



ARERA

Autorità di Regolazione
per Energia Reti e Ambiente



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RETAIL MARKETS MONITORING REPORT

2016



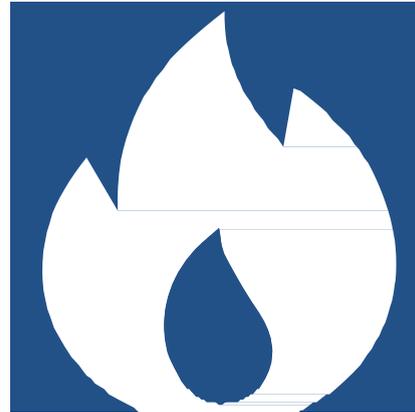
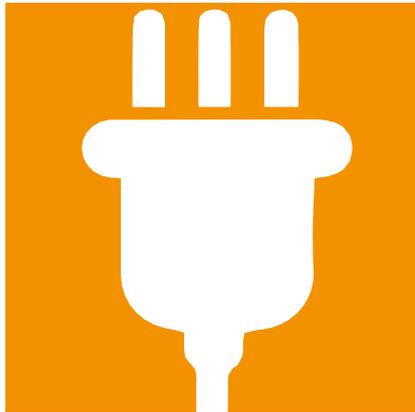
ELECTRICITY AND GAS RETAIL MARKET MONITORING REPORT

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Summary and final considerations



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The Retail Markets Monitoring Report 2016 summarises the 2016 cyclic monitoring¹ of electricity and natural gas retail markets. It refers to small and medium-sized customers² in terms of consumption. The report updates the contents already published in Reports for 2012-13 and 2014-15 (previous Monitoring Reports).

This Report is drawn up by the ARERA as part of the regular and systematic observation of operating conditions in the retail market for electricity and natural gas. It also contains sections dedicated to monitoring the regulations referred to in Resolution 153/2012/R/com4, in order to detect alleged irregularities in drafting supply contracts (hereinafter "Resolution 153/12").

It should also be noted that further evidence regarding the evolution of electricity and gas retail markets may be submitted to the Italian Ministry of Economic Development (MISE) as part of the specific report drawn up in compliance with the provisions of Paragraph 1.66 of the Law no. 124 of 4 August 2017 ('2017 Competition Law').

Section 1.1 summarises the contents of the Report. ARERA's final considerations and the relative course of action are reported in Section 1.2.



¹ The monitoring activity started with the *Code for the monitoring system for electricity and natural gas retail markets* (TIMR) pursuant to the resolution of the Italian Regulatory Authority for Electricity and Gas, now the Italian Regulatory Authority for Energy, Networks and Environment (hereinafter 'ARERA') of 3 November 2011, ARG/com 151/11 (hereinafter 'Resolution ARG/com 151/11').

² As described in greater detail in the Report 2012-13, for monitoring purposes, small and medium-sized customers are defined as follows:

- for the retail sale of electricity:

- i. households - just under 30 million points and just under 57,000 GWh of energy supplied in 2016;
- ii. non-households with low voltage connections (hereinafter 'Non-Households in LV'), excluding public lighting - over 7 million points and about 73,000 GWh of energy supplied;
- iii. non-households with medium voltage connections, excluding public lighting (hereinafter 'Non-Households in MV'), with about 107,000 points and over 95,000 GWh of energy supplied;

- for the retail sale of natural gas:

- i. households with consumption up to 200,000 Sm³ per year (hereinafter 'households'), of almost 20 million points and about 15 billion Sm³ of energy supplied;
- ii. condo households with consumption up to 200,000 Sm³ per year (hereinafter 'condo households'), of 200,000 points and slightly less than 2.5 billion Sm³ of energy supplied;
- iii. non-households with consumption up to 200,000 Sm³ per year (hereinafter 'Non-Households'), of about 1.2 million points and slightly more than 27 billion Sm³ of energy supplied;
- iv. public service businesses of up to 200,000 Sm³ per year (hereinafter 'Public Service Customers'), of 60,000 points and about 1.3 billion Sm³ of energy supplied. 'Public lighting' customers for electricity, and 'electricity generation' and 'automotive' gas customers, are therefore excluded from retail monitoring.

³ Report 42/2015/I/com, for 2012-2013, and Report 168/2017/I/com, for 2014-15.

⁴ Resolution of 19 April, 2012, 153/2012/R/ com and subsequent additions and amendments.



1.1 Main evidences

This section presents the main results from 1 January to 31 December 2016. In addition, the evolution of the main events over the five-year period 2012-16 is described, where available. All the evidence is reported in Sections 3, 4 and 5. The Appendix provides a more detailed analysis of some elements. The findings in terms of supply structure and competition for mass-market customers also confirm the different levels of maturity and competitiveness in the electricity and gas retail markets for 2016 and, within each sector, for each customer type.

The analysis of the **supply structure and competition in the electricity sector** highlighted that the competitive dynamics are not homogenous among different types of customers⁵. Throughout the five-year period, there has been a constant and substantial increase in the number of operators active in the free market⁶ for all types of customers. The corporate groups involved in retail rose from 219 in 2012 to 373 in 2016, with an increase of 45 in the last year. In addition, several corporate groups extended their geographical presence across the country⁷ (Table 4.1). The number of companies in most geographical regions increased and many groups extended their presence throughout the national territory between 2012 and 2016. On the other hand, for all types of customers, there was no improvement in the national concentration indexes for energy supplied in this period. Conversely, a small increase was reported in terms of supplied points (Table 4.3). This analysis confirms that the increase in the number of free market operators corresponds to a greater fragmentation of their market shares (Graph 4.1).

Sales to *Non-Households in MV* continues to be conditioned by effective competition, as can be deduced from the concentration indexes and the frequency with which customers change suppliers (switching), even though developments in the competitive dynamics are not constant over the analysed five-year period, showing some critical elements explained below.

