

ARERA The Italian Regulatory Authority for Energy, Networks and Environment

Annual Report 2020

President **Stefano Besseghini**

Authorities, Ladies and Gentlemen,
on behalf of the Board, first of all I would like to thank the President of the Republic, Sergio Mattarella, who received us yesterday at the Quirinale for his constant interest in our activities.

I would like to thank the President and the Bureau of the Chamber of Deputies for their hospitality and words of appreciation for the work that this Authority is doing.

Finally, I would like to welcome and thank the representatives of Parliament and Government present here today, in a number limited by health measures, but representing the whole country.

We will soon enter the 25th anniversary of the founding law of our Authority, and today's is a Report that is unique in its own way.

The Annual Report to Parliament and the Government is an opportunity to resume, within the broader view of the Strategic Framework 2019-2021, the various initiatives under way, giving an overview of the Authority's action.

This year, in addition to the usual considerations on essential services, such as energy, water, waste and district heating, we must include initial reflections on the enormous impact of the COVID-19 pandemic.

An important goal that this Board set last year was the commitment to develop a regulation able to contribute to reducing the territorial gaps that, unfortunately, characterise access to public services in our country.

The COVID-19 emergency has added new challenges to this goal.

The public utility services that this Authority regulates and that have guaranteed the continuity of social life during the lockdown phase, are (and will be) the key to the resumption of productive activities.

Uncertainty is one of the more common feelings of these months. We cannot yet say that the danger has passed and our description of the future is inevitably fraught with conditionality.

The serious economic recession that has occurred and which will continue to have an impact in the coming years, requires this Authority to pay attention to the effects that its actions may have in counteracting the widening of the social gap that always accompanies times of recession.

Building new infrastructures and maintaining existing ones, the continuity and quality of energy and environmental services, investments for sustainable development and reducing the territorial gap are just some of the issues on which the Authority is called upon to monitor the efficiency of services and to guarantee a system of rules capable of releasing resources to help the country's economic recovery.

For ARERA - as for the whole Public Administration - the new reality that the pandemic forced us to live through also began with the restriction measures introduced by the Government.

Rapid implementation of teleworking tools made it possible not to interrupt the regulatory activity even for a single day.

Adequate technological equipment and the digitisation process carried out during 2019 allowed for an immediate response from the staff of all Directorates.

ARERA has proven to be an administration willing to transfer its action from the real world to the digital world seamlessly.

For this reason too, the Board takes this opportunity to publicly thank the entire staff of the Authority, who, although working mainly in the areas hardest hit by the pandemic, have worked with self-sacrifice and a spirit of service.

Having acknowledged the continuity of the regulatory action, it is even more important to consider how it works.

The effects of the pandemic are in no way comparable with other calamity that have affected the population in the past. Compared to floods or earthquakes, it is not possible to delimit a pandemic in space or time.

We are currently in a strange situation.

If we want to use chemical metaphors, we could speak of a "meta-emergency", a process of transition to a more complex period than the one we came from.

We have not returned to the previous normality; we are no longer in the acute phase of the emergency and we have not yet reached a new kind of normality.

From the Authority's point of view, a context in which the regulatory provisions can be applied with certain timeframes is "normal". It is normal to strike the optimum balance between consumer protection and the need for operators to be assured of the rules on which to plan the investments necessary for service quality.

So is it normal, ordinary regulation possible in times of a *meta-emergency*?

Is it correct to turn the temporary management of a particular state, dictated by external conditions, into the *rule*?

How can we manage the national and international rebound effects on energy prices and volumes that we expect in the coming months?

And lastly, how can we respond to the needs of market operators, whose action is affected by health emergency regulations also aimed at protecting consumers?

The obvious difficulty in identifying general rules is countered by an operational response, which this Authority has chosen to adopt right from the start of the emergency.

It takes the form of an attempt to make regulatory actions as consistent as possible with the gradual evolution of the situation, distinguishing between *emergency* interventions (applied urgently in the first phase), *extraordinary* interventions of a defined duration and *permanent regulatory* interventions.

The latter are long-term and able to respond to the more stable and definitive outcomes caused by exceptional events.

The first, the emergency interventions, are in some ways the easiest to identify and implement. They are often invoked by the very evidence of the facts and by the urgency of situations.

Extraordinary interventions stem from continuous monitoring of the evolution of the situation and may also entail non-optimal choices, from the point of view of balancing interests or maintaining regulatory balances, therefore they require limited durations.

The third interventions - permanent - must stem from the usual accountability process that characterises the Authority's action and aim to restore the normality of its action, despite the extraordinary nature of the new situation.

These are differentiated levels of intervention, also implemented through the direct collaboration of stakeholders, who have shown that they respond to the Authority's requests with a great sense of responsibility.

Regular videoconference meetings with the most representative associations in the various sectors during the lockdown allowed ARERA to have a constant eye on the situation and to support the work of hundreds of operators and thousands of workers who, with their commitment, have guaranteed continuity to public services.

