



The Italian Regulatory Authority for Electricity and Gas

ANNUAL REPORT ON THE STATE OF SERVICES AND REGULATORY ACTIVITIES

*Presentation by the President
Alessandro Ortis*

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The Italian Regulatory Authority for Electricity & Gas

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Authorities, Ladies and Gentlemen,

The presentation of the “Annual Report on the State of the Services and Regulatory Activities”, traditionally requires me to be brief. I shall try to respect this fair tradition for politeness sake, albeit with more difficulty than in the past. In fact, I will have to compress this year report with that for an entire mandate: the mandate of the Board I have the honour to chair, which is established by law as non-renewable, and will come to a conclusion in mid-December of this year.

I feel, therefore my duty to account for the full picture of what the Authority has accomplished during this mandate. In so doing, I am mindful of the goals and commitments that, nearly seven years ago, we summarised in a document setting out the “*Principles and foundations for our activity*”, delivered in a parliamentary hearing before the Board was appointed.

Background

Last year, we noted that “paper barrel” prices had been one of the underlying causes of the serious international crisis: a crisis that has required all states to adopt defence and support policies, policies as necessary as they were onerous. These measures require the commitment of each and every one of us, the Institutions first and foremost.

The Regulatory Authorities too, individually and through their international cooperation framework, must therefore continue to have a role, responsibilities and the instruments with which to fulfil them. This is to enable them to play their part in the effort to transform certain important energy sectors, most notably, the oil and gas sectors. Sectors that need to be transformed from opaque factors of inherent vulnerability to levers for socio-economic recovery and for tackling other underlying challenges: global *energy hunger* and *sustainable development*.

To this end, we also need to complete and support liberalisation and regulation processes which have already produced important results such as an estimated reduction in costs of over 4.5 billion euro per year with respect to 1999 in the electricity sector here in Italy. 40% of this decrease comes

from reductions in the regulated tariff components and 60% from competitive pressures, which have led to investment in new and more efficient plants. Moreover, the sectors regulated by the Authority are among those that have better withstood the crisis (especially in terms of employment, stock market capitalisation and investment), thanks to the reputation for reliability that energy regulation enjoys also in the credit sector.

However, these considerations should not lead us to forget that our country continues to suffer the effects of an energy mix that is still too dependent on costly hydrocarbon imports.

It is important, therefore, to scrutinise certain new, emerging scenarios very closely. These include the growing production of unconventional gas in the United States (an increase of 80 billion cubic metres in two years: equivalent to Italy's entire annual consumption), which is expanding to other areas, including our own continent. The reduction in demand, as a result of the crisis, along with the current abundance of gas since it is no longer imported by the USA, have significantly changed international and European market conditions.

At the same time, the risk persists in the oil markets that speculation will once again raise its head. We do not yet see mechanisms on the horizon that would be able to contain the unregulated proliferation of those "paper barrels" whose price suddenly sharply rose towards the 150-dollar mark. For this reason we suggested trying to promote a regulated platform, at least at the European level. A platform for the trading of *physical barrels* between selected operators; for standardised products and long or very long-term contracts, with physical delivery in Europe; for transactions guaranteed by a reliable, central European counterpart. A market of this nature should help limit price volatility and encourage long-term investment. Thus, making a point of the interest expressed by the Ministry for Economic Development, we are putting together a specific proposal with the help of experts in the sector.

Europe also needs to abandon the onerous and ineffective approaches followed thus far to tackle climate change: a global problem that requires equally global solutions.

On this topic, let me once more revive a proposal for improvement that we have already submitted, in this very occasion, when we took it upon ourselves to suggest that we abandon the unilateral cap-and-trade instrument (based on emissions in the territories of individual states or continents). Our proposal is to consider, rather, an integrated approach (at the international level) involving environmental and commercial policies, an approach that would discourage any form of

environmental dumping (by countries that seek to avoid limits and constraints). This would be done through agreements at the WTO level (rather than through other Kyoto-type protocols). Such agreements would consider the CO₂ content of the products being traded and (on this technical basis, and not for protectionists purposes) introduce border tax adjustment mechanisms.

European framework

In Europe, the most significant developments in recent years for us Regulators were the *Climate and Energy Package* and the *Third Energy Package*. These set of directives and regulations also involve the operational frameworks and roles of the national regulators by strengthening their autonomy and independence and making them liable to review and verification, using solutions that are very similar to those already adopted proactively (through Law 481/1995) by the Italian Authority.

