

TECHNICAL SHEET

INTEGRATION OF THE CONSOLIDATED ACCOUNTING *UNBUNDLING* TEXT (TIUC) WITH THE PROVISIONS REGARDING ACCOUNTING *UNBUNDLING* OBLIGATIONS FOR THE WATER SECTOR

137/2016/R/com (*)

With resolution 137/2016/R/com, the Italian Regulatory Authority for Electricity Water and Gas has adopted the current accounting unbundling system provided for in the TIUC (Consolidated accounting *unbundling* text) for the electricity and gas sectors by introducing accounting unbundling obligations for the Integrated Water Service operators, or for each of the individual services that the SII is made up of and the relevant disclosure obligations.

The measure, which follows an extensive consultation process (82/2013/R/COM, 379/2015/R/IDR and 515/2015/R/IDR) including *focus groups* with the interested parties, thus completes the regulatory framework for the accounting *unbundling* regulation, adopting a new version of the TIUC (Annex A) which presents the previous provisions for the *energy* services and the new provisions introduced for the water sector.

With reference to the scope of application, the resolution provides that the unbundling accounting system concerning the water system will be applied to all SII operators that manage the service based on an assignment in compliance with the current regulations.

In particular, the following systems for accounting unbundling are provided for:

- i. ordinary system: this is applied, according to the standards set out in the TIUC, to companies operating in the electricity and gas sectors and to SII operators that serve a population of more than 50 000; the standards for the ordinary system for accounting unbundling are also applied for multiATO (multiple Optimal Territorial Area operators) and for larger scale parties (as identified by the Local Authorities) that, although not directly supplying the service to consumer, manage the extraction or the adduction, the purification and/or the water treatment;
- ii. simplified system (for the electricity and gas sector);
- iii. simplified system for the SII: this is applied to SII operators who serve a population of less than 50 000 and to smaller scale parties that, although not directly supplying the service to end users, manage the extraction or the adduction, the purification and/or the water treatment. In this regard, it is provided that amongst the parties who do not directly provide this service to end users, the smaller scale parties are identified directly by the government Local Authority, responsible for the relevant Optimal Territorial Area.

The regulation, therefore, foresees that SII operators are obliged to draw up separate annual accounts (CAS) structuring the accounting unbundling according to the activities and relevant sections, in compliance with what is detailed in the following Table 1:

Table 1. Accounting unbundling activities and sections

Activities	Sections
Water supply network	<ul style="list-style-type: none"> • extraction including for multiple use • adduction including for multiple use • purification • distribution • metering of the water supply network
Sewerage	<ul style="list-style-type: none"> • blackwater and mixed sewerage • greywater sewerage • metering of the sewerage
Water treatment	
Other water activities	<ul style="list-style-type: none"> • water activities different to those part of the SII • collection
Other activities	

Regarding the structure of the Common Services, it is provided to apply the same Common Services and the relating overturning *drivers* provided for in the TIUC for the electricity and gas sectors to the water service.

Regarding the structuring of the Shared Operative Functions (FOC), it is provided, instead, to introduce a specific FOC for the SII, identified in the “Shared Operative Function of water usage management”; the SII operators will attribute the income statement and balance sheet items that cannot be directly allocated relating to the performance of the activities connected to managing usage, including collection activities against third parties, to this FOC.

It also foresees to unbundle “Shared Operative Function for remote control, maintenance and technical services” - currently foreseen by the TIUC - in the following shared FOC, common to the electricity, gas and water sectors: i) Shared Operative Function for inspection and verification; ii) Shared Operative Function for remote control and loss research; iii) Shared Operative function for maintenance and technical services¹.

In the view of regulatory continuity and minimising administrative costs for the operators, the structure of the other Shared Operative Functions remains unchanged.

The measure confirms the introduction of the geographical dimension for the structure of the accounting unbundling of the SII at Optimal Territorial Area level, in order to allow all of the income statement and balance sheet data, relative to each of the SII services and necessary to

¹ Furthermore, the measure provides to evaluate, following the collection of annual separate accounts for the financial year 2016, whether or not to maintain the unbundling of the abovementioned “Technical Shared Operative Function for remote control, maintenance and technical services” currently foreseen by the TIUC, for operators that exclusively operate in the electricity and gas sectors, without operating in the water sector, in the light of possible criticalities that must be mentioned on the part of these operators in relation to the abovementioned unbundling.

guarantee the application of this price regulation on the part of the Regulatory Authority, to be revealed.

As far as the multi-Optimal Territorial Area SII operators are concerned, it is provided that they will draw up separate annual accounts according to the standards of the ordinary accounting unbundling system. After having attributed the income statement and balance sheet to the activities and to the sections, these operators will separate the income statement and balance sheet again for Optimal Territorial Area relating to the water supply network, sewerage and water treatment activities. The income statement entries, which cannot be allocated directly, relating to more Optimal Territorial Areas which will come together in the remaining section “multi-ATO values” and will then be allocated to each Optimal Territorial Area, for the relevant amount, by means of appropriate overturning *drivers*, taking into account the nature of the prevailing cost and of the different organisational structures adopted by the company.

The provisions regarding accounting *unbundling* for the SII are applied from the financial year 2016, or from the first financial year after the 31st December 2015, taking 2016 as an experimental financial year for the water sector; therefore, using the data revealed from the first *unbundling* data collection attempt is not anticipated for the purpose of revenue approval in 2018.

The SII operators can prepare, as regards financial years 2016 and 2017, the annual separated accounts according to the simplified accounting separation system, with the exception of multi-Optimal Territorial Area operators and for operators who may be obliged to draw up the annual separated accounts according to the ordinary system for electricity and gas sector activities. Taking into account the necessary time for adjusting the IT and management structures which have been anticipated, only for the financial year 2016 and only for the water sector, the possibility to turn to *ex-post* attribution criteria for the income statements on the activity level, and by derogation from the hierarchy principle in the sources anticipated for the ordinary system of accounting separation.

(*) This sheet is for disclosure purposes only; it is not a measure.