Autorità per l'energia elettrica il gas e il sistema idrico

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

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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

- Law 481 of 14 November 1995 establishing **AEEG** as an independent regulator sets the powers for **electricity and gas** sectors
- Decree-Law 201 of 6 December **2011** extended AEEG's powers also to **water sector: 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)

CHRONOLOGY OF THE TARIFF COMPUTATION RULES

21 July 2011

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

previous method as modified by AEEG Del. 273/2013/R/idr

Capping revenues according to ***ex-ante «K regulation»***

6 December 2011

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

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

From 2012

- **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]

Capping revenues according to ***ex post «ϑ regulation»***

From 2014

To the end of 2015

Regulatory Schemes & completing measures

[AEEGSI Del. 643/2013/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)

MULTI-LEVEL GOVERNANCE IN THE ITALIAN WATER SECTOR

NATIONAL LEVEL

*Ministry of Environment and the Protection of Land and Sea [**MATTM**]*

*The Italian Regulatory Authority for Electricity Gas and Water [**AEEGSI**]*

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

SOVRA-REGIONAL LEVEL

Basin Authorities

REGIONAL LEVEL

Regions

Arpa

INTER-MUNICIPALITIES LEVEL

ATO [69]

LOCAL LEVEL

Municipalities

Land Reclamation Authority

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

(New) Water Tariff Method - MTI (2014-15)

- 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

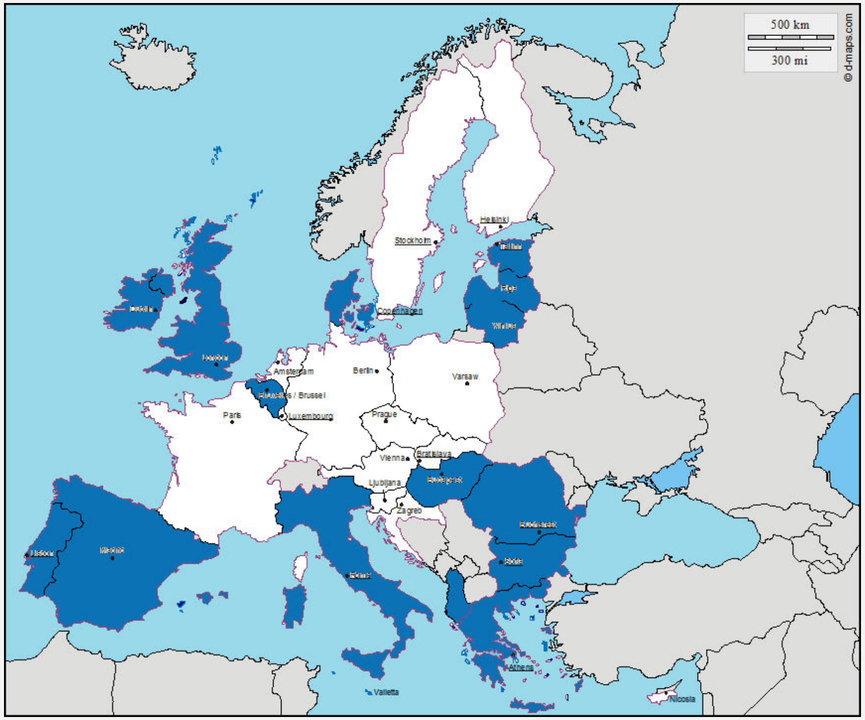
REGULATORY COOPERATION IN EUROPE: WAREG

- **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**

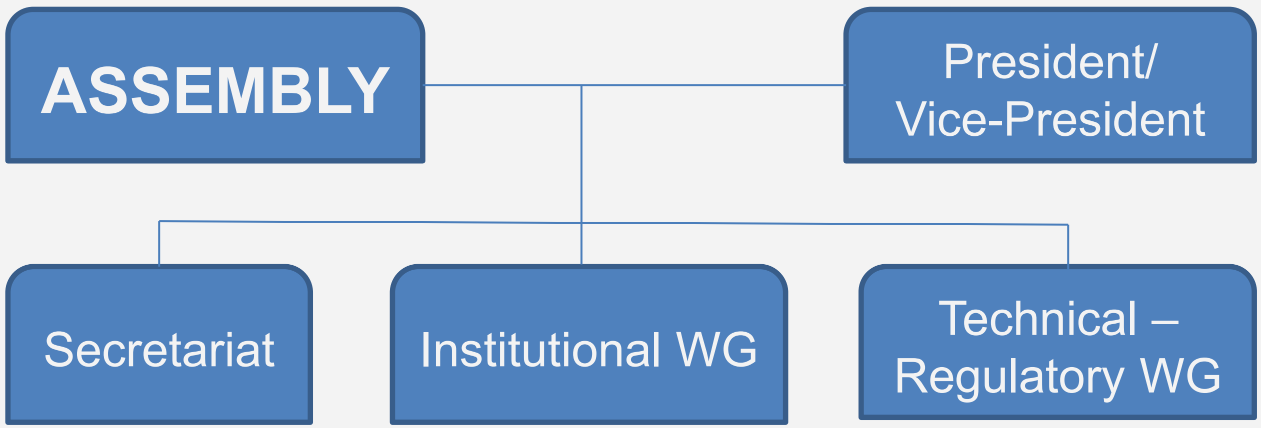
AEEGSI – Italy
ANRSC – Romania
CER – Ireland
ECA – Estonia
ERRU – Albania
ERSAR – Portugal
ERSARA – Portugal (Azores)
HEA – Hungary
MAGRAMA – Spain
MRA – Malta

NCC – Lithuania
NIAUR – Northern Ireland
KSST – Denmark
PUC – Latvia
SEWRC – Bulgaria
SSW – Greece
VMM – Belgium
WICS – Scotland

OFWAT – England & Wales (Observer)



WAREG STRUCTURE AND OBJECTIVES



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**