The *Third Package* envisages: a European Agency of national regulators; important safeguards for consumers; network codes to foster cross-border trading; and network unbundling to ensure non-discriminatory access.

This package will certainly bring progress in moving towards a more competitive European energy system, even though the process of liberalising and integrating the national energy markets is still met with resistance (linked to anachronistic nationalism or protectionism) and infrastructure delays. Therefore, the crisis, its current implications and the still-distant goal of the single market, need further impetus to achieve a more open internal market, a bolder harmonisation of energy-environmental policies of both the diverse legislative frameworks and national regulators currently in place.

Europe's unquestionable ambition to achieve a single market must be nurtured by continuing to build up a framework of single rules. Just as, in the context of relations with countries supplying essential strategic energy resources, the long hoped-for single voice of the Union must finally make itself heard. A *truly* single voice that is able to leverage the contractual power of 500 million Europeans, a power far superior to that of individual countries or operators.

Networks and markets

Network systems

The promotion of investment has been a priority in our regulatory decisions, through an incentive system (awards and penalties) involving *tariffs* and *service quality* from an integrated perspective. A system that is also designed to promote innovation and safety.

For the **electricity networks**, investment has more than doubled over the last seven years. We also await developments on smart grids, for which we have already implemented support initiatives. These will foster increasingly active participation by consumers, including domestic users, in the electricity system, on the basis of higher volumes and greater efficiency in distributed generation, especially from renewable sources. On this same subject, in order to facilitate wind and solar generation and to work towards more advanced load modulation, we intend to promote the use of the interesting potential opened up by *storage of pumped hydro electricity*. This involves significant and already well-distributed capacity that can be brought into play using existing small and medium-sized reservoirs, especially in southern Italy.

Still on the subject of developing the electricity system, it is worth mentioning the steps already taken to facilitate and encourage the growing use of electric vehicles by eliminating the obstacles that previously prevented recharging points being set up.

In the **gas sector**, investment has increased by 70%, while transport capacity to entry points is up by 20%. Investment in storage is at last picking up. For this investment, as highlighted in our recent joint report with the Antitrust Authority, we have a serious delay to recuperate. It is true that this is due to slow authorisation processes, but it is also the result of omissions by ENI, which controls nearly all of our national storage capacity, both active and potential. Still on the subject of gas storage, we appreciate the general objectives of the recent Bill on extending the services. However, we have pointed out a number of problems concerning the ceilings on market shares and the sharing of burdens and benefits between industrial and civil customers. We hope these will be resolved.

Overall, for the electricity and gas sectors, investment has now reached about 4.5 billion euro per year. We should remember, however, certain persistent obstacles and problems: uncertainty over permits for electricity lines and for regassification and storage facilities; failure to define new gas distribution zones, the existing ones still being too fragmented; and the related rules governing concessions.

Meters are also part of the network systems. The roll-out of innovative (electronic and remotely managed) electricity meters, implemented thanks to the good efforts of distributors, is nearly complete, making Italy a pilot country for smart electricity metering. This has also made it possible to extend the two-tier price system to households, thus extending consumer choice, with opportunities for individual savings and collective benefits (national economies in terms of fuel consumption, facility costs and CO₂ emissions).

In the gas sector too, we have set the programme for new electronic meters on an obligatory footing. This initiative, the first of its kind in the world, will make it possible to provide consumers with an increasingly improving service by making *readings* more secure, transparent and timely and eliminating the need for payments on account and top-up payments. At the same time, it offers the Italian industrial system an opportunity to develop innovative products and metering systems which, on the strength of a domestic market where take-up of the products will be regulated and well-planned, can be channelled into advantageous exports.

Wholesale markets

For the **gas sector**, in spite of the rapid launch (in 2000) of the liberalisation process, the true situation of the markets remains unsatisfactory. In recent years, the only fresh import and diversification capacity has been the new regassification facility at Rovigo and upgrades to existing pipelines, imposed by national and European regulators. 92% of the import infrastructure capacity remains in the hands of the ENI Group which, including its sales outside Italian territory but destined for Italy, still accounts for about 65% of supply.

