di vettoriamento e fornitura dell'energia e dei contributi di allacciamento* (Guidelines for regulating electricity wheeling and supply tariffs and connection charges) (March 1998).

Prior to AEEG Decision no. 13/99, the CIP (*Comitato Interministeriale Prezzi* – Interministerial Price Committee), had already set wheeling charges in Decision no. 6/99 (in 1997 wheeled energy accounted for about 1-2% of total electricity consumption). These charges could not be applied once the sector had been liberalised, as they would no longer correspond to the costs actually incurred. Three factors come into play here: a) the charges were distance-related, increasing in proportion to the "source and sink" distance (unlike costs); b) the exchange parameters did not reflect the balancing costs for non-simultaneous source and sink; c) the charges did not cover the cost of the so-called "ancillary services" and there were no wheeling charges for low-voltage networks.

The new regulations adopted by the AEEG aim to: a) draw up non-discriminatory conditions and charges for network and market access for all authorised operators; b) ensure that network operators manage and develop infrastructure efficiently; c) prevent the monopolist from exerting market power over wheeling and exchange services.

Tariffs are adjusted by means of a price cap mechanism. Wheeling charges will be included in bilateral contracts and split between generators and eligible clients. Tariff revenues will be passed on to the transmission operators and distributors.

Service costs are determined on the basis of three main principles: an infrastructure charge, a system-use charge (ancillary services) and an energy toll to cover transmission losses. Surcharges are applied to cover the costs of nuclear decommissioning, and to incentivise production from renewable and assimilated sources. Given the difficulties of identifying the electricity path in the network, infrastructure charges and tolls for losses are estimated according to conventional paths defined both in terms of straight-line distance between source and sink points, and source and sink voltage levels. The use of conventional paths allows the degree of utilisation of the high-voltage transport system in different time bands to be reflected in the tariff.

The infrastructure charge is therefore set according to a multi-layered "postage stamp" system based on source and sink voltage levels. Reduced fees are envisaged for short distances and for generation plants using renewable or assimilated sources. The aim of this tariff is to avoid penalising areas of the country where there is a strong imbalance between energy supply and demand.

The system-use charge breaks down ancillary service costs into five areas: frequency control, voltage stability, despatching, metering and reserve capacity. This charge is also applied to autoproducers who do not use the wheeling service.

As far as electricity exchanges are concerned, specific ratios are set to make up for imbalances between source and sink at different times of the day. These vary according to time bands and to the planning requirements of the generation plant using the exchange.

#### Preparatory measures for tariff setting

The AEEG prepared the ground for tariff reform by drawing up new tariff proposals, including tariff constraints for end users and a compensation system for supply costs in different areas of the country. Identifying tariff constraints in a cost-reflective tariff system entails knowing what

the supply costs are, measuring the actual costs and breaking these down according to type of user.

Electricity costs are based on generation, transmission, distribution and sales activities. In an open market context, where these activities are handled by different operators, it is important to identify which transactions – among the non-vertically-integrated companies – are subject to regulation. Under Decree no. 79/99, operations subject to regulation in a franchised supply market are:

- electricity sold by generators to the single buyer;
- electricity sold by the single buyer to distributors/suppliers;
- transport of electricity to suppliers/distributors by the transmission system operator;
- rent and maintenance of the national grid provided for operators by the grid owners;
- distribution and sales to franchised customers.

During the year, the AEEG developed methods to measure the costs of these operations, as well as those of the national electricity service.

In order to allocate costs to consumers, the criteria for charging common costs must first be defined, as these costs cannot be broken down for each class of user. The AEEG has drawn up the following criteria:

Electricity **generation** involves fixed costs for generating capacity (also called "power" costs) and variable costs, linked primarily to fuel prices ("energy" costs). Consumers should contribute to the former on the basis of their contribution to the development of peak demand, and to the latter on the basis of the time of the day in which consumption takes place (as these costs are tied to the fuel mix used). In a competitive electricity generating market, with merit-order despatching, the interaction between supply and demand allows prices, determined on an hourly basis, to incorporate both types of costs.

**Transmission** costs depend on the size of the infrastructure and its degree of utilisation. Consumers' contribution to these costs depends on the degree to which they "share" the infrastructure; this varies from transmission, which is used by all consumers, to the final link with the individual consumer. The cost of the shared infrastructure depends on peak power demand from all consumers, while the cost of individual use of infrastructure depends solely on the consumer's peak demand.

An **equalisation mechanism** for costs borne by distributors will be defined by the AEEG on the basis of their costs, as well as on the geographical and demographic characteristics of the part of the country they cover.

## **Two-monthly tariff adjustments<sup>(2)</sup>**

Favourable oil price trends led to a reduction in allowed generation costs in 1998, which in turn led to a lowering of Part B of the tariff. However, this was not reflected in a reduction in the tariff for final users since, as a result of Decision no. 70/97, any reduction in Part B has to be matched by an increase in the A1 component of the tariff (past thermal charge deficit). As a result of this mechanism, the past thermal charge deficit had been settled by the end of 1998. This is why the AEEG passed Decision no. 161/98, eliminating the A1 component (which amounted to about 19.3 L/kWh) and adjusting components A2 (nuclear programme charge) and A3 (renewable and assimilated sources charge). The objective of these adjustments was, respectively, to speed up the settlement of related past charges, and to cover the subsidies for new plant using renewable and assimilated sources. An objective common to both was the redesign of usage categories. The new A2 and A3 components have been broken down into stipulated power levels and energy supplied, which reflect energy supply cost parameters more closely.

