WATER REGULATION –
THE ITALIAN CASE AND
THE EUROPEAN PERSPECTIVE (WAREG)

Alberto Biancardi
Commissioner - The Italian Regulatory Authority for Electricity
Gas and Water (AEEGSI)

Edinburgh, 28 May 2015
ITALY – THE STARTING POINT

- Three Tariff Methods
  - MTN (Standardized Tariff Method)
  - Emilia Romagna (Method of the Regional Administration)
  - CIPE Method (Interministerial Committee for Economic Planning)

- More than 2,500 operators (mainly local municipalities)
- Lack of investments. In 2011 the OECD estimated investment needs in Italy for €65 bln over 30 years
- Poor quality of service (on average)
THE ITALIAN INDEPENDENT REGULATOR: AEEGSI

- Regulatory functions
  - Setting tariffs for protected markets and for the use of monopoly infrastructures
  - Setting conditions for third party access to the network
  - Setting compulsory standards for quality of service by incentives, penalties, refunds
  - Setting rules for separation of vertically integrated companies
  - Setting conditions for service supply and contracts

- Monitoring functions (compliance of regulation, wholesale markets, liberalisation process)

- Enforcement functions (consumer protection, infringement procedures, dispute settlement)

- Advising functions (recommendations to Government and Parliament on market structure and promotion of competition)
Capping revenues according to ex-ante «K regulation»

- MTN (Normalized Tariff Method) [Ministerial Decree 1 August 1996]
- Emilia-Romagna Tariff Method [Regional Decree nr 49, 13 March 2006]
- CIPE Tariff Method

Capping revenues according to ex-post «I regulation»

- MTT – Transitional Tariff Method [AEEG Del. 585/2012/R/idr]
- MTC - Tariff Method for ex-CIPE [AEEG Del. 88/2013/R/idr]
- completing measures [AEEG Del. 459/2013/R/idr]

21 July 2011

Decree-Law n. 201: elimination of former National Agency and same functions given to AEEGSI

6 December 2011

WATER TARIFF METHOD (MTI)
FIRST REGULATORY PERIOD 2012-2015

From 2012

From 2014

To the end of 2015

Regulatory Schemes & completing measures

[AEESGI Del. 643/2013/R/idr]

previous method as modified by AEEG Del. 273/2013/R/idr
IMPACT OF AEEGSI REGULATION IN ITALY (1):

Strong and positive impact for the rationalization of functions in water sector governance:

• **Centralization of power to define criteria for tariff determination** (AEEGSI)
• **Local Authorities** keep their role in the **planning phase** (i.e. the amount of investments to be realized and the timeframe), but they now **pre-approve** the plans themselves and the tariffs and **communicate the tariff to AEEGSI**
• AEEGSI can make **remarks**, give **comments**, **opinions** and then finally **approve/modify the tariff**
• In case the Local Authority does not communicate tariff to AEEGSI, the local operator can communicate it (AEEGSI approves/modifies); otherwise **AEEGSI takes the final decision** (with penalization of 10% on the tariff)
• In case of **missing requirements** by Local Authorities (ex. service charter), tariff is “locked” (no tariff update recognized)
With Law no. 214 of 22nd December 2011, AEEGSI has powers also in regulating, controlling and monitoring water services. Main functions:
- Design of rules for pricing
- Tariff approval
- Definition of quality levels
- Control over the AMDP – Ambit Management And Development Plan
- Consumer protection
IMPACT OF AEEGSI REGULATION IN ITALY (2):

Strong and positive impact on the rationalization of tariffs and on the planned investment in water sector infrastructures:

**Transitional Tariff Method - MTT (2012-13)**
- AEEGSI approved tariffs for **2007** operators concerning **48.5 mln inhabitants**
- The remaining tariffs (Italian population is around 60 mln) are under investigation by AEEGSI

- AEEGSI approved tariffs for **1736** operators regarding **48.6 mln population**
- The new tariffs had an average yearly increase of **4.12%** in 2014 and **4.54%** in 2015

**PLANNED INVESTMENTS**
From the declarations received by AEEGSI from Local Bodies, **126** operators whose tariffs have been so far approved by AEEGSI (covering **4941 Municipalities with a total 40 mln population**) plan to invest around **€ 5.5 bln in 2014 – 2017**
NEXT STEPS