The Authority defined the steps to set up the planned gas exchange as far back as 2004, in the deeply-rooted conviction that this is an essential instrument for competition and to send out price signals that are both correct and useful for transactions and new investment. However, the realisation of this potential is still heavily conditioned by: the lower amounts of gas available (net of self-consumption) to operators other than ENI; the frequent emergency situations, actual or potential in security of supply for example; the lack of an independent network operator that can provide merit-order dispatching (as is the case in the electricity sector) without even a shadow of discrimination.

We have on more than one occasion pointed out the need for corrective measures. One useful short-term corrective measure is gas release, which however, should involve much greater quantities and

longer duration than those selected in 2009. Turning to structural measures, we have repeatedly called for the decision already taken with the 2003 law (confirmed by subsequent laws) for the ownership unbundling of Snam Rete Gas from ENI to finally be implemented through the envisaged, and long-awaited, Prime Minister's Decree.

This would entail adopting a solution which the European Commission has already indicated as being the best available. It has already been tested successfully in other EU countries, and in Italy too, with the analogous Terna-ENEL operation for the electricity sector. It is a solution that would ensure that the control of networks of strategic importance to the country lies in the hands of an impartial national public actor.

A transfer of control of Snam Rete Gas from ENI to the *Cassa depositi e prestiti*, for example, would certainly be good for the market, for consumers and for the development of Snam itself, since the company could then look beyond Italy's national borders. This would make it easier for other EU countries to move in a similar direction, leading to less discrimination, more development, and greater coordination and integration in the strategic continental gas transport system. Finally, the Terna-ENEL unbundling also strengthened the ENEL Group's capacity to develop internationally.

The importance of fostering a more pro-active approach to infrastructure development, as we have repeatedly called for, becomes evident if we look at the difficulties the country is encountering in grasping the advantages opened up by the progressive uncoupling of the gas price from that of oil, as a result of the availability of unconventional gas. In the presence of a welcome *gas bubble* in the international market, we do not yet have a corresponding and advantageous national infrastructural one.

In the past, commentators have aired the fear of such a bubble to discourage investment and competition. It would, however, have made it possible to import and store more gas, satisfy internal demand more cost-effectively, and continue to cultivate the prospect of a profitable Italian hub at the centre of the Mediterranean and serving Europe.

For the **electricity sector**, ten years on from the start of liberalisation the positive effects of the reform are beginning to be seen. Generating capacity has increased; new operators have entered the sector, bringing with them an increase in the average efficiency of our generating "fleet" and of competitiveness in the market; and the national share held by the dominant operator and former monopoly has been reduced to 30% (a decline it has offset through a significant penetration of the wider international market).

The structure of the system, where all demand participates in the wholesale market thanks to the presence of the Single Buyer, which operates on behalf of the protected market, has proven to be efficient. So much so that it is being studied by other Regulators, such as the British Authority, which regulates a market that was liberalised well before Italy's. In recent years we have cooperated to launch the electricity exchange and to complete the "design" of the market. We will continue to cooperate to: urgently solve the congestion problem, whether cross-border or in our internal networks (for example, between the islands and the mainland); develop *long-term markets* that are able to combine market forces and the funding of facilities with high fixed costs; better coordinate network upgrade programmes and determine the location and scale of new generating plants; and efficiently develop renewables.

Retail markets

The efficiency imbalances of the upstream (wholesale) markets inevitably reflect on the retail markets. In the electricity sector, over the three years since the full opening of the market on 1 July 2007, about 3.2 million domestic customers (11% of the total) and 2.6 million enterprises (34% of the total) have moved to the free market. In the natural gas sector, seven years on since market opening, only about 7% of domestic and non-domestic customers have switched to the free market. The difference is even more marked if we consider that in the electricity sector switching to the free market always means moving from the Single Buyer to a new seller. In the gas sector, if we consider only those cases where the supplier does actually change, i.e. where the new seller and the operator providing the protection service do not belong to the same group, only 5.3% of users have switched.

On this point, we ought to remember that for small electricity or gas consumers (households included) who have not yet dipped a toe in the free market a *protection service* is provided, under the conditions established by the Authority, with prices adjusted on a quarterly basis.

Service quality

Quality, both technical and commercial, plays a part – along with prices – in determining the value-for-money of energy supply. Therefore we have gradually built up a system of regulatory mechanisms increasingly targeted at ongoing quality improvements: more and more advanced *standards and objectives*; an innovative system of *awards/penalties* for operators and *automatic compensation* for consumers.