Thanks to those who have shown their willingness to provide statistical data and information, with a necessary but at the same time demanding commitment, the Authority has been able to guarantee the monitoring required to define its measures. Monitoring is necessary now, as it was then, because the emergency is not over.

I would also like to take this opportunity to thank the central institutions, the local administrations, as well as the network operators with whom constant dialogue and coordination has been maintained.

The Authority has a privileged position in assessing the dynamics that have occurred in Italy following the COVID emergency.

The public services it regulates are part of our daily life, both domestic and productive. Normality and the extraordinariness therefore appear tangible and measurable.

We believe it is important to recognise and value the fact that all services have worked regularly, guaranteeing - even in the exceptional situation - the continuity of the supply of electricity, gas, district heating, water and waste collection services.

This is also due to the work of each operator and their employees, but also to all the players who, over the years and with a process that needed to be gradual, have contributed to the evolution of the system towards infrastructural consolidation, technological updating, the industrialisation of processes and the promotion of effective management of services, also with a view to greater resilience in the face of exceptional events.

This is certainly true for the energy sector, which is more mature from a regulatory point of view, which, although operating in particularly challenging conditions - both in terms of systems (due to low demand and generation) and technical conditions (due to the prevalence of variable generation, from renewable sources) - has always guaranteed security of supply.

But this is also largely true for the water sector and for the latest addition to the Authority's regulatory remit, the waste sector, which has been faced with a test of extraordinary complexity.

While sweeping and waste collection activities have been able to function by reorganising operating methods, disposal and recycling activities have faced the difficulties linked to a highly interconnected sector, with an established lack of plants and waste delivery dependent on other countries, which could not be reached during the lockdown phase.

The blockage of production systems in recycling and recovery processes and the interruption of certain material management cycles (not least exports) have made it clear that the balance on which the circular economy rests is a delicate one.

An awareness that is also a useful lesson to be learned from the emergency phase for the future.

If we had not had to deal with the critical issues related to COVID-19, this annual report would certainly have opened with the new regulation of the waste sector.

As announced last year, the waste regulation process was completed during 2019 and the first Waste Tariff Method was issued on 31 October 2019 with Resolution 443, accompanied by the first rules for the transparency of information to users introduced by Resolution 444.

About a year after the launch of the Registry of Operators in the sector (July 2019), more than 6,500 operators are registered: in 88% of cases they are public entities.

The implementation of the Registry has also made it possible to start mapping the Territorially Competent Bodies which, according to the Authority's regulation, are the bodies responsible for validating the Economic and Financial Plan and transmitting the relevant tariff decisions to the Authority.

Especially, to confirm the complex fragmentation of the sector's governance, there is a small number of Local Governing Bodies (49, compared to a very high number (1,893) of Territorially Competent Bodies (98% of these Bodies coincide with the Municipalities).

The process that led to the preparation of the Waste Tariff Method - MTR - had to deal, on the one hand, with this heterogeneity and, on the other hand, with respect for a timeframe that would allow it to cross over with the usual process of defining the TARI - the waste charge.

We will return shortly to the contents of the Method and its evolution linked to the emergency. However, it is important to underline the

direct participation of operators and local authorities in the consultation phases from now on.

An active participation, which has contributed to the creation of a measure that respects territorial particularities, with elements of selective and effective flexibility for the sector's governing bodies.

This did not, of course, prevent the measure from being appealed by certain operators.

After the first pronouncements of the TAR - the Regional Administrative Court - which rejected the appeals describing the regulatory powers of the Authority, it is undeniable that it would be useful to have a final regulatory and jurisprudential insight into the fiscal or tariff nature of the TARI.

The emergency initially limited, although not eliminated, the delicate process of applying the new regulatory mechanism in the sector (due to the evident difficulty in operating in lockdown conditions) and led to emergency intervention by the legislator, sometimes parallel to the principles introduced by the Tariff Method.

To avoid possible overlaps, which were highlighted by some parties, the Authority has adopted further measures aimed at strengthening the clarity and coherence of the framework of rules.

As demanding as the path may be, the need to overcome the numerous issues in our country regarding waste existed before the Coronavirus and involves rapid application of the Tariff Method.

This application is also facilitated by all the elements of flexibility and progressiveness introduced to respond to the emergency but does not provide for the coexistence of temporary or indefinite solutions.

The *regulatory asymmetry* of the tariff Method, which, among other things, helps to promote convergence of the levels of development in the various territorial areas, must be maintained within the Method itself and not lead to the multiplication of laws and orders.

While some of the overt problems cannot be overlooked, such as the structural lack of facilities, a confused and often contradictory governance, the fragmentation of operations and the differing structure of the supply chain, at the same time we must acknowledge that, in order to tackle them, we need to apply a regulatory method that focuses on the control and transparency of costs, incentives for infrastructure development and the improvement of the quality (not only commercial) of the service provided to citizens.