## **Promoting competition and new market structures**

### **The AEEG's observations and recommendations on the implementation of EU Directive 96/92**

In Decision no. 127/98, the AEEG presented to the Government and Parliament its observations and recommendations on the implementation of EU Directive no. 96/92, on common rules for

the internal electricity market. This document covers some of the main points regarded as crucial in triggering a real process of liberalisation:

- liberalisation should be accompanied by greater competitiveness in electricity generation. This means that ENEL SpA, currently the sole operator in the market, will have to start divesting in order to allow the entry of more players, each with their own portfolio of plants; and no operator should control more than 50% of the generation and import capacity by the end of 2000, and 30% in the following three years;
- the neutrality of operators, especially those supplying eligible clients, must be guaranteed. It is recommended that an independent transmission network operator be created to handle despatching, management, maintenance and the development of the national grid. This operator should also take over the ownership of that part of the grid currently owned by ENEL SpA, while for the lines owned by other players relations between network operator and owners should be regulated by standard agreements;
- the creation of a large number of distribution areas, none of which should be bigger than the average distribution area currently covered by ENEL SpA; these would allow yardstick competition;
- the wholesale energy market should be run as a compulsory "energy pool" where, initially at least, all electricity produced and imported into Italy would be exchanged. This exchange will be flanked by two markets: one for generation capacity contracts to ensure a power reserve and the other for futures contracts to cover the risk associated with energy price volatility;
- the definition of eligible clients should exclude auto-consumption and include multi-point users and consortia; eligible clients shall be entitled, but not obliged, to buy supplies on the free market.

### **Accounting and administrative unbundling**

The AEEG has begun consultations with the interested parties on the definition of a directive on accounting and administrative unbundling for vertically integrated electricity companies.

The AEEG recommends that integrated companies should set up special structures called "activities" to be managed autonomously as though they were separate companies, each with their own costs, revenues, assets and liabilities. Two sets of accounts will have to be presented: a full, detailed version for the AEEG and a summary for publication with the Annual Report. Small- to medium-sized operators may be exempted from these requirements if they do not reach certain thresholds regarding volumes sold to third parties each year and their degree of horizontal integration.

Consultations have drawn attention to the following: the need to guarantee that company data remains confidential; the question of whether unbundling should be extended to all operators in the electricity sector; the need to define a system of exemptions to the accounting unbundling requirements, as well as the criteria for identifying each single activity and common services; evaluation of transfer prices; and the breakdown of costs and revenues for each single activity.

### **Long-term contracts for supplies to high-consumption users**

In May 1998, UNAPACE (*Unione Nazionale Aziende Produttrici e Consumatrici di Energia Elettrica* – Association of Independent Electricity Producers) reported to the AEEG that ENEL SpA was stipulating long-term contracts with high-consumption users in spite of the imminent liberalisation of the market. In the same month, the AEEG (Decision no. 49/98) opened a preliminary enquiry to determine whether the action taken by ENEL SpA constituted a breach of EU Directive no. 96/92 on the opening up of the electricity market.

On 29 July 1998, the AEEG started to define some of the terms and conditions in contracts for users consuming over 15 GWh per year. At the same time, it circulated a consultation paper with its recommendations.

At the end of these consultations, on 23 September 1998, the AEEG passed Decision no. 120/98 on contracts with eligible clients stipulated by 30 January 1997, lasting for more than one year, and due to expire after 19 February 1999. It laid down that these contracts should acknowledge the client's right – for one year from their attaining eligible client status – to withdraw unilaterally from the contract with less than six months' notice. This was to stop the practice - which had come to the attention of AEEG - among some producers of imposing three-

year contracts on high-consumption industrial users, and allowing them to withdraw only if they could provide proof that they had received a better offer from a third party.

### **Energy sold by independent producers with small hydro-electric plants**

Small hydro-electric plants of up to 3 MW, so-called "mini-hydros", are classified under renewable sources, even if their average annual production is about 1.1 TWh. CIP agreement no. 6/92, which expired on 31 December 1998, had set particularly favourable prices for electricity from these plants. Subsequent to this date, the mini-hydros should be included under the provisions of AEEG Decision no. 108/97. However, on 22 December 1998 the AEEG (Decision no. 162/98) changed the prices at which surplus electricity produced by the mini-hydros was sold to ENEL SpA, recognising in so doing the environmental value of these generators while they re-position themselves on the free energy market.

### **Notice served to ENEL SpA regarding its obligations to buy electricity surpluses**

Following complaints filed by some producers that ENEL SpA was refusing to buy electricity surpluses from autoproducers and to pay the prices laid down by law, the AEEG opened first a preliminary and then a formal enquiry into the matter. On 23 September 1998, the AEEG passed a Decision (no. 121/98) in which ENEL SpA was served notice to stop acting in breach of its obligations to buy and pay for electricity surpluses. These obligations are set out in Decision no. 108/97, which states that producers are legally bound to sell any surpluses to ENEL SpA and that ENEL SpA is bound to buy them.