Technical quality and safety

Electricity service *continuity* has seen constant progress: outage minutes (by year and by customer) have been reduced from 130 (2000) to a historic minimum of 46 (2009). Outage frequency fell by more than 50% over the same period. These figures are among the best in the EU. The goal of reducing the marked differences – in terms of *service continuity* – between the regions of northern and central-southern Italy has been achieved; margins for further improvement do however exist, especially in southern regions. As for the efficiency of the *reward/penalty* mechanisms adopted, awarding the operators of 690 million euro over the period 2004-2009 resulted into a benefit for the community of 2.7 billion euro in avoided outage costs.

In the gas sector, we sought to improve safety by incentivising the modernisation of the distribution networks and stepping up inspections on users installations. The network inspection and emergency call reply time objectives were exceeded. *Odourisation* checks increased from 25,000 (2004) to 40,000 (2009). Paperwork checks on new facilities (before the start of operations) also produced an interesting result: 96% compliance, out of 1.7 million checks carried out.

Still in the consumer protection field, the insurance system for damages caused by gas related incidents was maintained and reinforced.

Commercial quality

The Authority made a constant effort to progressively strengthen consumer safeguards. Since 2004 consumers have benefited from automatic compensations amounting to 32.5 million euro (20 million euro for electricity and 12.5 million for gas).

The opening up of the electricity and gas markets to competition also created the need for a specific regulatory framework for sales services. This covered, *inter alia*: complaint responses; erroneous or double billing; changes of supplier; and the operation of energy companies' call centres.

Prices

The total bill is made up of four main elements: the tariff component, for network services; the energy consumption price component; the tax component; and (in the case of electricity) the “para-fiscal” component. Therefore, and to illustrate overall price movements, we should also consider these various and diverse elements.

Tariff components

In the electricity sector, the tariffs remunerating network services have fallen, since 2004, by 5% in nominal terms and 14% in real terms. This reduction has not had a negative impact on investment (which doubled in the same period) or on service quality improvements. The balance adopted, between tariff-containment and sound business practice, has, in short, worked.

In the gas sector, tariff stability was found to be necessary to maintain this same balance – the reason being, once again, the lower efficiency of the gas sector compared with the electricity system. Indeed, the gas distribution system is still parcelled into hundreds of operators and thousands of concessions: a system clearly in need of the awaited re-organisation already under study by the Government and Parliament and for which we submitted specific proposals in good time.

Energy components

Wholesale electricity prices (and here I refer not to the spot market but, more correctly, to annual base load supplies) are about 70 euro/MWh, much higher than in other major European countries. The price is 16-18 euro/MWh higher than in France, for example, although the difference narrows down to 12-14 euro/MWh if we take into account that the Italian price includes the cost of *green certificates*. This difference would be much higher if investments to renew the generating fleet had not been made. Moreover, it could certainly be reduced, and eventually wiped out if also gas prices were the result of competitive forces. With gas price 30% lower (i.e., more or less the current price on the American market) the Italian wholesale electricity price would be in line with the French price.

As regards gas wholesale prices, we should remember that no transparent benchmark yet exist, in the absence of true, regulated Italian spot or forward markets. However, as we well know, gas in Italy is priced 3-4 euro-cents/cubic metre higher than the European wholesale markets, that is over 10% more). There is no valid technical reason for this difference, other than the already lamented absence of competition in the national market, where a dominant operator controls all stages of the supply chain.

For the gas retail market, higher wholesale costs are largely offset by low tariff components, which in general lead to final prices in line with European levels. For the domestic and small business customers, this overall result is guaranteed, in essence, by the protection service regulated by the

Authority. This makes it possible to set maximum supply prices based on mechanisms related to import prices.

Therefore, we intend to apply a cost reduction policy from October 2010 - that is before the peak consumption time begins - in order to ensure that the first positive effects of the new trends in the international market (spot markets and renegotiation of long-term contracts) will be immediately beneficial to the consumers.

On the basis of the information in our possession, this initiative (taken following a complex analysis and consultation procedure involving all the parties concerned), is fully justified. It has been adopted with due respect for existing contracts and the economic-financial equilibrium of operators in the sector. In any case, it is a surrogate for the effects that would emerge from a true wholesale market, as already happens in the electricity sector.