For this type of customer, almost all the 2016 concentration indexes are lower than in 2012. Only the market share of the leading operator⁸ increased during the analysed five-year period, both in terms of energy supplied and in terms of points supplied (Table 4.3). Consequently, the market shares of the second and third operators were eroded by the growth of both the leading operator – which continues to strengthen its position on the free market – and corporate groups⁹ with market shares lower than 5%¹⁰. (Graph 4.3). Furthermore, it should be noted that, between 2012 and 2016, there were two more operators in the cluster of small and medium groups. However, data seem to indicate that the 126 new small groups entering the market

⁵ Geographically, competitive conditions are uniform across the country. In line with this, Section 4.1 shows the national electricity sector concentration indexes.

⁶ The large number of new operators in the retail electricity sales sector may not be linked exclusively to the specific dynamics of this sector, but may be instrumental to pursuing strategic objectives in upstream supply chain markets.

⁷ The percentage of active corporate groups in more than half of Italian regions rose from 44% in 2012 to 47% in 2016.

⁸ Between 2012 and 2016, the leading operator in the sector increased its free market share in terms of energy sold to users by 2.5%, while the second and third operators' share decreased overall by 2.7%.

⁹ In terms of the analysis of competitive dynamics, the rest of the paragraph refers to corporate groups using the words 'groups' and 'operators' interchangeably.

¹⁰ The sector structure analysis referred to in sections 4 and 5 distinguishes between: small groups, with shares below 0.5%, medium-small groups, with shares of 0.5% to 2%, medium-large groups, with market shares of 2% to 5% and large groups with shares above 5%.



during the analysed five-year period managed together to erode a small portion of the market. As a result, the group of very small operators is steadily growing, while also becoming increasingly fragmented¹¹ (Graph 4.3).

The strong dynamism of the Non-Households in MV retail market is confirmed by switching of supply methods¹², though the continuous growth recorded between 2012 and 2015 saw a significant slowdown over the past year. In 2015, just less of 35% of Non-Households in MV changed suppliers. In 2016, this was just over 27%, the same as in 2013. It should however be noted that in 2016 there were more switches by Non-Households in MV than by other types of customer, demonstrating that this demand segment, while showing signs of slowing down, remains the most dynamic (Table 4.6).

In the market segment of Non-Households in LV, competition was higher in 2016 than at the beginning of the analysed five-year period. Apart from the market share of the leading operator in terms of supplied points, all concentration indexes decreased, although with a fluctuating trend. Despite this, the good results achieved in term of competition do not reach the aforementioned levels of Non-Households in MV, even when compared to the beginning of the analysed five-year period. The free market supply structure for Non-Households in LV continues to be more concentrated than for the Non-Households in MV.

For Non-Households in LV, in 2016, the leading operator held a market share close to 24.5% (+ 1.6% compared to 2015 and - 2.7% compared to 2012). The three main operators together hold approximately a market share of 33% (6% less than in 2012) (Table 4.3). The competition dynamics allow small and medium-sized operators to enter and grow in the free market, also eroding the market shares of the main national operators (with an overall market share increase of 8.2% over the five years). On the other hand, as with sales to Non-Households in MV, in 2016, for Non-Households in LV, the cluster of small-medium groups increased by 2 operators, whilst the cluster of small groups appeared increasingly fragmented¹³, with 151 new operators (Graph 4.2).

The Protection Regime market for Non-Households in LV, formed each year by a higher proportion of customers with lower consumption, continued to contract. In 2016, more than 73% of energy withdrawn by Non-Households in LV was supplied in the free market, corresponding to the 48% of the points of delivery owned by Non-Households in LV (Graph 3.1 and Graph 3.2). For the first time since 2013, the number of customers abandoning the Protection Regime increased by 0.3%, reaching 3.9%. This trend reversal could be explained by an increased focus of free market operators on customers with lower annual consumption. As in 2015, Protection Regime market operators still have competitive advantages in successfully “convince” their Non-Households in LV to abandon the Protection Regime by signing up for another of their offers on the free market. Again in 2016, about 56% of customers who switched to the free market chose a supplier connected to the distribution company. In addition, the proportion of customers re-entering into Protection Regime, that remained almost unvaried at 1.2% during the period 2012-2015, fell to 0.9% in 2016. Their weight over those that abandoned the Protection Regime reduced in the past year. To summarise for every 4 Non-Households in LV who abandoned the service in 2016, only one

¹¹ For Non-Households in MV, the average market share of the smallest operators fell from 0.07% in 2012 to 0.04% in 2016.

¹² For this Report, switching of supply methods include entering or leaving the protection regimes, changes of supplier in the free market and contractual renegotiations with the same supplier (only for household customers in both sectors and condo households for natural gas).

¹³ For Non-Households in LV, the average market share of the smallest operators fell between 2012 and 2016 from 0.06% to 0.05%.

returned¹⁴ (Table 4.7).

In the last year, Non-Households in LV were generally more active and there were slightly more variations in terms of supply, as compared to the previous four years (in 2016 about 16.5% of these customers switched). Nonetheless, the gap in dynamism as compared to Non-Households in MV customers is still substantial. There was also a slight increase in the total number of switches in 2016 (+ 0.2%), essentially attributable to an increase in the number of customers abandoning the Protection Regime (more than 0.4%) against a slight reduction in switches on the free market (around -0.1%) (Table 4.6).

The degree of competitiveness in sales to *Households*, however, remained lower than that highlighted above and there are no clear indications of its definite improvement over the five years. The market shares of the top two leading operators increased, assessed in terms of both energy and supplied points, as well as the Herfindahl-Hirschman Index (HHI) assessed in terms of supplied points increased. On the other hand, there was a slight decrease in both the HHI assessed in terms of energy – showing that competitive dynamics affects primarily customers with high consumption – and the market share of the third operator (assessed in terms of both energy and supplied points). The leading operator in the sector held in 2016 a market share of energy supplied to Households on the free market slightly higher than 50%¹⁵ (up by 0.5% as compared to the previous year and up by 0.2% when compared to 2012), while the top three operators held a market share of just under 70%¹⁶ (a decrease of 1.9% as compared to 2012) (Table 4.3).