### **Research into incentives for electricity from renewable sources**

In July 1998 the AEEG appointed a specific working group to recommend tender-based incentive mechanisms to increase efficiency and competition in the generation of electricity produced from renewable sources. The working party carried out: a) an international assessment of existing technologies and their degree of technical and economic maturity; b) an investigation into the measures and initiatives being pursued by other EU countries; and c) an analysis of projects and obligations in Italy as laid down by Decree no. 79/99.

### **Activities concerning the review of norms and functions**

#### **Reorganisation of the CCSE (Cassa Conguaglio per il Settore Elettrico – Compensation Fund for the Electricity Sector).**

In May 1998, following recommendations made by the Court of Auditors and in agreement with the Ministry of the Treasury, the AEEG decided to dissolve the CCSE's managing committee and to appoint a board of temporary receivers (Decision no. 47/98) to draw up - subject to the AEEG's approval - provisions regarding the CCSE's organisation and accounting structure.

The board's activities have focused on completing and checking reports for past financial years, and reorganising information and in-house accounting systems to draw up the 1998 report. Together with the state advocate's office, it has also set up in-house administrative and civil litigation records, and has opened some enquiries into tariff increases. In 1998 and in the first quarter of 1999, the board also handled the day-to-day running of the CCSE.

### **Reduction in nuclear decommissioning charges**

Subsequent to the formal enquiries conducted from 1997 to 1998 (see 1997 Annual Report), on 13 May the AEEG circulated a consultation paper recommending a review of the criteria adopted to set nuclear charge refunds. This paper recommends that the criteria adopted by the CIP's Nuclear Charges Committee be accepted, with the exception of: a) charges for unused stored nuclear fuel supplies; and b) interest on deferred payment.

Regarding the former, the AEEG believes that the fuel enrichment services over a ten-year period had been overestimated by the Committee. As for nuclear fuel supplies, the AEEG believes that the Committee's accounting principles did not comply with international market prices for nuclear fuel enrichment rights.

As for interest on deferred payment, the AEEG found that CIP decision no. 3/92 was being incorrectly applied: the payments being made to ENEL SpA could not – as had been done - be ascribed to interest accrued during the same year, and as such not yet payable, but solely to interest accrued in previous years and already capitalised, and to capital. The consultation paper concluded by recommending that nuclear charges should be broken down in more detail to allow for clearer charging.

The AEEG held special hearings on 29 May 1998 and examined the written observations submitted by the interested parties.

After consultations, the AEEG passed a Decision (no. 58/98) on 12 June 1998. In reviewing the refunding criteria originally adopted by the CIP, the AEEG felt that the following needed to be tightened up: a) the criteria for identifying charges eligible for refunds (not all the charges connected to the nuclear programme, but only those pertaining to operating power-stations that had been permanently closed down and power-stations whose construction had been suspended); b) some of the criteria used to quantify the charges themselves by reassessing the amounts to be refunded, especially those related to fuel enrichment services.

### **Recommendations on the adjustment of prices and contributions set by CIP Decision no. 6/92**

On 5 February 1999, the AEEG circulated a consultation paper on *Guidelines and recommendations for the adjustment of the price of electricity sold to ENEL SpA and of the subsidies paid to producer-distributing companies for new energy produced by plants using renewable and assimilated sources*. The AEEG is now responsible for adjusting these subsidies, a task which previously fell to the CIP.

CIP decision no. 6/92 introduced to the tariff a contribution to be paid by consumers to make up for the higher generation costs borne by energy producers using renewable and assimilated sources. It is estimated that this will amount to about Lire 2,500 bn in 1999 (financed by a part, amounting to Lire 11.2/kWh, of the tariff paid by consumers) and increase to about Lire 4,000 bn in 2001 (with Lire 17-18/kWh being paid by the consumer).

The AEEG's recommendations do not change the structure of the contributions set out in CIP decision no. 6/92, but they do introduce an adjustment (which should have been applied at least every two years as laid down in law no. 9/91, but which has not been applied since 1992) designed to take into account technological developments in the renewable energy field.

The recommended adjustment mechanism for prices and contributions considers three factors in the field of technological innovation as affecting electricity generation costs since 1992: a) the lower investment costs for combined-cycle plants; b) the higher energy yield from combined-cycle power-stations; and c) the reductions in the comparative costs of technology for electricity generation from plants using renewable sources. In some cases, such as wind-powered plants, the costs per kWh were similar to those for plants using conventional sources. The AEEG's recommendations also consider the fact that other renewable sources, such as photovoltaic plants, are still relatively costly and still need to be subsidised.

Many environmentalist, consumer, and business and trade associations, as well as operators, have sent in their comments and suggestions on the AEEG's recommendations. Most of these concern legal aspects, particularly the AEEG's power of intervention in adjusting prices as envisaged by CIP decision no. 6/92.

### **Contributions introduced by the CIP decision no. 34/90 on energy produced from renewable sources**

In 1998, the AEEG stepped in to fill a legal void surrounding incentives for certain specific types of plant powered by renewable sources as set out in CIP decision no. 34/90. These plants had been provisionally allocated an advance of Lire 45 per kWh produced at peak time. Even following CIP decision no. 6/92, which partly solved the problem, 16 plants belonging to eight producer-distributors were still waiting for their contributions to be finalised.