Para-fiscal costs

Other components weighing on the electricity system are para-fiscal in nature: *general system costs*. These mainly comprise charges for the various incentives currently in place to encourage the use of renewable sources (CIP6 [incentives deriving from Interministerial Pricing Committee (CIP) resolution 6 of 29 April 1992, which introduced a system of incentives for electricity produced in plants using renewable and assimilated sources], green certificates, all-inclusive fixed tariff, energy account). The European goals for renewables, with which we agree are, however, very challenging; to attain them we will need to achieve the utmost efficiency. At present, however, our system is very inefficient, making the cost borne by consumers to achieve these objectives higher than necessary. The excessively high level of the incentives currently in place also causes distortions and a lack of transparency in the sector.

In 2010, as we announced nearly two years ago, the cost of incentives for renewables (excluding CIP6 assimilated sources) will exceed 3 billion euro: nearly 10% of the annual cost of the electricity system as a whole. If we consider that incentivised electricity amounts to around 20 billion kWh, the average incentive is about double the value of the energy produced. We thus pay three times as much for incentivised electricity as for conventional electricity.

We therefore deem the following measures to be necessary: a review of the duration and level of the incentives, with a focus on solar energy; and a correction of the shortcomings of the market in *green certificates*. Without such measures, there is a strong risk of electricity bills increasing by up to 20% or more between now and 2020. For these reasons, we have proposed on several occasions that part of the cost of renewables incentives should be shifted from bills to general taxation. This would ensure that progressive and proportionate criteria, more in line with the social commitment needed to protect the environment, were applied.

If, however, we wished to keep incentives for renewables in the tariff, it would be opportune for the Government and Parliament to limit their energy-environmental-industrial policies to setting quantitative goals and timescales for each source; and to leave it to the Authority (which already deals with tariff matters) to establish how best to ensure that they are observed, at a minimum cost and in an efficient manner, following the model tested successfully with the *white certificates* energy-saving mechanism. This could ensure not just the efficient use of, but also greater stability for, these same incentives, given that over the last 10 years they have been changed on almost an annual basis.

System costs also include a modest sum (less than 2/1000 of the total bill) for research. To ensure that these resources are used efficiently, we have provided the government with the due input by drawing up, after wide consultation, the Three-Year Plan for 2009-11 and the criteria for the first call for proposals. This was carried out last year and involved a rigorous project-selection process.

Overall, system costs produce for retail electricity prices, a similar differential with respect to European prices as that found for the higher costs of the wholesale market. Essentially, given an overall differential of about 25% (net of taxes), no more than 15% derives from the different mix of production sources. The rest results from system costs. If no action is taken on the evolution of these costs, two or three years from now they could lie in the tariff heavier than the different generating mixes.

Taxation

The impact of taxation in the energy sector has various implications. Direct taxation amounts to 14% for electricity and 37.6% for gas of the total invoice. But there are other levies that do not appear as such in energy bills. These are: an annual levy, totalling 100 million euro (from the A2

account, reserved for decommissioning nuclear plants), which goes to the state coffers; ICI (national property tax); and taxes for hydro-electric or gas distribution concessions, which end up one way or the other, weighing on final energy costs.

Another tax, which by law cannot be offloaded onto consumers, is the so-called “Robin Hood Tax”. In order to ensure that the ban on shifting is observed (shifting in this case the IRES <corporation tax> surcharge on energy consumption prices, including oil products), vigilance has been entrusted to the Authority, which is performing this new task without any increase as yet in its human resources. Over the next few weeks we will deliver our opinion – positive or negative – on the first 23 cases already analysed in detail.

Consumer protection

The changes and opportunities brought by liberalisation processes require a parallel regulatory effort if citizens – in the energy sector as in others – are to benefit fully from the power given to them by their freedom to change supplier. To this end, we have sought to make consumers increasingly free, informed, aware and protected in their decision-making process .

As a matter of fact, the complete liberalisation of the markets has led, as was to be expected, to a substantial growth in reports and requests for information, to us and to consumers’ associations. To prepare for this we set up the *Consumers’ Help Desk*, with call centre, internet links and *complaints unit*. The Help Desk is run by the Single Buyer, which I would like to thank for this much appreciated collaboration.

We have also added some online services to our website to encourage a growing dialogue. These include: *Trova Offerte* (Offers’ Finder), a comparison engine to compare the various offers available on the market; the *Atlante dei diritti del consumatore* (Energy Consumers’ Charter of Rights), which can be consulted through our website and provides information on all types of regulations and protection instruments as and when we introduce them; and *Pesa consumi* (Consumption Gauge), a simulator that can be used to assess energy-saving opportunities for households.