The Protection Regime is still the most popular form of supply, although it has continuously decreased since 2012. In 2016, 35% of Households were supplied by the free market (corresponding to the 38% of the energy supplied to this type of customers) (Graph 3.1 and Graph 3.2). However, unlike Non-Households in LV, the Protection Regime abandon rate of the Households continued to decrease, in line with the previous four years (2012-2015), ending at 3.3% in 2016. Likewise, the number of customers returning to the Protection Regime began to decrease in 2015 and continued to fall to 0.6% in the last year. On the other hand, also in 2016, approximately one household returned to the Protection Regime for every five that terminated their contracts, thus confirming the ratio reported in the previous year. Finally, in 2016 the competitive advantage of Protection Regime operators in “convincing” customers in that regime to sign a contract in the free market seems to be confirmed also for Households and seems even accentuated with respect to non-households in LV. This advantage seems confirmed specifically with respect to customers with higher consumption¹⁷. It should however be noted that, for the first time since 2012, the share of Households moving to the free market with suppliers integrated with the distributor slightly decreased in 2016, as compared to the previous year. Just under 64% of customers who moved to the free market were supplied by vertically integrated operators (in 2015 this value was around 67%) (Table 4.7).

Switches of supply methods generally highlights the fact that the dynamism of Households, although significant and growing, is less marked than for Non-Households in LV and in MV: in fact in 2016 just 13.7% of Households changed their method of supply (Table 4.6).

With regard to that outlined above, it should finally be noted that medium-small groups

¹⁴ In the analysis the Safeguarded Category market, although significant, is not considered (serving 1% of the Non-Households in LV) nor the respective switching to and from this market (0.8% for points supplied and 5.1% for total respective switching processes).

¹⁵ More exactly 50.4% in 2016.

¹⁶ 69.9% in 2016.

¹⁷ Almost all the 10 leading operators increased the share of energy supplied on the free market (Table 4.6), whereas of the main national operators that only operate in the free market, only one out of three increased its market share (Table 4.2 and Table 4.3).



increased their overall market share of households by 6.3 percentage points over this five-year period, at the expense of medium-large groups and the third largest operator, whose market share fell by 10.9 percentage points in the same period. Again, in this case, there was confirmation of the fragmentation¹⁸ of small groups. Although a very large number of groups (164) entered the market from 2012-2016, they increased their overall market share by only 4.4 percentage points (Graph 4.1). The contrasting nature of the competitiveness of the household market is demonstrated by the number of new entrants to this sector is significantly greater than for the other two customer types monitored¹⁹ and that the groups operating only in the free market, competing with traditional suppliers (groups that also provide the Protection Regime), lost an overall 7.4 percentage points in market share over the five years (Table 4.5). Although the barriers to entry do not appear to be particularly high, significant barriers to growth seem to persist in the households market. Those barriers to growth are less evident in the non-households in LV market and are linked to the significant competitive advantages of groups providing the Protection Regime in bringing their customers to the free market. Therefore, if there are opportunities for growth in the free market, small suppliers find it hard to benefit from them.

The less impressive results for households confirm that, despite the fact that more than a third of customers have already benefited from opportunities offered by the free market, poor competitiveness in the sector is partly attributable to the inertia of a significant proportion of customers in this segment, that do not seem to fully understand yet the benefits of the free market.

Similar to the electricity sector, **the supply structure and competitive dynamics in the natural gas sector** display, as in the past, both critical and positive elements. However, it can be pointed out immediately that, in 2016, the natural gas sector showed signs of greater dynamism as compared to the electricity sector. In the absence of a multi-year report of these positive indications, there is no way of passing absolute judgement. However, the elements identified are worthy of particular attention and further study as part of any future monitoring.

Firstly, we can note that the number of free market operators increased also in the natural gas sector, increasing by 93 new groups over the five year period, to 373 in 2016 (Table 5.1). However, the effectiveness of competitive pressure from small and medium-sized operators on medium-large operators, evident in their increased market share, differs according to type of customer.

Unlike the electricity sector, it was confirmed in 2016 that competition between suppliers occurs mainly on a regional or sub-regional basis rather than on a national basis²⁰. Despite the fact that the number of operators among the top 4 in a grouping of 1 to 4 regions (Table 5.5) already increased by 2 operator between 2012 and 2015, over the entire five-year period, only 2 operators are among the top 4 suppliers in at least 10 regions. Furthermore, the regional concentration²¹ in 2016 is lower on average than in 2012, even though there are particularly uneven trends among different regions and different types of customer²² (Table 5.4). The competitive dynamics for all types of customers does not tend towards a more national market. Whereas, the concentration of gas sales to non-households (Other Customers) recorded in 2016 was more homogeneous than at the beginning of the five-year period, the opposite was observed for households (Table 5.4).

¹⁸ For domestic customers, the average market share of the smallest operators fell between 2012 and 2016, from 0.04% to 0.03%.

¹⁹ 164 between 2012 and 2016 against 151 for Non-Households in LV and 126 for Non-Households in MV customers.

²⁰ Section 5.1 shows gas concentration indices at national level and at regional level.

²¹ For the retail monitoring sample only.

²² For all types of customer, regional concentration is significantly higher than national concentration.

Regarding to Non-Households and Public Service Customers, between 2015 and 2016, large and medium-large operators reduced their market share (assessed regarding to the population of all suppliers²³) in favour of smaller suppliers (from Graph 5.3 to Graph 5.5). In 2016, smaller suppliers achieved an overall market share of around 50% for Non-Households²⁴ and around 37% for Public Service Customers.

In addition, as in previous years, switching and contractual renegotiations (hereinafter: contractual changes) continued to increase for non-households, with the exception of non-households with annual consumption above 50,000 Sm³/y, which saw a reduction of approximately 0.5 percentage points, reaching a 25.7% in 2016. For other types of non-households that record a positive trend, switches totalled 14.2% for non-households with annual consumption under 50,000 Sm³/y, and 23% for Public Service Customers (Table 5.8). These results highlight on average a certain dynamism in the gas sector, even two years after Law no. 98/13 re-defined the customers eligible for the Protection Regime, obliging non-households with annual consumption above 50.000 Sm³/y to choose an offer on the free market. Only non-households with annual consumption above 50.000 Sm³/y showed a slightly fluctuating trend in switching over the five-year period, even though these are still the most dynamic type of customer on the market.