There are local managements that have effectively demonstrated that they can reach very high-quality levels, both in the collection and

in the closure of the integrated waste cycle, minimising recourse to landfill and progressively decreasing the use of waste-to-energy.

Where this has happened, the conditions have been created for waste management to be integrated, information to users to be clear and transparent and the construction of plants to be consistent with the benefits in terms of quality of services and costs.

Regulation has the task of drawing on these experiences, identifying the most directly replicable and scalable characteristics, always based on a subsidiary vision, far from the idea that simply imposing a model can be a solution.

The Tariff Method has the advantage of constituting a common national reference point, with respect to which to situate the inevitable territorial differences.

Local communities and individual users will play a fundamental role.

Greater user awareness of the end of their waste, the structure of the supply chain, the environmental and economic impact of their behaviour, provide the context in which to start catchment planning, with a view to territorial self-sufficiency and correct application of the concept of proximity.

The development of regulation is not only based on resolutions indicating choices and procedures, but also requires the consolidation of a specific regulatory culture among companies and operators in the sector called upon to adopt a proactive and collective attitude.

Sometimes, in a regulated sector, critical issues may also arise from inadequate interpretation of the technical context or from emergency measures which, due to the stratified governance mentioned above, may lead to regulatory overlaps or distorted interpretations, which could be avoided with a more coordinated approach between the legislative and the strictly regulatory actions.

The Authority, within the scope of its competences and in the light of the renewed system of rules, has started collecting the proceedings adopted by the competent Administrations, accompanied by the necessary economic and technical information.

The proceedings received so far are partly drawn up in accordance with the provisions in force (although the deadline for sending them is 30 October) and partly prepared according to apparently different criteria. The Authority has already started the necessary preliminary checks.

Some of the Economic and Financial Plans already sent to the Authority have successfully passed the preliminary checks and been approved,

as recently happened with the first resolutions implementing the Tariff Method.

On the topic of waste, the emergency also added the inevitable issue of financial resources.

The limited compensation and equalisation measures that the Authority can activate through the tariff instrument should be looked at through a structural lens.

There is therefore a real need for additional resources, as this Authority has already indicated in previous reports to Parliament and the Government.

Should there be a decisive intervention by the State, able to guarantee the necessary economic and financial stability to the sector, the negative effects of the emergency would be quickly recovered.

Alternatively, there is only the possibility of progressively defining a balancing mechanism within the sector, operating on two dimensions: the first between different categories of users, due to their characteristics; the second considering a sufficiently wide span of time, such as to make the gradual recovery of the impact sustainable.

The Authority, within the scope of its competences, has already promoted an initial intervention (in line with the "polluter pays" principle) to support productive, industrial and commercial users, forced to close down, and has provided for an adjustment mechanism over several years, with the possibility of requesting an advance to cover the resulting financial exposure, to guarantee the maintenance of operators' economic-financial balance.

During the emergency period, therefore, it set up the COVID Account, an account activated with the CSEA - the Energy and Environmental Services Fund - to overcome the transient financial problems and to finance the interventions activated.

This was, among other things, a significant act of confidence in the waste sector and its gradual entry into the regulatory system.

I would like to take advantage of this mention to thank CSEA for the usual spirit of collaboration that has been reaffirmed in recent months.

This period of crisis, with a substantial reduction in energy demand, has exposed the energy sector to an unprecedented strain.

It offered us the opportunity to highlight the most critical elements of a system that is evolving towards an energy mix with a high presence of electrical renewables and the consequent need to guarantee its stability.

This is a new situation that the electricity sector is not yet fully equipped for, despite the appreciable elements of stability that the Authority's regulation has helped to develop.

The exceptional situation has demonstrated the resilience of the Italian system but has also further highlighted critical situations in the market, already receiving attention from the Authority.

The electricity bill reflects a lot of what happens in wholesale markets. In addition to the raw material trend, there is also the dispatching trend, in which the network operator supplies all the resources to keep the system in balance.

The competitive framework of the dispatching market is structurally critical, particularly in Southern Italy, but the low-price scenario seen in the first half of this year has exacerbated situations in which opportunities may arise for operators to exercise market power.

The Authority completed specific monitoring of dispatching and, as a result, formulated indications for Terna and launched an analysis of the operators' conduct to assess its legitimacy.

Beyond the conclusions of this analysis, the need to question the most suitable market models and instruments, also through ex-ante interventions, useful to structurally prevent anti-competitive behaviour and excessively high prices, has clearly emerged.

The electrical system is soon expected to face important choices, such as the exit from coal, which we have begun to respond to, albeit partially, with the first capacity auctions.

Looking to the future, we will need to equip ourselves with similar tools, but also begin to reflect on which is the most suitable market model for managing an electricity system in which the availability of ancillary services is destined to become an increasingly key factor.

This is in order to streamline economic flows, both on the side of the market players and on the side of consumers, ultimately called to finance the system.