Also worthy of mention is the proven effectiveness of the *white certificates*’ mechanism, which we set up in 2005 to promote an increasingly efficient use of energy. Incentives totalling about 317

million euro were delivered in the first four years of the scheme. The energy cost saved by domestic consumers can be conservatively estimated at 6 to 15 times higher than the incentives delivered).

In addition to the direct benefit of saved energy costs to consumers, the incentives also produced system benefits (environmental, safety, development of competitiveness and employment) as well as a sizeable reduction in the cost of achieving the European *Climate and Energy Package* objectives.

Social solidarity and assistance instruments

To date, more than 1,400,000 electricity bonuses and 230,000 gas bonuses have been issued. Based on the pending applications or already submitted ones, these figures are bound to grow. Given that the two bonuses (electricity and gas) are cumulative, vulnerable household consumers are thus guaranteed an overall annual reduction of their energy bills that ranges from 80 to 360 euro (the exact amount depends on household size, and where and how the gas is consumed). Households experiencing economic hardship (ISEE [Equivalent economic status indicator] of less than 7,500 euro), large families (more than three dependent children, ISEE up to 20,000 euro), or people with illnesses requiring the use of lifesaving medical equipment can apply for these bonuses and renew them annually.

The bonuses, which act as effective instruments of consumer solidarity, were promoted through awareness raising campaigns for which we received support and collaboration from the Prime Minister's Office, the Ministry for Economic Development, *Poste Italiane* (the Italian postal service) and *Ferrovie dello Stato* (the State Railways). The National Association of Italian Municipalities (ANCI), its members and the operators concerned all provided a significant operational input in processing and validating the applications. For these initiatives, and many others, we also received considerable coverage from journalists and the media.

To all of those mentioned, a warm “thank you”!

Another social solidarity initiative that is worthy of mention is the tariff reduction in favour of the people affected by the earthquake in Abruzzo. This was introduced as implementation of the decree issued by the Commissioner for Reconstruction in October 2009.

Dialogue with consumers' associations

The Protocol of Understanding with the National Council for Consumers and Users (Italian acronym CNCU) was renewed in 2009. This envisages information campaigns, refresher seminars and training courses for arbitrators. The first projects for consumers' associations (proposed by the Authority, approved by the Ministry for Economic Development and funded through the penalties imposed by the Authority) were also launched. For the first projects in 2010-11, over 2.6 million euro have been earmarked.

The dialogue with consumers' associations has developed over time through consultations and cooperation based on: a periodic forum; quarterly meetings to present and discuss tariff and price adjustments; and working and focus groups to supplement the various hearings that are held.

Our efforts to protect consumers also include joint initiatives with the Antitrust Authority as well as our vigilance and control activities, which I shall now describe.

Vigilance and control

Since 2004, with the creation of a special Vigilance and Control Department, we have enhanced our supervisory function, which plays an essential role during this more advanced stage of regulation. For this function, the Authority also enjoys the support of other bodies and institutions. These include the Tax Police, with their Special Units which unfailingly provide us with prompt, professional and growing cooperation; our warmest thanks, therefore, to the Tax Police.

We can also rely on: the full cooperation of the *Cassa conguaglio per il settore elettrico* (Electricity Equalization Fund, CCSE), which performs a management and monitoring role in sensitive system cost issues; the *Ente per le Nuove tecnologie, l'Energia e l'Ambiente* (Italian National Agency for New Technologies, Energy and the Environment, ENEA), with its valuable technical expertise; the *Stazione sperimentale per i combustibili* (Fuel Experimental Station SSC); and the *Gestore dei Servizi Energetici* (Energy Services Operator). To them too we are most grateful.

The 116 inspections carried out in 2009 brought the total (counting from 2004) to 670. Of these, 532 were conducted with the *Guardia di Finanza* and 125 with the Cassa Conguaglio. The SSC took part in 317 inspections.

The results achieved not only satisfied the growing need to monitor the regulated sectors but also enabled us to gather useful information to improve or evolve the regulatory framework. In some cases, they led to ordinances or penalties.

It also seems relevant here to point out some of the direct benefits to citizens-consumers which stemmed from the inspections and checks carried out on plants receiving incentives (plants fed by renewable or assimilated sources and by cogeneration), such as the administrative procedures that recovered about 166 million euro, 82 million of which went to reduce bills (tariff component A3). The sums recovered will produce reductions in general system costs in coming years as well, and indeed throughout the remaining incentive period.