In 2016 the concentration of the gas market supplied to households by the operators of the retail monitoring sample²⁵, assessed in terms of volumes, is volatile over the five-year period. Differently, the concentration assessed in terms points of delivery grew in the first four years and slightly decreased between 2014 and 2015 (Table 5.3). On the other hand, competitive dynamics allowed small and medium-small operators together to erode the market share of larger groups. Only the top two operators increased their market share in the period 2012-2016²⁶, with a negative impact on the concentration indexes. In addition, the expansion of the sample small and medium-small groups recorded between 2012 and 2016 is higher than that recorded in the electricity sector (+11.2% for gas as compared to +10.7% for electricity) (Graph 5.1). However, the groups excluded from the monitoring sample due to size were not able to exert effective competitive pressure. Indeed, the overall gas supplied in 2016 to households in the free market by suppliers not included in the sample fell to 9.1% in 2016 from 9.6% in 2012 (Table 5.7²⁷). However, there is a greater reduction in share of large-scale operators over the five-year period (-9.9 percentage points, Graph 5.1), than for households in the electricity sector (-2.9 percentage points, Graph 4.1).

Households in 2016 recorded significant increases in contractual changes, reaching 14.5%, after three years of stability around 12.5%, (in addition, it is to be noted that, over the five-year period, contractual changes almost doubled). The increase in 2016 is certainly significant but it

²³ Due to the lack of complete data differentiating between the free market and the Protection Regime, the analysis reported in Paragraph 5.1 on the development of energy quotas in the single free market by cluster, for 2012-2014 is based on the retail monitoring sample only. For subsequent years, it refers to all suppliers on the market. Therefore, the results summarised here focus only on the last two years. The graphs in Paragraph 5.1 contain data related to the entire five-year monitoring period. This discontinuity limits the possibility of verifying the possible fragmentation of market share of small operators in the gas sector over the whole five-year period for all types of customers (for the electricity sector, see Notes 11, 13 and 18). In any case, analysis of the average small operator market share highlights:

- between 2012 and 2016 and for the retail monitoring sample only, less fragmentation for households and more for condo households;
- for 2015 and 2016 and for all suppliers, substantial stability for non-households and Public Service Customers.

²⁴ More precisely, Other Use consumers of less than 50,000 Sm³ or with consumption between 50,000 and 200,000 Sm³.

²⁵ See note 23.

²⁶ In fact, for domestic customers between 2012 and 2016, the free market shares of the top two operators increased in terms of both energy supplied and points supplied. In contrast, those of the third operator decreased (as noted by the differences between the concentration indices C1, C2 and C3 in Table 5.3).

²⁷ The table shows the market shares in terms of the overall energy provided by these entities for all services (free market and Protection Regime) distinguishing between households and condo households.



is still lower than the increase in contractual changes registered in 2013 (just under +5% as compared to the previous year). In 2016, in contrast to 2015, there was also an increase in contractual renegotiations as compared to switching (up to 6.7% for households), which meant that almost one contractual change out of two was due to renegotiations with the same gas supplier. Moreover, 40% of these contractual renegotiations are to abandon the Protection Regime (demonstrating the competitive advantage of suppliers in getting their customers to leave the Protection Regime, offering them free market contracts) (Table 5.8).

As in the electricity sector, incumbents²⁸ have a certain competitive advantage to increasing their market shares on the free market. In fact, their local presence was very significant throughout the 2012-2016 period, even if uneven on a regional level. (market share of incumbents increased in some regions and decreased in others). It should also be noted that incumbents, and in particular the leading national operator, still supply most of their household customers under the Protection Regime. On a positive note, over the past year, the number of regions in which traditional suppliers supply overall more than 75% of gas to households (Table 5.6).

The concentration of *condo households* in the retail monitoring²⁹ sample improved significantly between 2015 and 2016³⁰ (Table 5.3). Furthermore, competitive pressure from entities outside the retail monitoring sample³¹ increased over the five-year period: the overall market share of these entities in 2016 was 30.8%, as compared to 25.6%³² in 2012 (Table 5.7). On the other hand, over the entire five-year period, competitive pressure from small and medium-small operators within the retail monitoring sample was only partially effective (overall, their market share increased by 0.9 percentage points over the five years), while medium-large operators reduced their market share (Graph 5.2).

Over the analysed five-year period the most common method of supply for both households and condo households³³ was still the Protection Regime offer. In 2016, 63% of household redelivery points were supplied under the Protection Regime. The same five-year trend is also confirmed for condo households. In 2016, the share of customers supplied under the Protection Regime further reduced to 55% (Graph 3.1 and Graph 3.2).

In the gas sector too, the reduced competition for households, compared to other types of customer, may at least in part be attributed to the fact that the “average” customer in this category is unable to understand the market.

In both sectors, households can still choose from among a range of different **commercial offers**. In fact, it is worth noting the active attempt of leading suppliers to attract households to the free market, demonstrated since 2012 by the high and increasing number of offers found using the Italian Regulatory Authority price comparison tool, *TrovaOfferte*³⁴. Moreover, for 2016, research for both sectors has been extended to consider the number of offers at the beginning of each quarter (i.e. January, April, July and October), as opposed to the previous

²⁸ In this Report, incumbents are understood to mean suppliers that used to operate as local monopolists in the regional area. In the gas sector, the term Incumbent is also associated with corporate groups that are currently no longer part of corporate groups that include a gas distributor. Indeed, in the gas sector, the corporate scope of certain groups supplying and distributing gas significantly changed due to M&A operations.

²⁹ See Note 23.

³⁰ For reasons relating to the consistency of the data reported by the operators, the analysis in Paragraph 5.1 on the concentration of natural gas sales on the free market distinguishes between households and non-households (including condo households) for 2012-2014. By contrast, analysis for the following years considers condo households separately.

³¹ The sample includes operators that supply electricity and natural gas to at least 50,000 points in both sectors (withdrawal point and/or redelivery point)

³² Despite the overall share falling slightly between 2015 and 2016.

³³ Moreover, only these types of customers are eligible for the Protection Regime.