It is good that today's speech focuses on current affairs and prospects, but I think it is important to recall two elements from the *Annual Report on the State of Services* published in July:

- the process of aligning energy prices with the European average, which has been going on for some years now, albeit discontinuously,

experienced a turnaround in 2019, also due to the need to recover the effects of the extraordinary reduction in general charges implemented in the second half of 2018.

- the worsening of the quality of electricity transmission and distribution in some performance areas, apparently at odds with the development of digitisation and the important investments in innovation.

It seems superfluous to recall the effect of energy costs on a country's competitiveness and it is only a small statistical consolation that, even with variations, prices for industrial customers in Germany remain higher than in Italy.

A similar situation is recorded for gas prices, with different characteristics in the different categories but with a substantially worsening average trend.

In both cases, this trend, which has emerged in the last two years, has been accompanied by significant changes in the statistical survey methods and important regulatory changes.

It is premature to carry out an analysis of the causes but the phenomenon must be kept under observation. Certainly, the dynamics of the tax and charges component plays a predominant role.

The significant contribution of fiscal and parafiscal components in the formation of electricity prices has been the subject of debate for years now.

The growth of *general system charges* and the several judgments that have led to a breakdown in the chain of responsibility that guaranteed their collection make it urgent today to take decisive action that can reconcile the various interests at stake, without prejudice to the clear purpose of the charges themselves.

On several occasions, this Authority has indicated the possibility of partially taxing these charges, taking advantage of the greater selectivity of the tax component in intercepting income capacity, of which electricity consumption is only an approximation, and often not particularly effective.

The possibility of allocating - in ways and amounts consistent with other needs - a part of the resources that are being set aside for economic recovery to energy transformation and the guidelines mentioned in the Piano Nazionale Energia Clima (National Energy and Climate Plan) should be evaluated.

Anyway, those topics referred to the Green Deal, the circular economy or the fight against climate change, cannot be funded through additional items on consumers' bills.

One of the main difficulties, when implementing mechanisms to support the economy, is to ensure that resources - when available - reach the targets in an effective and timely manner.

In this sense, coordinated action between institutions on the electricity bills of small industrial, artisanal and commercial activities has proved to be effective.

The reduction, by a quarter, of the fixed components of transmission, distribution and metering tariffs and general charges, made it possible to limit the effects of the lockdown on 3.7 million non-domestic users.

An extraordinary financing intervention by the Government, which passed through the *Covid account* within the CSEA, allowed rapid reduction of bills without affecting the balance of the accounts.

A similar, extraordinary and structural intervention, aimed at financing incremental investments and necessary for the pursuit of energy and environmental sustainability objectives (such as the decarbonisation of thermal uses or the development of a new capacity to generate electricity from renewable sources), could become part of the current mechanisms for the collection and disbursement of funds, making it possible to not increase the general system charges on the bill and therefore the cost of energy for Italian businesses and households.

Interventions of this type would also help to refocus on the items on the bill that are specifically related to the supply, as well as to simplify the collection system, with a restoration of the chain of responsibility and last but not least, to give greater transparency to the process of liberalisation of the electricity market, making it easier to compare the offers of the several hundred sellers.

The main indicators of the quality of the electricity service, monitoring of outages and voltage quality have improved steadily since their introduction but, since 2017, we have seen a reversal of the trend and a gradual deterioration.

A slight deterioration, certainly the result of the growing complexity of an electricity system required to respond to new generation configurations with infrastructural solutions, but also of the effects of climate change, which make extreme events more frequent.

The focus on *resilience* is a step in this direction, but there is also systematic and ongoing work to be done on maintaining and growing the network, not only by strengthening the usual tools, but by thoroughly exploring all the opportunities offered by technology.

An important project was launched in the electricity sector during 2019, following an extensive and participatory process, during which a Regulatory Impact Assessment was also conducted.

With the measure adopted in December 2019 on the continuity of the electricity service, it was envisaged that distribution companies could design "innovation sites", centred on innovative technological solutions for the most critical areas, which would close the gaps in service quality with respect to national targets.

We wanted to give substance to system innovation, already highlighted in our Strategic Framework (target OS.4).

We have called them "*regulatory experiments*" (abroad perhaps they would have used the term "*sandbox*") and they allow - for companies engaged in these innovation sites - certain exemptions from ordinary regulation, provided that at the end of the four-year period the targets have been actually achieved.

The two main distribution companies have accepted this regulatory challenge and have applied for a set of local areas involving around *10 million customers*.

Nowadays, energy transition is the major topic of the sector. The rapid changes caused by technological innovation, but also by new regulatory structures, make it increasingly critical to evaluate the infrastructural configuration to be pursued, especially in this phase, in which transitional elements are still prevalent in relation to the definition of a new structure.

The debate, which is also ongoing internationally, is progressively evolving, identifying solutions and tools able to combine the theoretical suggestion of complete electrification with the mix of technologies able to have an impact even in the sectors where the decarbonisation process appears more difficult.

