

**Energy: from 1 January 2016, a double reduction in Italian utility bills; electricity -1.2% and gas -3.3%.  
Savings of almost €60 a year**

**also underway are the reforms tied to the new network infrastructure regulation period**

Milan, 28 December 2015 – From 1 January 2016, a double reduction for energy bills. For a typical family<sup>1</sup>, electricity bills will fall by -1.2%, whilst the gas bills will be reduced even further, with a fall by -3.3%, confirming a total savings in 12 months for almost €60. This is what is expected by the updates of the *economic conditions of reference* for families and consumers of *Standard offer market* for the first quarter of 2016.

For electricity, the spending in the rolling year<sup>2</sup> (1 April 2015 - 31 March 2016) for the typical family will be around €505, a fall of -1.4% as compared to the 12 months of the preceding year (1 April 2014 - 31 March 2015), which is a saving of around €7. For gas, the spending for a typical family for the same period will be around €1,093, a decrease of -4.4%, corresponding to a saving of around €50 compared to the rolling year. Total savings for the 12 months of the rolling year in electricity and gas will therefore be €57 per typical family.

**Moreover, the start of 2016 represents a crossroads in the application of various Authority reforms: from the new period of electricity regulation to the new bill 2.0; from more selective infrastructure remuneration to the first steps of the Authority roadmap towards the exit from the Price Protection, through the 'liberation' of the electricity vector, the one environmentally most sustainable of all widespread energy vectors, from constraints that derive from the past undermining of its equivalence to other energies.**

The Authority has, indeed, also approved the rules for the new regulatory period (2016-2023) for the electricity sector (transmission, distribution and metering)<sup>3</sup>, which contribute to the total determination of the upgrade. This is a fundamental step in the modernisation of regulations towards a logic of increased selectivity, i.e. rewarding those investments that lead to benefits and innovation for the end user, regaining efficiency in the management of existing networks. This new regulatory path repositions customer service as a central concern, within a framework promoting investment, both thanks to renewed regulation stability and predictability and by means of specific rules for the promotion of the development of intelligent networks for the exploitation of renewable and stored energy, for the upgrading and flexibility of the domestic users' 'last mile' and to guarantee that every user is fully informed of his personal energy profile via smart metering technology. This operation, taking into account the effects of the recent reform of the methods for the determination of the regulated infrastructure remuneration tariff (both gas and electricity, resolution 583/2015/R/com), predicts substantial savings for the consumers, estimated at around €700 million in 2016, for the electricity sector alone. The Authority intervention, decided upon at the end of a complex and articulated consultation process lasting over a year, also more than compensates, with reference to the average domestic customer, for the effects of the first stage of the domestic tariff reform decided by the Authority at the beginning of December (resolution 583/2015/R/eel). Altogether, considering jointly both the gas and electricity sectors, with regard to the tariffs covering the network costs, the tariff reduction decided by the Authority, again for 2016, is worth around €1 billion.

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<sup>1</sup> The typical family has an average electricity consumption of 2,700 kWh a year and a maximum connected load of 3kW; for gas, the consumption is 1,400 cubic metres a year.

<sup>2</sup> Rolling year is to be understood as the year comprising the quarter subject to the upgrading and the three preceding quarters, taking into consideration the consumption for each quarter.

<sup>3</sup> Resolutions 646/2015/R/eel, 653/2015/R/eel and 654/2015/R/eel

The first energy bills for all consumers, in the new year, will arrive in the form of the clearer and less complicated 'bill 2.0': one single page with all the basic elements of costs and supply clearly highlighted, with a more straightforward, modern format and simplified terms. A development that will also arrive on your computer, tablet or smartphone, for those who subscribe to an e-billing. And for those who, under *Standard offer market*, choose to sign up to e-billing with direct debit, a further discount of around €6 a year is expected for both electricity and gas<sup>4</sup>. This reduction is in line with that already envisaged by certain market offers.

In the first quarter of 2016, the lower price of electrical energy is mainly due to a sharp fall in costs in overall "energy material" supply costs, which reflects the price dynamics on the wholesale market, to slight downward adjustment of the system costs and to a small drop in transmission, distribution and metering tariffs; decreases that are, in part, counterbalanced by an increase in components relating to retail marketing activities<sup>5</sup>.

For gas the sharp reduction is mainly due to the sharp decline of the costs of raw materials, which reflects market trends and, in particular, the downward expectations in future prices on wholesale markets in Italy and Europe for the next quarter (with expected prices over 10% lower than expectations integrated with prices recorded just three months ago, with reference to the same period, inverting even the normal, cyclic nature due to the periodicity). Price drops that, thanks to the Authority gas reform<sup>6</sup> of 2012 enabling the prompt interception of wholesale price signals, are immediately transferred to the end consumers, with particularly significant effects on the highest winter consumption rates. Distribution and metering tariffs and transport costs have also decreased slightly.

**Electricity** - In detail, the decrease in price of electricity reflects, above all, the sharp drop in the costs of total supply of "energy material" incurred by the Single Buyer, in part already determined and in part estimated (which contributes to -3.4% of the overall variation of costs for the average customer). Within the 'supply' component, constant dispatching costs and a slight increase in equalization are also recorded, also due to the recovery of deviations between effective and estimated costs linked to peaks in consumption recorded last July. System tax requirements also show a decrease (contributing in total by -1.2% to the overall variation of costs for the average customer), in particular for the temporary suspension of the Ae component (tax relief for energy intensive industries) waiting for the conclusion of the European procedure to verify the compatibility of rules that led to its introduction with the EU Regulatory Framework; the UC3 component also shows a clear decrease (imbalances in the transmission and distribution network transport costs equalization systems). Component A3 remains constant (renewable and assimilated energy incentives).