³⁴ The use of *TrovaOfferte* is on the increase, with around 360,000 visits in 2016.

focus on just March and October. In the electricity sector, the average number of marketable offers displayed in these four months was 43.7 (with a peak of 49 in July 2016), higher than the 40 offers in October 2015. Over 72.5% are fixed-price offers lasting one or two years (with a peak of 78.4% in January 2016) down from 74.6% in 2015 (Table 4.9). In regard to the gas sector, the number of commercial offers displayed by a search on TrovaOfferte, although lower than for the electricity sector, maintained a trend of continuous growth over the five years. In the gas sector, the average number of marketable offers displayed for these four months was 25 (the same as October 2015) with peaks of 27 in July and 26 in October 2016. On average, around 76% are fixed-price offers, slightly lower than in 2015 (around 76.6%)³⁵ (Table 5.9).

In 2016 as in previous years, in both the electricity and gas sectors, with the limitation that offers on the free market are differentiated on the basis of additional supply services not available under the Protection Regime³⁶, in the free market are on average higher than prices in the Protection Regime. As mentioned in previous Monitoring Reports, this analysis cannot ignore the fact that free market price includes:

- a part due to the additional elements found in free market offers, as compared to Protection Regime offers, such as loyalty programmes, energy services, etc.;
- the different types of offers on the free market, increasingly with a fixed-price (more fixed-price offers are available on TrovaOfferte than variable price offers), which require suppliers to ensure adequate hedging against the risk of future price increases. This results in customers paying an additional differential for the stabilisation of the retail energy price against the variability of wholesale prices (hereinafter 'differential for fixed-price offers').

At this stage, the lack of detailed information does not allow proper comparisons to be made between prices³⁷. Despite this, significant savings opportunities for households are detected even by choosing fixed-price offers instead of variable price offers. In 2016, the minimum fixed-price electricity offer on TrovaOfferte was cheaper than the cheapest variable price offer (Table 4.10). In the gas sector, there are also significant savings opportunities in choosing a fixed-price offer, as compared to a variable one, though less significant than for electricity. In both sectors, around 50% of fixed-price offers are cheaper than Protection Regime offers. In addition, certain variable price offers with a 'discount' with regard to the Protection Regime offer, in both the electricity and gas sectors provide for additional saving opportunities (Table 5.10). For both sectors, the best free market offers are cheaper than Protection Regime offers.

The information available highlights the fact that, again in 2016, costs sustained by households accessing the free electricity market do not seem to fully reflect the reduction in wholesale prices observed over the period under examination. On the other hand, in the electricity sector, there is evidence that, for non-households in LV accessing the free market, the trend in supply prices appears to be more in line with the Protection Regimes, which follow wholesale prices

³⁵ Operators participate in *TrovaOfferte* voluntarily. At present, this tool includes the offers of all the leading national operators, in addition to some of the smaller operators.

³⁶ This is limited to supplying energy at a price that reflects prevailing wholesale market conditions.

³⁷ The difference between the 'supply costs, sales and sales margin' for customers on the free market and for Protection Regime customers should exclusively consider:

- the impact of marketing costs incurred to supply customers in the free market, which in turn are dependent on costs for customer acquisition, or customer delinquency and structural factors linked, for example, to the size of the company;
- the level of competition and ability to exercise market power for suppliers to free market customers;
- the lack of awareness of customers, in particular domestic customers, of the possible advantages of switching supplier, so the final choice does not necessarily maximise savings;
- only for electricity, procurement costs (including costs for the dispatching service) in the wholesale electricity market for the free market retailers compared to the cost of sourcing electricity for the Protection Regime market incurred by the Single Buyer who, like other suppliers, sources at market conditions.



more closely (Graph 4.4 and Graph 4.5). This supports the assumption, noted in previous reports, that there has been an improvement in the ability of non-households to understand the available offers, whereas households have a poor understanding of the market and of the relevant variables useful to identifying the best offer.

Furthermore, with regard to fixed-price or blocked prices offers available on TrovaOfferte, customers that subscribe offers online can get a fixed price by paying lower differentials than for offers signed via other channels. However, in the electricity sector, the differential for online fixed price offers decreased significantly during the five-year period (from -13% in 2012 to -1.2% in 2016, though it varied widely from one quarter to another). On the other hand, the differential for fixed-price offers via other channels grew, on average, continuously during the period 2012-2016, from +27.7% to +57.6%. In the gas sector, the differential for online offers in 2016 was on average more than triple than in previous years. Furthermore, the differential for offers subscribed to through other sales channels also increased on average (+42%). Online offers minimise the sellers' cost of acquiring customers, as compared to other sales channels. Consequently, these offers are on average more advantageous (Focus Box 1 and Focus Box 2).

Indicators for **organisational processes and mechanisms supporting the operation of the retail market**³⁸, aspects that have a significant effect on the market as perceived by customers, showed small changes generally over the five-year period in both sectors, providing partly contrasting evidences.

In the *electricity sector*, the complaining index³⁹ increased slightly in 2016, reaching 1.5% for households (compared to 1.4% in 2015), whilst it was almost constant in the Protection Regime over the five-year period (approximately 0.4% for households) (Table 4.12). In 2016, there were some 190,000 complaints submitted by households, of which just over 70% in relation to the free market⁴⁰ (Table 4.13). Despite the positive result highlighted by this low level of complaints, ARERA considers it necessary to continue to closely monitor this index, as a symptom of potential bad service reported by customers. In 2016, there was also a decrease in written requests for electricity billing adjustments from households. Despite this, there was an increase in adjustments following these requests in both the Protection Regime and even more so in the free market (in the latter, billing adjustments increased from 13.6% in 2015 to adjustments made in almost 25% of requests received, in the electricity sector). However, it is to be pointed out that the number of requests for billing adjustments compared to the number of bills issued annually was low (in 2016 there were just under 23,000 requests for billing adjustments by households in the free market) (Graph 4.8 and Graph 4.9). In 2016 there was a further increase in double billing in the Protection Regime, as compared to record for 2015, attributable to a single operator. In the free market, on the other hand, double billing has continuously decreased since 2012 (Table 4.14).

In relation to the regulations pursuant to Resolution 153/12, in the electricity sector, the proportion of contracts reported by households as being improperly drafted increased to 1.9% (about 46,500 complaints) of the total number of new contracts signed during the year, whilst this proportion reached 0.8% (about 5,400 complaints) for non-households in LV (Table 4.15). It should be noted that this increase is attributable to the declarations of a single, medium-sized operator.