A greater range of technologies, which will be deployed in a framework that is currently difficult to predict, increases the value of flexibility.

Gas still plays an important role in energy transition. Infrastructure and the structure of the sector itself are at the centre of the debate, especially in the light of the clear time consistency between the achievement of decarbonisation targets and the characteristic return on investment time.

From this point of view, the topic of gas tenders offers a particular challenge.

Thirteen years after the regulation that introduced sector tenders, we must pragmatically admit that their implementation times will still be long.

This Authority has proposed measures to simplify and speed up the tendering process and has promoted a regulation able to favour at least one of the effects that the tendering process could have: a progressive push for the aggregation of operators.

A recent consultation document outlined a possible framework of incentives, also designed to encourage competition in the forthcoming tenders, taking careful account of the guidelines of the Italian Antitrust Authority.

In this regard, we can observe the inherent problem in using tendering to award a gas distribution concession when there are difficulties in valuing assets and balancing the interests of the grantor and the consumer.

This aspect is even more critical in situations where the long duration of the concession (e.g., in the case of hydroelectric concessions) or the specific nature of the sector (as in the gas sector, with potential developments in terms of infrastructure use) make the asymmetry even more marked.

One of the possible outcomes of this situation is a substantial slowdown in some investments in the sectors concerned, due to the inevitable uncertainty that arises.

In addressing this issue, particularly in the case of gas tenders, it seems important on the one hand to avoid dangerous simplifications that undermine the work done, but on the other hand solutions must be developed to progress towards the objectives.

Quick action must be taken to allow tenders to take place, but above all it is advisable to capitalise on the experience gained in time, also with a view to reorganising the electricity distribution concessions provided for by Decree Law 79/99.

A clear example of the difficulties encountered in infrastructure development choices in the current historical moment is the situation in Sardinia, where the Authority is working - in coordination with the other institutions involved - to ensure that this development respects the criteria of efficiency, consumer needs and industrial growth and that it is as aligned as possible with the objectives of the decarbonisation process.

This is an opportunity that we must be able to seize.

Of the transitions affecting the energy sector, the transition to the *free market* seems to be one of the most difficult.

Although constantly progressing, the path to market liberalisation, which began in 2007, has not yet reached its end. Society has changed since then and the electricity service is in danger of moving from being the forerunner of liberalisation to last place.

In this gradual process of increasing customer awareness, the communication initiatives and tools implemented by the Authority with the support of the Acquirente Unico (single buyer) have played an important role: first the *Portale Offerte* (Offers Portal) and then the *Portale Consumi* (Consumption Portal), the latter accessible through the SPID, *Sistema Pubblico di Identità Digitale* (Public Digital Identity System).

From January 2021, however, the standard offer service will cease for small businesses, as required by European legislation. This requires the definition of *safeguard* instruments, like those activated at the time for industrial consumers who have now made the transition to the free market.

The Authority has already started the process of establishing that tools, so that they can be activated by the deadline of January 2021 on small businesses.

The experience gained will then form the basis for verifying to what extent the market is ready to take on the challenge and for making a dimensional and qualitative leap in view of the end of the standard offer service regime, in January 2022, for all domestic users, of which there are far more.

The evolution of customers' behaviour and the progressive growth of companies able to offer them quality services, make it possible to gradually complete the process. This will also lead to the evolution of a sector that - with more than 700 operators - is currently fragmented and not only due to an increase in competition.

In order to ensure the successful completion of the liberalisation process and to limit the critical issues that have affected the sector in recent years, it seems desirable that the provision in the latest *Milleproroghe* decree should definitively speed up the process of defining a *Suppliers' Register*.

This Authority has provided the Government, together with the Antitrust Authority, with the necessary elements to finalize the acts and confirm its willingness to support the implementation process.

The Authority is committed to completing important reforms relating to balancing markets and settlement, which directly affect wholesale market operators in the gas and electricity supply chains, helping

to increase transparency and remove remaining barriers to entry, thus supporting the development of the *retail market*.

Even today we can already say that the free market represents the predominant share of the energy retail market.

The comparison between the free market and standard offer service shows how non-domestic customers can benefit from lower prices by purchasing electricity on the free market, while for domestic customers the average price of the free market continues to be higher than that of the standard offer service.

In 2019, domestic customers paid an average of 26% more on the free market for their electricity supply. Although discounting possible differences in terms of contractual conditions and service offered, this price differential certainly deserves attention.

This, together with the progressive elimination of the standard offer service, requires the Authority's intervention to focus even more on the customers included in this cluster.

The new necessary protection on the free market, will see enhanced obligations and standards for contractual and service quality, but above all greater transparency to allow each customer to better understand their needs in terms of quantity and quality, from the first contact with the supplier to better knowledge of their expenditure with the bill.