As regards the fines and penalties applied by the Authority, the main purpose of which is to ensure that operators comply with the rules, the period 2004–June 2010 saw 403 procedures opened and 251 completed. The 134 fines issued amounted to over 182 million euro. The Authority itself has never benefited from these funds, nor does it feel it would be appropriate to do so. Until 2008, the fines were paid into the state coffers. Since then, they have been paid into a fund, still part of the state budget, that will be used to finance projects designed to benefit consumers.

Operations and organisation

Institutional dialogue

As confirmation of our commitment to and interest in maintaining a close and continuous dialogue with Parliament and the Government, our consultation and reporting activity has increased in the years since 2004. In 2009 alone we issued 19 opinions, 7 reports and 4 memorandums for the same number of parliamentary hearings. On the basis of the experience built up in nearly 14 years of institutional dialogue that has been of the utmost value, we feel we can propose that the arrangements and instruments already envisaged be strengthened in order to achieve an even better-structured dialogue.

To this end it is hoped that the provisions contained in the “*Legge annuale per il mercato e la concorrenza*” (Annual law for the market and competition) - a timely provision introduced by Parliament through the “*Legge Sviluppo*” - will be subject to integration. (Development Law, no. 99/2009). This would consist of a supplementary provision explicitly providing for the proposals formulated by the Authority within its sectors of competence to be taken into consideration, like those of the Antitrust Authority, in drafting that same Annual Law.

Dialogue with stakeholders

One of the commitments upon which we place great value is the on-going dialogue with all the system actors involved in regulation. In 2009 we published 41 consultation documents and opened 4 Regulatory Impact Assessments (RIAs) on 4 significant provisions. The consultation exercise, although not strictly envisaged by law, have come to play a vital role over time, not just in terms of transparency and quality but also in terms of the democratic legitimisation of the regulatory process. So much so that failure to conduct them, or to conduct them in full, could constitute a flaw in the provisions themselves.

As confirmation of the care with which we evaluate stakeholders' analyses and proposals, each year we also organise a general consultation both on the issues covered in the Annual Report and on our Three-Year Plan, that we have adopted as our January first resolution for six years up to now. Over the years our consultation system has benefited from wide yet intensive participation by consumers, operators and their associations: a development we are delighted to note.

Considering the substantial and necessary amount of provisions we produce, we felt it was only fair to accompany these with simplification initiatives. To this end we publish *Consolidated Texts* and *Quality Codes*, while our *Simplification Unit* has helped us identify a full 800 provisions that are no longer effective. The Simplification Unit will naturally continue to operate.

Legal actions and regulatory stability

The Administrative Courts' rulings on our provisions are, as we point out in each Annual Report, not just central to our accountability but also a factor of extreme importance to us in the effective pursuit of our institutional goals. We have always paid great attention to the opinions of the courts, in the knowledge that they can be an important means to fine-tune our capacity for intervention. Indeed, the regulatory system is confirmed and made all the more robust by the scrutiny of the courts, thus facilitating us in our vital goal of completing and refining a regulatory framework that also provides stability, coherence and reliability.

Over these seven years, the number of resolutions rejected has been halved, as a percentage of the total issued (from 13.4%, in 2004 to 6.6% in 2009). Of all the resolutions issued between 2004 and 2010, 1.4% were permanently annulled (giving a "survival" rate of 98.6%). I would like to thank the *Avvocatura dello Stato* (State Legal Service) for the precise and effective assistance provided at each stage of the actions we have been involved in.

Management

Turning to management issues, the practice of fully publicising our documents and initiatives (Three-Year Plan, Annual Operational Plans, Annex to our Statement of Accounts, information on consultancy arrangements and tenders, etc) has become firmly established.

Our organisational structure, with timely interventions to ensure that it develops in a flexible manner, has acquired a well-established functional framework over the years. The priority has been on convergence between the gas and electricity sectors, in accordance with the most advanced international practices.

2009 saw the conclusion of an intensive recruitment campaign launched to bring our staffing complement up to that envisaged by law. Our recruitment efforts have led to an increase in our human resources over the last seven years, notwithstanding the significant turnover of staff moving to other institutions or operators in the sector. While this turnover has created problems for us, it shows how much our internal staff development and training is valued. Indeed, for the qualitative development of our human resources we continue to make significant investment in training and continuing professional development, which in 2009 involved 75% of our personnel.