The indicator for the unavailability of metering data in case of switching within the stated

³⁸ Relating to the quality of sales service, telephone services and the commercial quality of the distribution service, as well as the regulations referred to in Resolution 153/12.

³⁹ Understood to mean the ratio between the number of complaints and the number of customers supplied.

⁴⁰ Compared to approximately 29.7 million customers supplied.

timelines fluctuated over the five years, reaching 2.3% in 2016 (Graph 4.7). This relatively small figure must not, however, lead to reduced focus on the issue by ARERA, considering the high variability recorded in the past⁴¹.

Finally, the quality indicators for telephone and distribution services under monitoring continue to be generally higher than the minimum standards prescribed by ARERA (Table 4.16 and Table 4.17).

For the *gas sector*, in 2016 the complaining index for the free market continued the downward trend started in 2012 in (reaching 1.3%), and it also remains almost constant for the Protection Regime (at about 0.6%, also in 2016) (Table 5.12). The number of complaints made in the past year by low-pressure customers (mostly households) fell to around 147,000, of which just over 60% were in the free market (Table 5.11). In 2016, there was an increase in requests for billing adjustments in the free market against a reduction under the Protection Regime. This trend was also confirmed for the two markets for actual adjustments performed (Graph 5.8). In addition, 2016 confirmed a continuing decrease in the double billing adjustments recorded since 2012 for the free market and since 2014 for the Protection Regime (Table 5.14). Lastly, for the regulations referred to in Resolution 153/12, there was an increase in the proportion of contracts reported by customers as being improperly drafted, as compared to 2015, reaching 1.7%, for households, (about 22,400 complaints) of the total number of new contracts signed in that year; whilst it was lower, though still an increase, for all other customers (Table 5.15). As with the electricity sector, this increase is largely attributable to the declarations of a single, medium-sized operator.

Again, for the gas sector, in 2016 non-completed switching reduced a t both national and regional levels (except for Trentino-Alto Adige, Marche and Sicily) (Graph 5.6). However, non-completed switching as a proportion of total requests, which continuously decreased on average over the five-year period⁴², was still significant (about 7.2% in 2016), therefore ARERA shall continue to pay close attention to the phenomenon until the switching process is managed by the “*Sistema Informativo Integrato*” (Integrated Information System, the Italian Data Hub for the electricity and gas sector, hereinafter ‘SII’). Furthermore, the unavailability of metering data in case of switching within the deadlines was volatile over the five-year period and, in 2016, the rate of unavailability increased in almost all regions (except for Trentino-Alto Adige, Emilia-Romagna, Puglia and Sicily), leading to a national rate of 2.1% (Graph 5.7). It is to be pointed out, however, that this increase is largely attributable to declarations by just two medium-sized operators.

Finally, for gas too, the quality indicators for the telephone and distribution services are still higher, in general, than the minimum standards prescribed by ARERA (Table 5.16 and Table 5.17).

Requests for disconnections due to **non-payment of bills**⁴³ in both the electricity and gas sectors were significantly lower, as compared to the beginning of the five-year period, though still significant. The only type of customer for which there was an increase in disconnection requests, as a ratio of customer base, was condo households in the gas sector. In 2016, for both the electricity and gas sectors, there was a continued uneven distribution of non-payment of bills in the various regions of Italy.

⁴¹ The data collected does not take into account the delays in making the metering data available beyond the deadlines; nor does it distinguish between cases when metering data is not made available and cases when data is delivered late. This is due to the need to limit the liability for information of suppliers included in the retail monitoring sample.

⁴² Also, due to standardised information flows for the switching process in the gas sector.

⁴³ The non-payment of bills is in any case part of the general macroeconomic context and is also linked to specific situations of poverty that must be duly taken into consideration. It is pointed out that these situations are dealt with through targeted tools (e.g. for the sectors in question here, tools relating to the Electricity Bonus and the Gas Bonus).



For the electricity sector, there continues to be a significant reduction in requests for disconnections for Supply of Last Resort customers, primarily in the south (as seen in Appendix Section 1.3), already reported from 2014⁴⁴. Again in the electricity sector, the difference between the disconnection requests due to non-payment of bills for non-households in LV, which have historically always been greater in number, and those for households in LV continues to narrow.

In the natural gas sector, there were also more disconnections for non-payment of bills for non-households than for households. However, whereas in the electricity sector this difference is narrowing, in the gas sector it fluctuated over the five-year period. The greatest difference between disconnection requests for non-households and households was recorded in 2015, whilst in the past year this difference was reduced. Furthermore, suspension requests prove to be, on average, fewer than in the electricity sector⁴⁵.

The ability of households to settle their debts after receiving notification of disconnection due to non-payment (both before disconnection, to prevent the service from being disconnected, and afterwards, to restore the disconnected service) decreased in both sectors, as compared to the beginning of the five-year period. This phenomenon raises some concerns, with reference to Protection Regime in both the electricity and gas sectors, for whom there was a continuous decrease over five-year period, and free market customers, for whom a significant reduction was recorded in the last year⁴⁶. Even for non-households in LV, the ability to settle debts following notification of disconnection due to non-payment reduced significantly, as compared to the beginning of the five-year period. In contrast, this increased for non-households in MV in the electricity sector and non-households in the gas sector.

In contrast with the records for 2015, when notification of disconnection proved to be a more effective deterrent in the electricity sector than in the natural gas sector⁴⁷, in 2016, there was an increase in the inclination of customers who failed to pay their bills to settle their debt only after actual disconnection of supply, similar for both sectors⁴⁸.

This shows that that, in the electricity sector, whereas, on the one hand, there are fewer requests for disconnections due to non-payment, on the other hand customers are less likely to settle their debts upon threat of disconnection. In the natural gas sector, there was confirmation of the 2014-15 Report on the difficulties of disconnecting supply due to the peculiarities of the gas sector (meters are not managed remotely and many are not easily accessible). Therefore, there is the continuing need to increase the effectiveness of attempts to disconnect supply for non-payment of bills to prevent the costs of non-payment from leading to increased sales costs that would, indirectly, affect the prices applied to customers.