The effort, in conjunction with the Italian Antitrust Authority and within our competence, must be to counter any form of behaviour that leads to consumer decisions that are any less than fully informed, by defining, for example, new obligations and information mechanisms, compliance with which is truly effective to protect consumers, especially vulnerable groups, who are more exposed to aggressive marketing practices.

In 2019, work continued defining the regulatory framework of the district heating and cooling service which, despite the recent assignment of the sector to the Authority, is almost complete. Last year's activities focused on regulating the exercise of the right of withdrawal, the introduction of transparency obligations for operators (including price monitoring forecasts), the regulation of technical quality, in particular with regard to safety and continuity of service, and the regulation of the metering service.

The water sector has experienced a particularly intense 2019 with important reforms being made reality.

Some long overdue, such as the regulation of arrears, the operating procedures for the Guarantee Fund for water works and the extension of the social bonus to sewerage and purification.

Others consistent with the regulatory phases, such as the third Water Tariff Method (MTI-3), the measures for quantifying the reward/penalty mechanisms related to the Technical Quality of the water service (RQTI), the updating of the Contractual Quality regulation (with performance data for each operator), the disclosure obligations placed on operators in the presence of bills on consumption dating back more than 24 months.

Some groups of residential consumers have also seen more guarantees to ensure the minimum vital quantity.

2019 then saw - also thanks to the use of the commissioning powers provided for by current legislation - a noticeable acceleration in the operations of the Local Governing Bodies, even though, as in the case of allocation processes, some processes remain incomplete.

The Authority continues to carry out constant monitoring, both the technical and management aspects, for the necessary tariff determinations, and to evaluate contractual quality.

A few numbers will illustrate the sector's current position.

In relation to the technical quality objectives of the integrated water service (RQTI), an analysis of a sample of 131 operators providing the service to 48 million inhabitants shows that loss reduction is the main item of investment, followed by improving water quality and adapting the sewerage system whilst keeping tariffs relatively stable.

This brings the average investment per inhabitant per year over the last four years to 44.5 euros. This is very close to the planned investment, confirming the sector's excellent implementation rates with an average annual expenditure supported by domestic users of €312 per year (€2.08 per cubic metre consumed).

The first phase of the new data collection on the "*Contractual quality of the integrated water service*" was completed a few months ago.

As of this year, a new incentive mechanism for operators is also operational, based on rewards and penalties, aimed at promoting the quality of the service and making it uniform throughout the territory.

The activities relating to *arrears* in the Integrated Water System were then completed, allowing the definition, at a national level, of certain and uniform rules governing the methods for limiting and suspending water supply, considering the guarantee of the *minimum vital quantity* for domestic users.

About arrears, the issue of arrears procedures for aggregate users, such as households, deserves attention.

In order to prevent late payment by some users affecting other blameless users, the Authority has introduced the first minimum rules for *selective disconnection* and an obligation for the operator to demonstrate its technical feasibility.

It remains necessary to identify adequate and definitive solutions that can also include meters for individual users, while being aware of the critical technical and regulatory issues that this may entail.

During the third regulatory period (MTI-3), the Authority, while ensuring continuity with previous periods, proposed an advanced methodology, able to strike a new balance between management efficiency, investment support and improved performance.

Efficiency and innovation, a multi-sector approach, multi-year investment planning with long-term plans capable of considering the evolution of operators' action, were the focus of attention.

One of the main regulatory innovations introduced in the water sector is the result of this board's declared intention to encourage alignment between the different areas of the country.

Although in 2019 there have been positive developments in the processes of establishing and operating the Local Governing Bodies (also in terms of their impact on the population concerned), there are still a residual number of situations in which these processes have not been completed.

Also for this reason, the Authority has introduced a *convergence regulation*, a system for quicker adherence to the regulatory path, reserved for the part of the country that is most affected by the *Water Service Divide*.

Often the lack of data on which to base the assessments necessary for regulation is the main barrier to starting on the path to correctly define tariffs.

The *convergence regulation* therefore becomes a tool available to the areas lagging behind in order to start - according to simplified rules and on the basis of a programme of well-identified commitments - a path to recover the service quality envisaged by the national regulation.

For operations with ongoing issues in the planning or implementation of interventions, we have also introduced possible support provided by third-party structures, in this specific case by the CSEA.

Investment support, in a sector as important as water, must be able to benefit from resources that come from tariffs on the one hand, and from public contributions on the other.

Consistent planning and a comprehensive vision of the initiatives are essential conditions, even more when it comes to interventions financed through the State budget.

The National Plan for interventions in the water sector is an important tool, able to accompany and provide an overview of the long-term strategic planning of each territory, introduced with the third regulatory period.

The approval, in 2019, of the first list of works that can be financed, seems particularly significant today, considering that they have already received the first instalment payments for the progress made.

Consistent with this, ARERA has already started survey activities aimed at identifying the second list of necessary and urgent interventions for the water sector in order to update the "aqueducts" section of the National Plan, for the years from 2021 to 2028.