On 10 July 1998, the AEEG (Decision no. 79/98) established that contributions for these plants would be paid for an eight-year period and took upon itself the task of determining the contributions on the basis of the criteria previously defined by the CIP.

### **Special tariffs for earthquake zones**

Following the earthquake of 26 September 1997, which hit some regions in central Italy, and on request of the *Dipartimento della Protezione Civile* (Civil Defence Department), in Decision no. 134/98 the AEEG set special tariffs for all consumers housed in containers in the earthquake zones, as they were subject to inevitably high energy consumption.

## Control activities

### Action against infringements of existing tariff regulations

As part of its control activities, the AEEG intervened in disputes between operators. In particular, complaints arose over wheeling services, energy exchange and the sale of electricity. In 1998, the AEEG received some 30 complaints concerning ENEL SpA's obligations regarding the exchange, wheeling and sale of electricity produced by other operators. A further ten or so were over tariff regulations and general supply conditions.

In most cases, the AEEG sent out letters clarifying how the existing regulations should be applied. Four cases required individual notices and these led to an order being served to stop ENEL SpA infringing consumers' rights. Preliminary enquiries are under way in a further five cases.

### Inspections

In 1997, the AEEG reviewed the criteria for assimilating plants to those powered by renewable energy and carried out inspections as laid down in Sections II and V of CIP decision no. 6/92. In 1998, it also tried to bring to a speedy conclusion cases passed on to it by the Ministry of Industry and Commerce.

In Decision no. 27/99, the AEEG established a new procedure for checking the assimilation criteria for plants using assimilated energy sources, for the purpose of granting entitlement to subsidies under CIP decision no. 6/92.

### Small electricity companies

In 1998, there were 18 small electricity companies supplying a total of 200 GWh. In 1962, when electricity companies were nationalised and incorporated into ENEL SpA, these had been excluded because of their size or geographical location (operating on the smaller islands). These companies receive compensation to make up for the losses they incur from the application of standard tariffs all over the country; almost L60 bn was paid out by the CCSE in 1998 to cover this compensation. In Decision no. 48/98, the AEEG set a new compensation rate for 16 of these 18 companies, to be paid by the CCSE for 1991-95. The remaining two companies are being examined both by the AEEG and the CCSE to ascertain whether they are still entitled to premiums. *In situ* inspections were necessary in addition to an examination of the available accounts, which had already revealed high expenditure on services, fuel, rentals, maintenance and personnel.

1. "Wheeling" defines the activity of transporting electricity from an entry to a collection point on the national grid and the distribution networks, and takes place when both operations are simultaneous, otherwise an electricity exchange is said to take place.
2. Decision no. 70/97 provided for the incorporation of all surcharges in tariffs. The tariff system was modified so as to separate out those components linked to fossil fuel price trends. Then the surcharges and the pre-existing variable component of the tariff were brought together and divided 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 designed to cover past costs and incentivise production from renewable and assimilated sources, including the component of the ordinary thermal surcharges (on average equivalent 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.

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

In 1998, the AEEG's operations focused on: a) tariff reform; b) implementing the European directive on the internal natural gas market; and c) enquiries and monitoring and supervisory activities.

The AEEG introduced a new indexation system for the raw material price component in tariffs for gas distributed through urban networks (Decision no. 52/99). A preliminary enquiry into the price of gas supplied to hospitals also revealed that the price-setting mechanism was not cost-effective and discriminated against consumers.

In view of the August 2000 deadline for the implementation of the gas directive, the AEEG presented its observations and recommendations on the market structure, the promotion of competition, and the accounting and administrative unbundling of gas providers.

As part of its monitoring and control activities, the AEEG served two individual orders against distributors found to be setting tariffs in an irregular fashion. Tariff checks showed up irregularities in about 30% of cases. In 5% of these tariffs were reset, with consumers even being refunded in some cases.

#### **Towards tariff reform**

##### **Tariff trends in 1998**

Gas tariffs are based on national agreements between SNAM SpA and the natural gas distributors' associations. They are made up of a fixed component, which includes a standing charge for plant utilisation, and a variable component linked to the raw material price. On 29 April 1998 the fixed component was raised by Lire 0.7/m<sup>2</sup>, all of which was passed on to the distributors. Earlier in the same month, in view of the planned tariff reform, the AEEG had also introduced an interim method for the periodic adjustment of natural gas tariffs for urban distribution networks. This brought the raw material price component into line with international gas price trends (Decision no. 41/98, cf 1997-98 Annual Report) and enabled consumers to benefit from the fall in the international prices of oil and its derivatives in the course of the year.

The combined effect of these two steps was a Lire 62.9/m<sup>3</sup> reduction in tariffs for heating and other uses (small- and medium-sized businesses) against January 1998, the equivalent of a cut of about 11% - net of tax - in the average tariff. If the resulting lower incidence of VAT is also taken into account, this resulted in a fall of L 74.6/m<sup>2</sup> for the average 1,400m<sup>3</sup> consumer, the equivalent of a saving of Lire 104,000/year (about 7%).

Tariff reductions in 1998-99 were largely the consequence of a fall in international oil prices which, thanks to the AEEG's new adjustment mechanism, led to lower prices for natural gas sold to distributors and, indirectly, for end users.