Based on analysis of the debt structure in both sectors, overall long-term debt (outstanding for more than 180 days) increased over the five-year period, as compared to medium and short-

⁴⁴ As already mentioned in the 2014-15 Report, the reduction in non-payment of bills recorded in the period preceding the competition procedure to assign the Salvaguardia service for 2017-2018 (which took place at the end of 2016) seems to have also been reflected in the values of the Ω parameters offered (which, in the areas of withdrawal in the South, were significantly lower than during the previous Salvaguardia period 2014-2016).

⁴⁵ It is to be noted that, in the gas sector, unlike the electricity sector, distributors are obliged to meet disconnection requests only for a pre-established maximum number of customers (moreover, ARERA has already intervened on several occasions with amendments to the regulations to increase these limits), and that there are no remotely managed meters in operation that allow the remote disconnection of supply, in comparison with the electricity sector.

⁴⁶ In particular, between 2012 and 2016, for customers in Salvaguardia in the electricity sector, the rate of effectiveness of disconnection fell by around 14 percentage points, whereas, in the gas sector it fell by around 17 Percentage points. In contrast, the variations in this rate recorded for the free market of the two sectors were limited for households in the two sectors up to 2015, and reduced significantly in the past year (-35 percentage points in the electricity sector and -12 percentage points in the natural gas sector in 2016 alone).

⁴⁷ For non-households between 50,000 Sm3 and 200,000 Sm3. For more details, see the 2014-15 Report.

⁴⁸ If anything, in the electricity sector, customers waited slightly longer than in the gas sector.

term debt (outstanding for 30 to 180 days and for less than 30 days, respectively). This highlights a critical issue for the development of competition, insofar as an increased cash requirement for suppliers can be a barrier to the growth of small operators and could have an indirect impact on prices applied to most customers (Graph 4.16 and Graph 4.17, Graph 5.12 and Graph 5.13). The proportion of long-term debt in the gas sector is confirmed as being consistently above the level recorded for the electricity sector. With respect to the debt of specific types of customers, in 2016, there was an increase in the proportion of short-term debts of households in the electricity sector, as compared to an improvement in the debt of other types in the same sector and for all types in the gas sector. Consequently, there was a sharp reduction in the total amount of outstanding debt in the gas sector (Graph 5.12).

Payment terms for bills⁴⁹ in the electricity sector are more respected by customers with lower consumption, in Protection Regime, and by customers with higher consumption in the free market and supplied by the Supplier of Last Resort in the electricity sector (applied to medium and big non-households, hereinafter “Salvanguardia”)⁵⁰. Moreover, payment arrears increased for the overall Protection Regime (2016 saw the record of the five-year period for this Regime), generally for customers in Salvanguardia (Graph 4.14) and generally for households.

In the gas sector⁵¹, for other users and Public Service Customers, customers with higher consumption tend to comply less with payment terms. Finally, for households and condo households, customers in the Protection Regime respect payment terms more than free market customers. Moreover the rate of non-compliance with payment terms for the former decreases constantly from 2012-2016, while for the latter it begun to decrease only since 2015⁵².



⁴⁹ Without distinguishing between outstanding debt, late payments, nor between the delays in late payments. This data is obtained by comparing the frequency of non-fulfilment for customers who fail to comply with the payment terms with the number of outstanding bills and the frequency of amounts not paid by the deadlines with the total of the amounts due (Comparison between Graph 4.14 and Graph 4.15).

⁵⁰ Except in 2012 where lower consumption Supply of Last Resort customers most respected the payment terms.

⁵¹ Comparison between Graph 5.10 and Graph 5.11.

⁵² See Graph 5.10.



1.2 Ongoing interventions and evolution of the legislative and regulatory framework

The retail monitoring activity for 2016 confirms, first and foremost, the absence of any significant problems in the competitive dynamics of the *non-households in MV* segment, despite the peculiarities reported above. In 2016, the market dynamics of *non-households in MV*, despite small signs of its slowdown, does not require any specific regulatory intervention. ARERA may therefore limit its actions to careful monitoring of the evolution of the identified phenomena. Unlike previous years, data on the competitive dynamics and structure of the electricity supply market for non-households in LV shows encouraging signs of vitality. These signs are worthy of particular attention, even for the purpose of seeking further confirmation in the future.

On the other hand, the results for households in the electricity sector, as well as households and condo households in the natural gas sector, require greater attention to the regulatory process supporting complete market liberalisation. More specifically, attention must be paid firstly to the fact that the concentration levels recorded for households are not improving, despite the continuous entry of new, small suppliers of electricity and gas.

For both sectors, it is important to consider the poor demand participation, associated with competitive advantage (which, in the electricity sector, even appears to show signs of growth) of Protection Regime operators and of incumbents within the context of increasing numbers of smaller customers, previously less active, abandoning customer protection services. As already indicated in the 2014-15 Report, poor demand participation is also highlighted by the opinion polls launched by ARERA on the behaviour and choices of customers in the liberalised energy markets. These surveys reveal, on the one hand, that the majority of customers who switched supplier did it not proactively (but only after being contacted by a call centre or sales rep) and on the other hand, the poor awareness of market opportunities for customers in the Protection Regime.

These elements must be considered carefully, given the evolution of the retail market, to ensure that with the future context of complete liberalisation, customers are not prevented from seizing the opportunity of benefiting from all the opportunities offered by the free market. With this in mind, with specific reference to interventions aimed at promoting the evolution of the price protection regimes and their complete elimination, the exercise of market power must be limited by promoting competition and the development of competitors to incumbent operators; above all, increased demand participation must be encouraged, to increase customer empowerment and trust in the benefits, including in terms of lower prices, of switching supplier, in order to allow them to make the most convenient and affordable choices for themselves⁵³.

In this context, it must be considered that the plan for complete liberalisation envisaged by Italian Law no. 124 of 4 August 2017, (hereinafter '2017 Competition Law') aims, on the one

⁵³ As already indicated in the 2012-13 Report, "only if customers have available reliable, clear, easy to understand and accessible information, can they be active in the market and benefit from the savings opportunities it offers. Otherwise, customers risk being subjected to the market power of the supplier".

hand, to define a series of specific tools to support customers in choosing from among the free market offers and, on the other hand, to define a transition to the free market that leads to this market becoming the normal method of supply even for small customers. Finally, it defines specific forecasts to strengthen non-price protection for customers.