• Open public consultations (on AEEGSI website):
  ➢ Regulation of quality of water service
  ➢ Definition of tariffs for sewerage and treatment of industrial wastewater
  ➢ Explicit identification of environment and resource costs (decision by the end of June 2015)
  ➢ Strategic guidelines for the next regulatory period, starting in 2016

• Later on…
  ➢ Updated methodology of environment and resource costs in tariff (with Ministry of Environment)
  ➢ Standard costs

• The main goal is to find money for investment without a sharp increase of the tariffs, or at least explaining why tariffs should be increased and what benefits will be achieved
BENEFITS FROM INDEPENDENT REGULATION OF PUBLIC WATER AND WASTEWATER NETWORKS

- Definition of a clear and stable regulatory framework, necessary for attracting investment in the water and wastewater sector
- Provision of incentives for water utilities to increase efficiency in network operations and maintenance
- Operators efficiencies (partially) passed on to the customer
- Increased technical and commercial quality standards for water and wastewater services
- Collection of economic-financial information from local authorities and operators
- Enforcement: inspections, sanctions, infringement procedures

Best practices of regulatory independence already experienced in regulation of electricity and gas networks in the EU, since the 1990s
REGULATORY COOPERATION IN EUROPE: WAREG

- **Launched** in Milan (April ‘14), followed by **meetings** in Lisbon (Sept ‘14), Dublin (Jan ‘15); next meetings in 2015: Edinburgh (28 May) and Budapest (end of September)

- **WAREG Members are 18 (+ 1 Observer): open membership for all European countries**

AEEGSI – Italy  
ANRSC – Romania  
CER – Ireland  
ECA – Estonia  
ERRU – Albania  
ERSAR – Portugal  
ERSARA – Portugal (Azores)  
HEA – Hungary  
_MAGRAMA – Spain  
MRA – Malta  
NCC – Lithuania  
NIAUR – Northern Ireland  
KSST – Denmark  
PUC – Latvia  
SEWRC – Bulgaria  
SSW – Greece  
VMM – Belgium  
WICS – Scotland  
OYWAT – England & Wales (Observer)
Objectives:

- To exchange **common practices, information, joint analysis**
- To promote **capacity building, specialized training, technical assistance**
- To promote best-practice and **stable regulation** of the water sector at European level
- To prepare **common positions** about regulatory issues at EU level
- To bring the **regulators’ view at international level**
- To conduct an **open dialogue** with other relevant National, European and International Institutions and organizations
WAREG CURRENT ACTIVITIES

• By WAREG Assembly:
  ➢ Action Plan document for 2014-15 (to be updated every year, rolling)
  ➢ organizational
  ➢ internal rules
  ➢ external relations strategy

• By Secretariat:
  ➢ coordination (meetings, communication, papers, etc.)
  ➢ administration (internal website, logistics, etc.)
  ➢ descriptive tables (water sector and regulatory frameworks in WAREG)

• By Working Groups:
  ➢ comparative analysis of tariff structures (TECH WG)
  ➢ comparative analysis of Institutional Regulatory Frameworks (INS WG)
  ➢ consultation best practices (INS WG)
WAREG EXTERNAL RELATIONS

• **Strategy agreed by Assembly** vis-à-vis EU and International Institutions, other stakeholders, with the following objectives:

  ➢ To establish potential partnerships for cooperation
  ➢ To share WAREG common positions and work
  ➢ To promote **independent regulation** in Europe and worldwide, as a key driver for market development and transparency, for improvement of water services and efficiency in water use, and for customer protection

• **Structured cooperation and meetings** already held by WAREG with:

  ➢ EU Commissioner for Environment and EC staff
  ➢ European Parliament Representatives
  ➢ EurEau - Association of European Water Operators

• **Other counterparts**: World Bank, IWA, OECD, Florence School of Regulation, ERRA, etc.
CONCLUSIONS

• In the near future, in Italy the **main hurdle** for regulation is most likely the **social and political sustainability of increasing tariffs**

• Effects of a **possible decrease** in both domestic and industrial consumption (deepened by a higher tariff...), still to be evaluated

• **Regulation will be tested not only on a technical ground:** dialogue with stakeholders, media, politicians, etc.

• Extensive and qualified European cooperation necessary: **WAREG – European Water Regulators**