##### **Tariff indexation criteria for urban distribution networks**

The adjustment mechanism introduced in April 1998 was an interim measure prior to the introduction of a two-monthly adjustment system for the raw material component to provide operators with a fixed yardstick consistent with market fluctuations. In February 1999, the AEEG published a consultation paper on the indexation criteria for the raw material price component included in tariffs. This consultation paper led to the adoption of Decision no. 52/99. Starting from 1 May 1999, this introduced the new indexation criteria for the raw material price component (about 99% natural gas, plus other types of gases) in tariffs for urban distribution networks.

The new indexation mechanism includes in the tariff only those variations determined by international market trends. The natural gas market indicators used for indexing the energy component in natural gas - prices for crude, gasoil and fuel oils - reflect the indexation criteria used in most international contracts. The yardstick used for LPG is, however, the original propane gas price.

The international crude and oil product prices used for indexation are taken from internationally acknowledged sources such as *Platt's* publications. Price trends are checked every two months and adjustments made on the basis of variations in two six-monthly average indicators, with a time lag of two months.

##### **Prices for hospital supplies**

With Decision no. 29/99, the AEEG opened its review of the price-setting criteria for natural gas supplied to hospitals, with the intention of excluding from tariff regulation those hospitals consuming more than 200,000 m<sup>3</sup>/year (the threshold used to define large industrial users not subject to regulated tariffs). Not only are current hospital prices not cost effective and in breach of the principle of non-discrimination among consumers, as laid down in law no. 481/95, but they do not comply with the spirit of CIPE (*Comitato Interministeriale Programmazione Economica* – Interministerial Committee for Economic Planning) decision of 20 September 1974, which recommended that consumers' associations should participate in price-setting negotiations. These conclusions were drawn from the *Indagine sulla distribuzione di gas nelle strutture di ricovero nel 1997* (Enquiry into gas distribution to hospitals in 1997), an enquiry opened after a complaint from a health authority responsible for two hospitals in Genoa (the *Ospedale San Martino* and *Cliniche Universitarie Convenzionate*). As their consumption was as high as an industrial consumer's, they wanted the same tariff to be applied.

The AEEG conducted interviews with the hospital authorities and collected evidence, also by means of a questionnaire sent to the distributors. The enquiry found that hospital gas prices are set according to average parameters which do not reflect the wide differences in hospitals' supply requirements, in terms of both annual consumption and the degree of capacity utilisation. Prices for hospitals are always much higher than those for industrial consumers, even if there are no noticeable differences in supply costs. Wheeling margins paid by hospitals to distributors are also much higher than those paid by industrial consumers connected to city networks.

The enquiry thus concluded that prices for hospitals are set unilaterally by the end distributor, together with the raw material provider, the former operating in a *de facto* monopoly and the latter holding exclusive rights, which is evidently unfair towards the hospitals themselves.

## **Promoting competition and market structure**

### **Implementation of EU Directive no.98/30: the AEEG's observations**

On 12 May 1999, Parliament passed article no. 41 of the Annex bill to the 1999 Finance Act, defining the terms and criteria for the implementation of European Directive no. 98/30. These set a one-year term for implementation and a nine-month term for a draft decree to be presented to Parliament. They also lay down some principles for the liberalisation of the natural gas market, including: a) the opening up of the market under rules which, in respect of the AEEG's powers, ensure a public and universal service, quality, safety, and interconnections to and interoperability of the systems; b) the standardisation of regulations governing the various operators; c) the introduction of measures on transport, imports and storage to promote their rational use, efficiency in new investments and the development of competition; d) company separation for integrated companies, where this would help develop the gas market, and in any case, the introduction of accounting unbundling for their different activities; e) the guaranteeing of transparent and non-discriminatory conditions for regulated access to the gas system; f) measures to open up the gas market in the context of European economic integration, while at the same time respecting internal and foreign competition; g) the allocation of urgent priority status to the construction of infrastructure for the gas system, as a matter of public interest.

On 24 March 1999, the AEEG presented to Parliament some amendments to the draft of Article 41, together with a description of some characteristics of the national gas system. This document covered non-discrimination towards operators, public service obligations, security of supply, guidelines for accounting and company unbundling, and conditions of access to the system and the networks, as well as a definition of eligible clients.

### **Accounting and administrative unbundling**

In Decision no. 80/98, the AEEG began the process of defining procedures for the accounting and administrative unbundling of gas providers, as laid down in its constitutive law (law no. 481/95: article 2, paragraph 12, point f). EU Directive no. 98/30 introduced provisions that have to be incorporated with those laid down in law no. 481/95. In particular, this directive states that companies must keep separate accounts for their transport, distribution, supply and storage activities (articles 2.5, 2.7 and 13.3).

Defining the necessary accounting procedures will provide ample opportunity for rationalising the way in which distributors are managed, as well as improving their efficiency, although this will demand considerable organisational resources that are often beyond the reach of the

smaller companies. Therefore an interim unbundling system might have to be used alongside general or analytical accounting procedures, charging residual items either to specific costs or, when data is available only in aggregate terms, according to conventional parameters such as number of employees, square metres, length of utilisation, and so on. The AEEG is examining proposals sent in by distributors' associations and, on an experimental basis, has adopted new procedures for six medium- to large-sized companies.