These interventions (for the part not already financed), with further ones that contribute to improving technical quality parameters and those concerning small dams not included in the Plan, can be supported with access to the Water Works Guarantee Fund, set up at CSEA, which, with the completion of the Fund's feeding, access and management methods established by ARERA, is operational as of this year.

As I approach the conclusion of this annual report, I must nevertheless reflect on the situation that we are facing.

With considerable effort and a shared position unpredictable until recently, Europe has been able to find common ground in identifying important resources to make available for a restart phase.

A restart that cannot ignore *sustainability*, no longer a fashionable term but an essential condition for an advanced society that is redesigning its development.

The sectors in which our Authority has regulatory competence are those able to guarantee considerable added value, both in terms of enhancement of infrastructure investments and in terms of enabling services.

The resources envisaged must be part of long-term planning, to develop projects for which feasibility, monitoring and reporting can be guaranteed.

Loyal institutional cooperation is a guiding principle for this Board that's now even more important, if this is possible.

Developing coordinated initiatives between the institutions that allow for the effective implementation of planned objectives and the regulation of tools, so that resources reach the individual sectors efficiently, appear to be essential for exploiting the opportunities of this moment.

This naturally leads to the topic of innovation, unavoidable in any programme to relaunch the economy, something that the Authority has acknowledged as particularly important by offering operators in every sector the opportunity to develop exploratory initiatives.

During 2019 we introduced the previously mentioned *innovation sites* in the electricity sector, aimed at developing innovative service continuity solutions.

We have started gathering proposals for innovation projects in the gas sector, also open to cross-sector partnerships able to intersect with initiatives linked to environmental sectors, such as the development of wastewater treatment or biomethane production.

In the new Water Tariff Method, wide space has been given to developing innovative solutions with attention to energy efficiency.

Naturally, each initiative must deal with the specificities of its sector but, given the *multi-utility* nature of many operators, the possibility of pooling knowledge and positive contamination of these initiatives is very high.

The Authority does not intend and could certainly not replace individual operators' research and development policies, but it can create a favourable environment so that the proposal of innovative system solutions is one of the areas of discussion with and between operators.

Launching a specific initiative to link and exchange information among the stakeholders represented in the *Observatory for Regulation* and RSE (Research on the Energy System) is a concrete example of how the Authority favours the rapid transfer of innovative projects to the market.

Operators' ability to guarantee the continuity and quality of energy and environmental services and the unifying decisions taken in Europe on sustainable development, naturally lead us to consider these sectors as primary for the revival of the economy. Of a "new" economy.

Last year, in this very House, we were highlighting the shared nature of the *transition to sustainability*, which characterises the areas we regulate.

This transition is now even more strongly encouraged, because service quality, the right to access, consumers protection, with attention to more vulnerable groups, efficient management and optimisation of economic and environmental resources require a greater effort than in the past. Even compared to twelve months ago.

It is not only a question of aiming for major long-term objectives, which must remain part of our daily action, but of intervening immediately in those areas which, even in the pre-COVID era, have shown signs of difficulty.

Today the waste sector is one of the central challenges for the country.

It is not only one of the essential services for the proper functioning of our local communities, but it is the closing link in the chain of the circular economy, the only development approach that can guarantee healthy growth for the whole country, in industrial, social and collective welfare terms.

Closing the major gaps in the country is the challenge, and the Authority's joint work with all the other players in the complex governance of the sector will be able to achieve the goal, without preconceived ideological approaches, but only for the benefit of citizens.

Securing the resources for the necessary infrastructure investments, balancing local authority budgets and consumer protection with efficient tariffs is the difficult equation to solve.

With the experience gained from its previous regulated sectors - energy, gas, and the water service - the Authority has made a first contribution to the waste sector with the Tariff Method, focusing on transparency and quality and enhancing the role of local players.

Of course, this is not enough.

Structural solutions could come from *circular economy investments* (waste, renewable sources) provided for in the Government Guidelines for the definition of the *National Recovery and Resilience Plan*.

By allocating the Fund's resources to strategic interventions and recognising the essential value of certain plant configurations, it would be possible - among other things - to reduce the delay with respect to European obligations and limit the related penalties.

The 2019-2021 Strategic Framework, which we presented last year, saw the "consumer awareness" as the focus around which various regulatory actions revolved.

In this historical moment, protecting the consumer, the user and the citizen, takes on many other dimensions and reinforces the focus of our intentions.

Since the beginning of the pandemic and even more so in the most critical lockdown phase, the Authority's action has mainly focused on consumer protection, with interventions that guarantee the continuity of services, preventing disconnections due to arrears, reducing the requirements necessary to obtain and continue to receive social bonuses and setting up instalment payment mechanisms to recover credits.

We can expect to be faced with the cost of these operations soon, however necessary and inevitable they were.