In detail, the 2017 Competition Law provides for:

a) the definition of specific tools that help the customer to make informed choices. These include:

- the creation of an IT portal for offers comparability in electricity and natural gas sectors (hereinafter: Offers Comparison Portal (*Portale confrontabilità delle offerte*) and the obligation for all the suppliers to submit their free market offers for the publication on the Portal;
- the definition of the essential contractual clauses and minimum requirements of offer comparability, for both sectors;
- guidelines for promoting commercial offers in favour of electricity and natural gas Collective switching schemes (through purchase groups);
- the institution of the aforementioned List of Qualified Retail Electricity Suppliers;
- a specific information note to customers for overcoming price protection for electricity and the publication of information on market opening;

b) interventions to encourage customers to abandon the Protection Regime before July 2019, ensuring the informed entry to the free electricity market by customers, according to mechanisms that ensure the competition and a plurality of suppliers and offers on the market;

c) the definition, for the electricity sector, of a post-Protection Regime Last Resort Service, based on the characteristics of the customers eligible to this service, which will guarantee effective competition and that will be assigned through competitive auctions aimed also to encourage clients to switch to the free market.

Regarding non-price protection schemes, the 2017 Competition Law established the reinforcement of customer protection both against possible inefficiencies or particular contingencies and for vulnerable customers (customers in situations of financial hardship or very poor health). The first type of customer protection intervention improves the effectiveness of the *Sportello per il consumatore di energia* (the Italian Energy and Environment Consumers single point of contact, hereinafter: *Sportello*) by guaranteeing and regulating the access of the *Sportello* to information contained in the SII. The latter customer protection intervention redefines the vulnerable customers support policies, by providing economic benefits alternative to the current support scheme (called Social bonus).

During 2016 and 2017, ARERA focused its regulatory efforts on interventions, defined by the 2017 Competition Law and in many cases anticipating its provisions, aimed to fulfil the objective of supporting customers in making informed choices among free market offers. These interventions include:

- Resolution 375/2017/R/com, initiating proceedings to define a framework of existing regulatory tools and to promote new regulatory tools aimed at informing and improving households' empowerment and small businesses in the retail electricity and natural gas markets. This procedure also defines how each supplier should provide appropriate information to each customer about the upcoming removal of price protection;
- Resolution 555/2017/R/com⁵⁴, increasing the transparency of information on the terms of

⁵⁴ This resolution governs the 'Free Price Offers under Uniform Contractual Conditions' (PLACET) and minimum contractual conditions for supplies to households and small businesses in the electricity and natural gas free markets.



contract in commercial offers available to customers, primarily households that must necessarily be helped to close the competition gap, as compared to other type of customers;

- Resolution 610/2017/R/com, initiating proceedings aimed at:
 - i. the creation and management of the Offers Comparison Portal by the SII Operator. Within this proceedings the Authority published the document DCO 763/2017/R/com for public consultation
 - ii. the definition of guidelines to promote electricity and gas retail offers through purchase groups;
 - iii. the formulation of ARERA's proposal to the Minister of Economic Development, concerning the identification of the criteria, methods and technical, financial and reputational requirements for registration on the List of Qualified Retail Electricity Suppliers; proposal approved by Resolution 762/2017//EEL;

In addition, during 2016 and 2017 ARERA continued its activities aimed at simplifying processes that have a direct impact on the customers, such as the commercial processes leading to a supply contract and those relating to metering management, by centralising them within the SII.

In the first case, completion of the regulation of the centralisation of the switching process in the gas sector is imminent. That will guarantee even more homogeneous switching procedures and timelines across the whole country, facilitating a reduction in regional differences recorded in this sector⁵⁵. Furthermore, with Resolution 783/2017/R/com, ARERA implemented rationalisation and simplification of withdrawal procedures for customers changing supplier.

As regards to metering management in the electricity sector, the regulatory interventions needed to create, as part of the SII, a central hub of all metering data relating to customers consumption, including metering data coming from new 2G electronic smart meters⁵⁶, have been completed. A similar path has also been undertaken for natural gas consumption⁵⁷. As well as improving the availability of metering data for suppliers and, consequently, facilitating customers billing, these interventions form the basis for developing more informed and active demand, promoting increased customer awareness of their own consumption; this is thanks to the possibility of making such data directly available to customers, including with the objective of reducing the energy footprint.

Finally, in terms of developments in the retail monitoring system, anticipated in the 2014-15 Report, it is to be noted that, over the period 2016 and 2017, steps were taken for the more efficient use of the potential of the SII⁵⁸, in order to collect monitoring data with the minimum information costs for operators. In the future, it will be possible to use the SII to achieve greater detail of monitored information, improve the speed of making this information available to ARERA⁵⁹ and extend the range of monitored events⁶⁰. Furthermore, certain events already

⁵⁵ Consultation document 544/2017/R/com expressed guidelines on managing gas switching as part of the SII.

⁵⁶ With Resolution 594/2017/R/eel, ARERA established that metering data relating to all withdrawal points must be made available exclusively through the SII.

⁵⁷ See Resolution 434/2017/R/gas.

⁵⁸ Resolution 495/2017/R/com eliminated the first annual data collection – for which operators were responsible - used to establish the retail monitoring sample, as well as the collection of switching data in the electricity sector. In addition, pursuant to the Integrated Law on Invoicing (TIF), the first collections started, in which part of the data was collected by the SII. This resolution also extended retail monitoring to services of last resort for gas and to periodic and final billing.

⁵⁹ The current data collection mechanism reveals significant room for improvement in terms of the promptness with which the data collected can actually be used by ARERA. Some of the data analysed refers to data collected using different methods and timing. Once it is submitted by the individual operators, this data must in any case be aggregated, verified, processed and corrected, where necessary, by the declarants. Full use of the SII's monitoring potential would minimise the aggregation and verification times, reducing comparisons and exchanges of information with the operators.

1.2 Ongoing interventions and evolution of the legislative and regulatory framework

subject to data collection under other regulations have been included in as part of retail monitoring. Finally, it is very important to update the information monitored on prices applied to customers, to improve their understanding (for example, by distinguishing between variable prices, fixed prices and fixed amounts).



⁶⁰ This evolution must also guarantee the continuous alignment with any updates of retail monitoring indicators required on a European level.