## Enquiries and monitoring activities

### Enquiries opened and concluded

In November 1997, the AEEG received a complaint from the commune of Albignasego (province of Padua) reporting that the tariffs applied by the distributor **SAG Adriatica Gas SpA** had not been set according to the regulations. After examining these tariffs, the AEEG found that in calculating its standard costs SAG had not included charges paid by consumers, including connection charges. The AEEG asked SAG for clarifications and they duly provided documentation as justification. In Decision no. 27/98 the AEEG opened a formal enquiry and subsequently conducted an inspection at SAG's headquarters, under law no. 481/95 (article 2, paragraph 22). On the basis of the evidence collected and examined in the enquiry, as well as an analysis of standard tariff practices in the gas distribution sector, the AEEG concluded that SAG had not applied the current tariff regulations properly and served the company a notice to amend these tariffs.

In the course of its checks on standard costs, the UPICA (*Ufficio Provinciale Industria, Commercio e Artigianato* – Provincial Industry and Trade Department) of Ferrara found that since 1993 the **Azienda Gas Energia e Ambiente di Ferrara** (AGEA), a gas distributor, had been charging consumers in the commune of Bondeno Lire 4,000 per bill for collection charges. In November 1997 the AEEG was called in by the UPICA, which had served AGEA a notice in March 1997. The AGEA subsequently stopped including these charges on their bills without, however, refunding any of the money previously paid by consumers.

These charges go against CIP decision no. 16/93, which includes collection charges in the tariff component for running costs. This means that, in working out the bills for consumers, AGEA did not conform to current tariff regulations, as it was charging more than the amount due. The fact that it did not refund consumers constitutes a breach of their rights. In Decision no. 14/99, the AEEG thus opened a formal enquiry ordering AGEA to refund the sums it had wrongly charged.

### Monitoring and supervisory activities

The AEEG is now in charge of monitoring and controlling gas tariffs applied by distributors to civil consumers, tasks that had previously been entrusted to the Ministry for Industry and Trade, and to the UPICAs. A review of these past monitoring and supervisory activities has revealed a worrying lack of skilled manpower and suitable resources for monitoring and control activities, which has prevented these tasks from being carried out effectively.

Under its constitutive law, the AEEG is responsible for tariff monitoring and control, which involves expanding and integrating the existing information system by constantly monitoring tariffs. This information has been put into a database that can provide an updated description of the Italian gas distribution sector broken down by distributor, sites and areas supplied, type of gas distributed and tariffs and taxes being applied. Another service that the AEEG has had to set up, as a result of the complexity of the current tariff system, deals with enquiries from consumers and operators about the gas service and tariffs being applied by operators.

### Intervention in cases of infringements of current tariff regulations

An investigation conducted by the AEEG into whether distributors were properly applying current tariff regulations revealed infringements in 30% of cases, due to a variety of factors. In cases where the mistake or irregularity had resulted in a higher tariff, the AEEG asked the providers to make amends, if necessary refunding consumers. This led to tariff reductions in 158 localities (and an annual saving on gas bills averaging about Lire 14,300, including VAT, for 313,000 consumers). On other occasions the AEEG stepped in following complaints from associations and individual consumers. *In situ* inspections were conducted for some LPG and natural gas distributors, as no documentation had been provided on how they set their tariffs.

These inspections showed both that tariffs were higher than those laid down by current regulations, and that in some cases undue charges, such as postage charges, were being applied, which the AEEG asked be eliminated.

## 4. Operations carried out under Law no. 481/95: service standards and consumer affairs

In 1998, the AEEG continued to monitor service standards in order to check that regulatory measures and the Citizens' Charter were being applied. The results of its monitoring was published in two reports: *Rapporto sulla qualità del servizio elettrico* (Report on service standards in the electricity sector) and *Rapporto sulla qualità del servizio del gas* (Report on service standards in the gas sector). In March 1998, the AEEG circulated recommendations on quality regulation in the electricity sector and began consulting the interested parties. Provisions were subsequently introduced in the course of the year to measure reliability of supply and identify guaranteed standards. The AEEG's activities in the sphere of consumer affairs included a survey on customer satisfaction and expectations in the electricity and gas sectors, and measures to make gas bills more transparent, as well as to process queries and complaints from consumers systematically. This processing has played a decisive role in the identification of critical areas in the provider-consumer relationship.

### Service regulation and control

#### Monitoring service standards

In order to ensure that the Citizens' Charter is being applied, service standards are monitored annually by the AEEG through an *ad hoc* questionnaire sent to all electricity and gas providers, who supply data under their own responsibility. The AEEG sets out the indicators to be used and providers should indicate if their monitoring procedures differ in any way from these. Where necessary, they can enclose clarifications and indicate any other standards that are being met over and above those required. A summary of the results is published annually in reports on service standards in the electricity and gas sector. In 1998, the AEEG carried out random reliability checks on a sample of questionnaires. A recurring problem was the non-uniformity of the information and data provided, the main inconsistencies to emerge being: different reasons given for the failure to reach given standards; types of action taken (lack of consistency in the terminology used); calculation of actual time taken to provide services; and methods for measuring reliability of supply.

