

# Autorità per l'energia elettrica e il gas

PRESS RELEASE

## Electricity: new *two-tier prices* to be introduced as from 1 July

*More equitable payment terms will apply, with differentiated pricing reflecting real production costs - Benefits for the environment and the system cost-effectiveness*

Milan, June 25<sup>th</sup> 2010 - Innovations will be introduced for 4.5 million households. From the next month, they will receive an electricity bill based on new *two-tier prices*. Individual households have already been informed with specific notices in the three bills received from the beginning of the year: the Energy Regulatory Authority has provided for the obligation to inform each customer with three notices to be sent at least six months in advance of the application of *two-tier prices*.

The new system will apply to the first group of 4.5 million households limited to consumptions from 1 July and will gradually be extended to all households with a fitted 'smart' electronic meter that reads consumptions at different times of the day. Affected households will increase to 11 million in August, 15.5 in October and 20 in December. Finally, the measure will affect all households not opting for other offers available on the free market and leaving their contract unchanged.

With the new system, the price of electricity will no longer be unchanged for the full day as it is now; it will rather vary depending on the time of use; i.e. cheaper early in the morning, in the evening, at night, on Saturdays and on all holidays and more expensive from 8 a.m. to 7 p.m. on working days, when demand and costs are higher. As a result, customers' bills will be fairer and more equitable and will more closely reflect the cost of electricity production - which varies in accordance with the different times of the day.

In order to give households - particularly those with still imbalanced consumptions in less favourable time slots of the day - enough time to become acquainted with the new system, in the first one and a half year the difference between the higher and the lower price will be little (10% or so). Therefore, possible savings (or surcharges) will initially be very limited but an important price signal will be given for more efficient and mindful consumption habits – for electricity to be promoted as a valuable asset.

### **Benefits for the environment, savings and efficiency**

*Two-tier prices* will incentivise individual saving opportunities, environmental benefits and system cost-effectiveness for the benefit of all households. More specifically, by shifting a part of consumptions to the cheapest times of the day, the electricity demand *peak* will be reduced and, consequently, the use of less efficient

and more polluting power plants will be avoided, with a concurrent generalised lowering of costs.

In particular, the Energy Regulatory Authority reckons that, if the total number of Italian households were to shift 10% of consumptions to more favourable times of the day, then a reduction of 450 thousand tonnes per year of carbon dioxide (CO<sub>2</sub>) would be obtained, which are equivalent to the emissions of a power plant meeting the consumption of a city with 500 thousand inhabitants.

In economic terms, savings would amount to about 9 million euros per year for lower CO<sub>2</sub> emissions, nearly 80 million in fuel costs and more 120 million in plant costs. As a whole, savings in favour of all households and small consumers would be more than 200 million euros per annum.

“With *two-tier prices*, each one of us will pay for electricity in a more equitable way, while with a single undifferentiated price, higher overhead costs are generated by consumers concentrating their consumptions at peak time when costs are higher” said the Energy Regulatory Authority’s President Mr. Alessandro Ortis. “We could exploit this innovation to promote individual savings, while contributing to environment protection - with lower emissions - as well as to the national energy system cost-effectiveness - with collective advantages for all consumers”.

### **Tools for consumers**

In order to promote a saving-oriented behaviour among consumers and help them understand how to optimise their use of electricity at cheaper time slots, i.e. by shifting consumptions to these times of the day, the Authority published on its website ([www.autorita.energia.it](http://www.autorita.energia.it)) a consumption comparison tool called **PesaConsumi**, which helps assess individual consumptions by simulating various instances of using electrical appliances. For further information, please contact the Authority’s **Sportello per il consumatore** (consumers’ helpdesk) on the toll-free number 800.166.654, from 8 a.m. to 6 p.m. on working days.

Consumers not wishing to use the Authority’s established *two-tier prices* are free to choose among other solutions – all of which are also viewable on the Authority’s website – more specifically a **TrovaOfferte** (offer finder) tool is available to compare several proposals from free-market suppliers.

### **Two-tier prices in further detail**

With the new *two-tier prices*, electricity will cost less from 7 p.m. to 8 a.m. on working days, all Saturdays, Sundays and other holidays (these are shown on consumers’ bills as *time courses* “F 23”) and will cost more from 8 a.m. to 7 p.m. on working days (shown on the bill as *time course* “F1”).

With *two-tier prices*, at least two thirds (more than 66%) of consumptions need to be concentrated in lower priced times of the day. For instance, a few electrical appliances (i.e. washing machines, dishwashers, boilers, electric ovens, irons, etc.)

can be used in time courses F 23. Saving chances would be all the more higher if consumptions are shifted to lower priced times of the day. All customers will be shown an allocation of their consumptions to the different times of the day in their bills, so as to become familiar with their electricity use habits.

In a single year, the most cost effective times of the day are nearly twice the number of costlier times; savings will be maximised by concentrating consumptions at these times of the day. It will therefore be more appropriate to avoid using appliances when prices are higher, in order to avoid expenditure increases.

	Working days	Saturdays, Sundays and holidays
0.00 a.m. to 8.00 a.m.		
8.00 a.m. to 7.00 p.m.		
7.00 p.m. to 0.00 a.m.		

  

	Time courses F2 and F3 (F23) in which electricity will cost less
	Time course F1 in which electricity will cost more

### Transitional phase

Over the next 18 months, two-tier prices will only have a small effect in terms of savings or surcharges shown on bills. In particular, in order to give household users (with still imbalanced consumptions in higher priced times of the day) enough time to become familiar with their own consumptions at different times of the day, to assess any changes in their expenditure and to become saving-minded, the Authority has introduced an 18-month *transitional period* in which there will only be a small difference between the two prices (10%) – this measure was also meant to meet specific requests from consumers’ associations.

From January 2012, *two-tier prices* will be applied which will fully reflect the different wholesale cost of electricity at different time bands; differences in prices will therefore be more marked, with higher chances of savings in bills and vice versa. The Authority also introduced “*on demand*” *two-tier prices* envisaging higher differences in prices, which already reflect the different wholesale costs of electricity at different times: consumers wishing immediately to opt for the application of these prices, may send their suppliers an application to that effect. Any relevant information is available on the Authority’s website.

### An additional consumption comparison tool: *Pesa consumi*

Electrical appliances are no equal electricity users: some of them have a higher weight on consumers’ bills (i.e. such high energy users as washing machines, dishwashers, irons, power boilers, power stoves and cookers etc.), others have a lower incidence. In order to understand how to use them in the most efficient way with the new *two-tier prices*, the Authority has published a *Pesa Consumi* tool on its website ([www.Autorita.energia.it](http://www.Autorita.energia.it)). This tool is a *price simulator* for calculating (in

percentage terms) the incidence at which home appliances affect overall consumptions; in particular, the system shows the *weight* of using different appliances at times when electricity costs more.

The tool also simulates when the operation of these appliances is shifted to the cheapest time bands, for consumers to assess the extent to which their consumptions can be concentrated in lower priced hours and the percentage incidence of individual shifts for each appliance.

The calculation base for the tool is shown on consumers' *bills* – in which an allocation is shown of individual consumptions to the different times of the day.