The upcoming recovery, also built on the principles of sustainability and the environment, must be inspired by inclusion, social responsibility and training, faced with a radically changed economic and employment scenario in all countries worldwide.

Topics over which ARERA has no direct power, but which we are considering here because of the very strong value they have in terms of ethics and the guarantee of development.

On the other hand, during the lockdown the aware consumer, referred to by our Strategic Framework, has been able to experience the opportunities offered by digital technology, to which he or she was inevitably exposed.

This is an important new element, because it has enabled many people to take a new approach.

This is an opportunity that operators will certainly be able to take advantage of, but it also calls for regulators so they can equip themselves with the skills and solutions needed for this social evolution.

From its the very beginning ARERA has designed its services to citizens as remote services to maximise accessibility and efficiency. In this way, in 2019, around 400,000 calls for information and help from citizens were handled by the Call Centre of the ARERA *Consumer Help Desk*.

The Conciliation Service, which provides a forum for resolving disputes between customers and service providers, handled 16,000 conciliation requests.

Resolution was reached for about 70% of the valid applications, with a benefit for families of over 11 million euros and the opportunity to avoid the complex process of recourse to ordinary justice. On average, disputes were resolved in 56 days with a satisfaction rate of 98%.

Remote management has made it possible to be fully operational even in the most difficult months of 2020. Citizens who find it difficult to use services remotely have been assisted and represented by Consumer Associations, whose role in this field is supported by modest use of the proceeds from the sanctions that ARERA imposes on regulated companies in the event of non-compliance with the regulation.

Since 1 January 2020, more than 200,000 new families have become entitled to water, electricity and gas social bonuses, because of raising the maximum ISEE (equivalent financial situation indicator) threshold through which the right to access is granted.

Since the beginning of the year, the water social bonus has been increased, with a higher discount on the bill, and it has been extended to holders of citizenship income and pensions.

But this Copernican revolution - for an instrument unfortunately only accessed by 35% of those entitled to it - is contained in the Fiscal Decree approved last December 17, which will be implemented in a few months, on the 1st of January 2021.

In fact, this measure has made *automatic payment of the social bonus on electricity, gas and water bills* into law, something that the Authority had requested in the report sent to Parliament and the Government.

Thanks to the interaction between the INPS databases and the energy, gas and water databases (Integrated Information System and Territorial Water Registry), it will no longer be necessary for residential consumers to formally request the bonus they are entitled to.

The discount on electricity and gas service customers' or water service users' bills will be applied automatically, ensuring that all those entitled to it (about 2 and a half million families in economic hardship) will be able to benefit from it and eliminating bureaucratic procedures, without burdening the State Budget in any way.

Only the waste and district heating sector do not offer the bonus to vulnerable consumers.

In this regard, it is worth recalling the need for the Prime Minister's Office to issue the necessary decree for the social bonus system for the TARI as well, which is also provided for in article 57-bis of Fiscal Decree no. 124/2019.

Authorities, Ladies and Gentlemen, Dear Guests, in drawing the conclusions of our Report, I believe that the socio-economic context in which we have entered needs more than just reflection. But first let me express my heartfelt thanks to all those who have supported and continue to support the work of this Authority.

I would like to take this opportunity to extend the thanks of the whole Board and our Offices to the Council of State and the Lombardy Regional Administrative Court, the State Attorney's Office, the Court of Auditors, other independent regulatory Authorities for their continuous and fruitful cooperation, as well as the European Agency for the Cooperation between National Energy Regulators, the National Council of Consumers and Users, the Environmental and Energy Services Fund, the GSE group, ENEA, the Regions and local authorities, Anci and the local government bodies.

Finally, to our Board of Auditors, the Strategic Evaluation and Control Unit and - with special thanks - the *Guardia di Finanza*, which, through the Special Goods and Services Unit, provides daily support for our activities.

In this difficult time, we were able to see possible solutions to well-known problems.

Knowing how to extract these solutions from the emergency and implement them to build a new normality, improving our way of working, our respect for the environment and recovering quality of work, is perhaps the greatest lesson we can learn from this experience.

Implementing these solutions may require an additional effort, but the renewed European solidarity and the joint action of institutions seem to make the necessary resources available. Resources that, however, will affect future generations, forcing us to make responsible decisions today.

There is a debate about the difference between *good debt* and *bad debt*.

I believe that one of the primary criteria should be the *sustainability* of the debt itself.

As of today, debt mortgages choices options of future generations. The choices we will finance today must help future generations to cope with their effects.

Our Authority, within its areas of competence, will provide all the support to ensure that this happens.

Let me close with a line which, although taken from a famous comic book character, seems to fit the bill at this stage: *"When you think you have all the answers, life changes all the questions"*
We have new questions to answer, this is difficult but can be extremely rewarding.

We are a great country, with a wealth of intelligence, and technical and human skills.

We have paved the way in many sectors and the world uses not only products, but words and ideas born in this country.

I am sure we will be able to find the right answers this time too.