#### Defining reliability of supply indicators in electricity

In order to standardise rules for measuring reliability of supply, the methods for their measurement must first be defined. The present indicators, set out in the *Schema generale di riferimento per la Carta dei servizi del settore elettrico* - Guidelines for the electricity sector Citizens' Charter (Prime Minister's Decree of 18 September 1995), are the average number and the average duration of "long" (over three minutes) planned and unplanned power cuts per consumer. The main drawback of these indicators, however, is that they refer only to low-voltage supply and that specific responsibilities for power cuts are poorly defined. The AEEG circulated a consultation paper proposing new indicators *Indicatori di continuità del servizio di fornitura dell'energia elettrica per utenti alimentati in media o in bassa tensione* (Reliability of supply indicators for electricity supplied to medium- or low-voltage consumers). The proposed indicators refer to "long" planned or unplanned power cuts experienced by medium- and low-voltage consumers, and to "short" unplanned cuts experienced by medium-voltage consumers. The reliability of supply indicators recommended in this paper are those most commonly used world-wide (that is, the frequency of power cuts per consumer and the overall duration of "long" planned or unplanned cuts per consumer). The paper recommends that power cuts in urban, semi-urban and rural areas be recorded separately to provide a clear breakdown of reliability indicators. It also proposes a system for identifying responsibilities for power cuts, according to voltage levels and the number of consumers experiencing the cuts.

## Consumer protection and information

### Results of the consumer satisfaction survey

In 1998 the AEEG completed its first survey, conducted by an independent body, on domestic consumers' satisfaction and expectations regarding electricity and gas distribution. This survey, together with the annual review of service standards in the two sectors, is an essential tool for the definition of new regulatory measures. In summary, the survey shows that:

- the level of consumer satisfaction in both sectors is good in overall terms; the generally satisfactory overview does, however, conceal significant imbalances at a geographical and to some extent territorial level (ie urban, semi-urban, rural);
- the "technical factors" perceived by consumers as being the most inconvenient are unplanned power cuts and sudden swings in voltage, while the frequency of meter readings and the transparency of bills are seen as the most crucial of the "administrative factors";
- consumers' expectations regarding an improved service would appear in overall terms to be in line with the quality standards set out in the best providers' Citizens' Charters, with the emphasis on the criteria for disconnections for non-payment and the fixing of exact times for appointments.

## 5. RELATIONS WITH OTHER PUBLIC BODIES

### Relations with the Government and Parliament

Significant dates in 1998-99 include:

- May 1998: report on the drafting of government bill no. 4816 "Framework law on electro-magnetic pollution" presented before the Chamber of Deputies' Environment, Territory and Public Works Committee;
- October 1998: observations and recommendations to the government on the implementation of EU Directive no. 96/92;
- January 1999: report on "The preliminary enquiry into the restructuring of the electricity sector" presented during the hearing held jointly before the Senate's Industry, Trade and Tourism Committee, and the Chamber of Deputies' Manufacturing, Trade and Tourism Committee;
- March 1999: report on "The preliminary enquiry into the restructuring of the gas sector" presented during the hearing held before the Chamber of Deputies' Manufacturing, Trade and Tourism Committee.

### Relations with other Italian institutions

The main institutions the AEEG dealt with during the year include:

- The *Autorità garante per la concorrenza e per il mercato* (the Antitrust or Competition authority): routine exchange of information and specific interaction in relation to the competition authority's enquiry into ENEL's abuse of its dominant position;
- CONSOB (*Commissione nazionale per le società e la borsa* - the Italian stockmarket regulator): to draw up directives for the administrative and accounting unbundling of electricity companies;
- ENEA (*Ente nazionale per le nuove tecnologie, l'energia e l'ambiente* - national energy agency): routine exchange of information and collaboration in areas of mutual interest such as the development of energy-environmental legislation, processes, plants, environmental protection and so on;
- ANPA (*Agenzia nazionale per la protezione dell'ambiente* – national agency for the protection of the environment): environmental side effects of energy-related activities of mutual interest and the international commitments undertaken by Italy at Kyoto.

### Relations with international and foreign institutions

The AEEG acts as observer in the two follow-up groups set up by the European Commission to monitor and discuss problems and issues arising from the implementation of the directives on the internal electricity and gas markets in each member country.

Furthermore, the AEEG takes an active part in the **European Forum** to regulate electricity in the European Union and to discuss problems concerning the implementation of EU Directive no. 96/92.

Since it was set up, the AEEG has been working and exchanging information with the independent regulators for Spain *Comisión Nacional del Sistema Eléctrico (CNSE)* and Portugal *Entidade Reguladora do Sistema Eléctrico (ERSE)*. The numerous projects carried out together include a joint document on *Transmission and Trade of Electricity in Europe*, and the setting up of three joint working parties on ancillary services, quality of the service, and taxation and the environment.

### Consultations with interested parties

An intense activity of consultation with interested parties and consumer and environmentalist groups, as well as trade unions and business associations, was conducted by the AEEG during the year. Consultation documents containing the AEEG's proposals on new regulatory

measures were circulated and written comments collected from interested parties; specific hearings were held with them before the adoption of final Decisions in the context of major regulatory changes.

### Litigation pending

Between April 1998 and April 1999, 54 appeals to the *Tribunale Amministrativo Regionale* (Regional Administrative Court) were presented against 20 Decisions adopted by the AEEG. Of the 6 cases examined by the Courts, 2 were rejected and 4 partially accepted. Almost half of the appeals also contained orders that the Decisions be suspended: in the 11 cases of suspension examined, 7 were rejected and only 4 partially accepted.