Transmission, distribution and measurement tariffs decrease slightly (-0.1% of the overall variation in costs for the average customer), thanks to the regulations of the new regulatory period and to the new regulated infrastructure remuneration rate calculation method, also absorbing the possible impacts, for the average domestic customer, of the domestic tariff reform. As envisaged, the

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<sup>4</sup> For customers under 'Standard offer market', to promote e-billing, any customer who chooses to pay by direct debit via bank or postal account or via credit card (for electricity, around half of domestic customers and more than a third of non-domestic customers) will receive bills sent with the electronic format, with the related discount, with the option, nonetheless, of requesting paper bills. All other customers, i.e. all those who do not pay by direct debit, will continue to receive the traditional paper bill.

<sup>5</sup> The retail price component linked to marketing will see a significant, and predicted, increase from 1 January 2016. Indeed, a roadmap has been started it will accompany for 2 years many domestic market customers and small enterprises. The Authority is building a free market Similar Protection service that will move the customer towards the free market in a controlled manner, including avoiding the inevitable price increases in the universal service.

<sup>6</sup> The main innovation of the wholesale and retail 'gas reform' introduced by the Authority, implemented in 2012 and concluded in 2014 (the reform concerned all aspects of the protection economic conditions, with the exception of the taxes and excise duties for which Aegsi has recommended appropriate reductions on several occasions, to be more in line with other EU countries), is the direct decoupling of gas and oil prices, using wholesale spot prices in the upgrade quarter to calculate raw material costs, and no longer long-term supply contracts indexed to oil products. The reform also introduced gradual implementation mechanisms, "insurance" against the risk of price increases and mechanisms to promote the renegotiation of multi-year contracts.

electricity Bonus was increased to compensate any effects of the reforms on the poorer income brackets. The reductions are partly counterbalanced by the necessary adaptation of the coverage component of marketing and sales costs (PCV), that had been fixed since 2008 (+3.5% of the overall variation in costs for the average customer). This makes a final reduction of -1.2% of the energy bill for the average customer .

**Natural gas** - In detail, the reduction in gas prices is the result of the fall in different components. The raw material supply component has decreased sharply (-3.6% of the overall variation in costs for the average customer), which reflects the downward expectations of wholesale prices of Italian and European forward markets, in line with the trend of other energy commodities, eliminating the nonetheless existing periodic dynamics of gas prices. There is also a decrease in transport costs (Qt component -0.2% of the overall variation in costs for the average customer) and distribution and measurement tariffs (-0.2% of the overall variation in costs for the average customer). The reductions are in part counterbalanced by the slight increase in the long-term contracts renegotiation mechanism coverage component (CPR; +0.6% of the overall variation in costs for the average customer) and in the marketing and sales component (QVD; +0.1% of the overall variation in costs for the average customer). This gives a final result of -3.3% for average customer energy bills which, in the high consumption winter period, is of significant value if transferred immediately to the consumer, as the Authority's reformed protection mechanism allows.

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## **The quarterly update in detail**

### **Aggregations and graphics in line with new elements introduced by the 'bill 2.0'<sup>7</sup>**

**Electricity** - In detail, from 1 January 2016, the electricity *reference price* for the average customer will be 18.84 cents euro per kilowatt-hour, including taxes, divided into the following<sup>8</sup>:

***Energy material costs:***

- 6.91 cents euro (36.66% of the bill total) for the energy supply costs;
- 1.50 cents euro (7.99%) for retail marketing.

***Transport and meter management costs:***

- 3.30 cents euro (17.51%) for the distribution, measurement, transport, transmission and distribution equalization and quality control services.

***Costs for system charges:***

- 4.61 cents euro (24.47%) for *general system charges*, established by law.

***Taxes:***

- 2.52 cents euro (13.38%) for taxes including VAT and excise duties.

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<sup>7</sup> In detail, the bill 2.0 envisages the simplification of content and terms used in the summarised bill, which will be the one received by everyone, fundamental to understanding final costs. The first page of the bill will also show the average unit cost of the kilowatt-hour/standard cubic metre, as a ratio between total cost and invoiced consumption. Anyone wanting a more in-depth explanation of the cost items will be able to ask his/her provider for details, i.e. the various pages containing a full description of the components making up the overall cost. The full details will always be provided in reply to any complaints. The "costs for system charges" will also be clearly detailed, an entry until now indicated as part of the network services, and increased transparency is guaranteed in the case of any recalculations, i.e. in the event of balancing of arrears, which will be highlighted in a dedicated box entry.

<sup>8</sup> The resolution of 30 April 2015, 200/2015/R/COM - bill 2.0 - envisages, as of 1 January 2016, a different aggregation of the individual components in end user energy bills; in particular the entries that used to be included as part of *Sales Services* will merge to become part of the entry *Energy material costs*, whilst the entries that used to be included as part of *Network services* will become two separate aggregations, namely *Transport and meter management costs* (distribution, measurement, transport, transmission and distribution equalization, quality control) and *Costs for system charges*.