Again in 2009 we launched our revised career progression and performance-related system based, even more than before, on merit. This, like other provisions, was the fruit of an on-going dialogue with the trade unions, whom I warmly salute here today.

The Authority's overall staffing level, as mentioned above, is set by law. It should be noted here that this level has remained unchanged since 2004, even though numerous legislative provisions have been passed since then, entrusting the Authority with new and more substantial tasks. As a consequence, we have on several occasions proposed a new provision allowing us to recruit more staff, without any increased burden on the state coffers or on operators and consumers. We trust that this proposal will be approved, not least in consideration of the above-mentioned Third European Package, which envisages further commitments for the national regulators and thus requires them to be equipped with adequate resources and autonomy.

We also trust that our Report to Parliament and Government of 25 June 2010 will be taken into

account in the parliamentary procedure currently under way for the budget adjustment (Decree Law 78 of 31 May 2010). As we declared in our Report, we well understand and certainly wish to contribute to the economic effort required of all the institutions. At the same time, however, we pointed out the problems inherent to certain measures that could have a negative impact on our ability to perform, fully and properly, the institutional tasks assigned to us. We therefore advanced a proposal that would ensure that our economic input to the state budget remained fully in line with that required of us but in a form more consistent with the independence, economic-organisational autonomy and operational capacity of the Authority.

It should in any case be noted that: from this year on, we have already been called upon to finance other Regulators; and we cover our own operations without creating any burden on the state finances, thanks to a fully self-funding system based on the contribution (set by law) paid by operators in the sector. This levy has been limited (for some years now and thanks to continuous internal efficiency gains) to 0.3 per thousand of operators' revenues: a figure well below the 1 per thousand envisaged by law. Our self-funding arrangement also supports an economic-financial management system subjected to regular checks by an expert and highly qualified *Board of Auditors*, to which I am most grateful.

International activity

Throughout our mandate, and thanks to the solid foundations laid by our predecessors, to whom go my warmest regards, we have intensified our necessary international collaboration with other Regulators and/or institutions engaged in regulatory or control and monitoring activities for which we are jointly responsible. On a scale of priorities that reflects our national and European interests, we have been engaged in international activities at the following levels:

- EU, for the work of the *Council of European Energy Regulators* (CEER) and in setting up the new European Agency for the Cooperation of Energy Regulators (ACER), whose management team will include an Italian official who has worked with our Authority before;
- South-East Europe, for the *Board of Regulators* established through the Athens Treaty of 2005;
- the Mediterranean, to establish and lead the *Association of Mediterranean Regulators for Electricity and Gas* (MEDREG), whose permanent secretariat has been entrusted to our Institution.

To these can be added: the management of EU-funded twinning initiatives for Turkey and Ukraine, important hubs for our energy system; and the establishment of the *International Confederation of Energy Regulators* (ICER). The latter is based on the decisions reached at the G8 in Rome to ensure that the Regulators also contribute to international cooperation in support of broad governance agreements in the wake of the crisis.

Now, as I come to the end of my last annual presentation, and as the closing credits begin to roll for an entire mandate, I wish to express, also on behalf of my colleague Fanelli, my deep and sincere gratitude to the Parliament and Government. They have entrusted to us, and facilitated, a fascinating responsibility: the duty to lead – “in full autonomy and with independent decisions and evaluations” (Law 481/1995) – a high Institution of the State, an independent Regulator for a sector, the energy sector, that is of prime importance in developing the quality of life of all our fellow citizens.

We also wish to extend our gratitude to our personnel: to the Secretary General, the Director General, the Directors, the Heads of Units, and to all our staff, for the professionalism and dedication they have always shown. Our heartfelt thanks go also to the Guarantor of our *Code of Conduct*, to the National Council for Economics and Labour (CNEL) and to the Boards of the other Regulators, with which we work in valuable, active and effective collaboration.

To close, allow me to express two final and purely personal sentiments. The first: grateful and affectionate appreciation of the splendid collaboration that my colleague and friend Tullio Fanelli – has extended to me in a spirit of enthusiasm, generosity, loyalty and wisdom. And the second, a confession: having been called upon to protect consumers, to promote healthy competition, to make our system more competitive, to serve my country and to perform a function of regulation and control – in Einaudi’s liberal economic sense – has been for me a most enjoyable blend of cultural and professional values: a wonderful human experience and a great honour. Thank you.