### Monitoring and supervisory activities

Technical controls and on-site inspections regarding regulated subjects are part of the AEEG's routine activities; they may also be ordered following reports or complaints from consumers. In the period between April 1998 and April 1999, 47 inspections and technical controls were conducted by the AEEG, of which 21 on gas suppliers and 26 on electricity suppliers. Irregularities in tariff calculations and consumer invoicing, in reporting on quality standards and in claims for tariff refunds were detected, and adjustments required.

### Communications and external relations

The AEEG circulates news of its activities and decisions at national and international seminars and conferences on issues related to institutional reform, and to the electricity and gas markets. Numerous Italian and foreign visitors also come to its offices to collect information.

The AEEG regularly publishes articles in its *Quaderni*, which include three series: *Documenti*, *Analisi* and *Interventi*. All Decisions are published in the *Bollettino* (Bulletin), as well as on its web-site [www.autorita.energia.it](http://www.autorita.energia.it) (at 30 April the site was receiving nearly 40,000 visits a month). The Press Office is responsible for circulating news of the AEEG's main Decisions to the general public via the media.

## 6. PERSONNEL AND FINANCIAL MANAGEMENT

### Personnel

As laid down in its constitutive law (article 2, paragraph 29), the AEEG started off by hiring 50% of its 80-strong staff on permanent posts by means of special recruitment procedures. Other staff were hired (after a careful vetting of CVs, followed by interviews) on renewable fixed-term contracts (lasting no more than two years).

As laid down by law, the salary scales are the same as those at the *Autorità garante per la concorrenza e il mercato* (Italian competition authority). The average age of staff, of whom 80% are graduates, is 39. Training courses and seminars are regularly provided in languages and IT, as well as in more specialised subjects.

No employee, not even those on fixed-term contracts or on secondment from other public bodies, is allowed to take on any other work, or practise any professional activity, even if freelance. Nor are they allowed to hold any interests, either direct or indirect, in any of the companies in the regulated sectors. In Decision no. 144/98, the AEEG adopted a code of conduct, over which Prof. Vittorio Guccione, honorary president of the *Corte dei Conti* (Court of Auditors), acts as watchdog.

### Financial management

The AEEG is a self-financing organisation funded through annual contributions paid by the regulated utilities; for 1998 contributions were fixed at 0.06%. Financial management is governed by the AEEG's accounting regulations on the basis of an annual budget.

**Table 3 Summary of the 1998 Balance Sheet**  
(January 1998-December 1998, billions of lire)

<b>RECEIPTS</b>	<b>33.55</b>
Contributions from regulated utilities	33.22
Other receipts	0.33
<b>EXPENDITURE</b>	<b>19.08</b>
<i>Current expenditure:</i>	<i>18.32</i>
Board of Commissioners	2.18
Personnel	9.13
Consulting and other professional services	2.96
Rentals	1.76
Supplies and services	2.29
Compensation fund	5.97
<i>Capital expenditure:</i>	<i>0.76</i>
<i>Residual assets:</i>	<i>0.14</i>
<i>Residual liabilities:</i>	<i>0.044</i>
<b>SURPLUS</b>	<b>14.77</b>

## GLOSSARY

### Chapter 1

- *CISPEL (Confederazione Italiana dei Servizi Pubblici degli Enti Locali)* – Italian confederation of public utilities run by local authorities.
- *Consiglio Nazionale dei Consumatori ed Utenti* - National Consumers' Council.
- *INA (Istituto Nazionale delle Assicurazioni)* – National Insurance Institute.
- *SpA (Società per Azioni)* - joint stock company.
- *SPL's (Servizi Pubblici Locali)* - local public utilities.

### Chapter 2

- *CCSE (Cassa Conguaglio per Il Settore Elettrico)* – Compensation Fund for the Electricity Sector. Administrative body whose main task is to collect and redistribute, mainly to ENEL SpA, but also to other producers and distributors, the funds deriving from the incorporation of surcharges in tariffs.
- *CIP (Comitato Interministeriale Prezzi)* – Interministerial Price Committee.
- *Corte dei Conti* – Court of Auditors.
- *Dipartimento della Protezione Civile* – Civil Defence Department.
- *Ministero del Tesoro, del Bilancio e della Programmazione Economica* – Ministry of the Treasury.
- *UNAPACE (Unione Nazionale Aziende Produttrici e Consumatrici di Energia Elettrica)* – Association of independent electricity producers.

### Chapter 3

- *CIP (Comitato Interministeriale Prezzi)* – Interministerial Price Committee.
- *CIPE (Comitato Interministeriale Programmazione Economica)* – Interministerial Committee for Economic Planning.
- *UPICA (Ufficio Provinciale Industria, Commercio e Artigianato)* - Provincial Industry and Trade Department.

### Chapter 5

- *ANPA (Agenzia nazionale per la protezione dell'ambiente)* – National Agency for the Protection of the Environment.
- *Autorità garante per la concorrenza e per il mercato* – the Italian competition authority.
- *CONSOB (Commissione nazionale per le società e la borsa)* – the Italian stockmarket regulator.
- *ENEA (Ente nazionale per le nuove tecnologie, l'energia e l'ambiente)* – National Agency for New Technologies, Energy and the Environment.

## Chapter 6

- *Corte dei Conti* – Court of Auditors.
- *Autorità garante per la concorrenza e per il mercato* – the Italian competition authority.