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MEETING OF THE BOARD MEMBERS OF AEEGSI

AND

**MAROŠ ŠEFČOVIČ, VICE-PRESIDENT OF THE EUROPEAN COMMISSION
AND EUROPEAN COMMISSIONER FOR THE ENERGY UNION**

BACKGROUND DOCUMENT

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The Energy Union Communication outlines a progressive integration of European regulation through the adoption in all countries of guidelines in areas which were once the prerogative of national governments and regulators. Along the same line security of supply develops gradually from a national into a European dimension while the focus on smart retail markets, consumer protection and vulnerable customers remain at the core of the “new deal for consumers”.

On several occasions *the Italian Regulatory Authority for Electricity Gas and Water* (AEEGSI) has highlighted the need and the opportunity to develop an European dimension of energy choices and has always promoted, if not anticipated whenever possible, guidelines and rulings aimed at the integration of the markets and harmonization of legislations and regulations. The Italian Regulator therefore welcomes the initiative of the European Commission.

The Authority however recognizes in the effective design of the rules the symptoms of a model that is still struggling to take off. The imprint of Brussels on a systematic, and sometimes preconceived "harmonization" of the rules that govern the energy markets in Europe, trying to indistinctly assimilate both larger and smaller countries, market models and network configurations that are very often different among them, is likely to prove to be an inefficient and costly format for consumers which at the same time risks to miss in providing adequate benefits for national systems.

The Authority therefore shares with Vice-President Sefcovic the need for a more pragmatic approach based on the enhancement of the regional dimension as a backbone of the Energy Union implementation. Once specific priorities have been defined, common rules will be evaluated but not necessarily harmonized, as a result of the experience provided by their effective regional implementation.

In order to collaborate with the national and European institutions to develop a truly and effectively integrated market, we wish to call the attention of Vice-President Sefcovic here on few selected issues.

a) Infrastructure development and the role of Italy in the European Security of supply strategy

- We welcome the emphasis of the Commission in the State of the Union on the development of infrastructure as a keystone of both the Internal Energy Market and of the European Security of Supply Strategy. Italy, and the Italian Regulator within its competences, has been at the forefront of infrastructure developments aiming to promote both the diversification of European gas supplies and the necessary energy diplomacy with neighboring countries, among which the Energy Community and the Mediterranean.

- The State of the Union Communication acknowledges that the development of the Southern Gas Corridor and the Mediterranean gas hub and the exploitation of the Caspian and East Mediterranean supplies, are a cornerstone of the Energy Union security strategy. AEEGSI very much welcomes the attention of the Commission to these developments *vis a vis* to other commercial projects that do not provide Europe an equivalent access to new sources of supply (ie. North Stream). The infrastructure projects promoted by the Italian regulator such as TAP and the reverse flow are key elements of these developments and therefore need an explicit European support.
- The identification of an interconnection target for electricity infrastructure developments at 2020 and 2030 in the Energy Union Communication reflects a clear political choice towards infrastructure development, but we would like to draw the attention of the Commission on the method of calculating it. Any target for infrastructure development should be based on an adequate measurement of the effective needs of the internal market: in an environment characterized by growing intermittent RES generation, installed generation capacity (currently used to measure the 10 - 15% targets) does not reflect any more real energy demand neither on average nor at the peak.

b) Generation adequacy and capacity markets: a pragmatic and regional approach

- We acknowledge the Commission intention to work towards the definition, for each Member State, of a coordinated methodology to assess system adequacy, through the development of a European perspective that takes into account the contribution to security of supply of cross-border energy flows. This approach, which *de facto* transfers from Member States part of the responsibilities on the specific adequacy standards guaranteed to the citizens and the companies that bear their costs to a super national dimension is a relevant political decision that should be developed only after an effective evaluation of the roles and technical competences of the different actors involved in different jurisdictions (Governments, NRAs, the EC and TSOs).
- Facing the fragmentation of mechanisms with which Member States are trying to cope with the issue of generation adequacy in electricity systems characterized by a growingly important presence of RES intermittent generation, we appreciate the pragmatic approach of the European Commission

in evaluating them and the emphasis on the regional dimension of CRMs. Once we acknowledge that under some circumstances CRM might be needed it is more relevant to focus our attention on the characteristics that minimize distortions to market functioning rather discussing endlessly on their merit. In this context the Italian capacity mechanism is open and flexible as it can allow the participation of producers from other European countries, as well as of renewable energy sources and of demand side. We hope that the upcoming proposals on the Electricity Market Design can refer to the Italian model, neutral with respect to different technologies, market based and regionally oriented a target model for other European systems.

c) The governance of the Internal energy market

The Energy Union Communication emphasizes also the need to revise the governance of the IEM regulatory framework defined by the Third Energy Package which we welcome very much. The current framework of collaboration among NRAs through ACER has relatively worked out in the past years but it has also, in our view, crystallized some misperceptions on which we would like to express our concerns and advance some suggestions:

- EU NRAs are technical independent regulatory bodies supporting the European project of market integration, they do not represent stakeholder interests but rather the complexities of different national systems. They can help developing the complementarity of European and national-level regulatory activities demonstrating the usefulness and strengths of the Third Package model. Their effective coordination at technical level through Acer is crucial for the development of a plural Energy Union pragmatically based on a regional dimension rather than “one fits all” harmonized model.
- The cooperation among NRAs should remain the core mission of the Agency and its present set of checks and balances of internal governance should be preserved, reinforcing the technical contribution of the Board of Regulators. From this perspective a possible revision of the BoR’s voting system according to the technical level and/or the regional impact of different decisions could help the efficiency and effectiveness of decision making, in particular when facing the implementation of NC and Guidelines.

d) Retail market regulation and energy poverty

The State of the Union Communication underlines the importance of competitive retail markets by promoting consumer empowerment, demand side participation and the phasing out of regulated prices. At the same time it expresses concerns for the evidence of increasing energy poverty in some countries including Italy, and the need to protect vulnerable customers in a period of increasing retail costs and prices. We would like to call the attention of Vice –President Sefcovic on the primary role of AEEGSI in this context:

- the regulator has recently launched an organic reform of the regulation of electricity and gas mass retail markets aiming at promoting competition and empowering customer. The reform will focus not only on a revision of the current standard offer regime for domestic and small customers, but also on data and information management to support a more efficient and accountable switching process (Integrated Information System), metering billing, distribution tariff structure and the energy footprint. In parallel to the current legislative initiative to phase out the standard offer regime for both electricity and gas by 2018, the Regulator has already defined a Roadmap aiming at the gradual voluntary exit mechanism differentiated for customers classes according to their level of active participation to the market.
- In Italy we have a long experience of systems aimed at protecting vulnerable customers compatible with competitive market. The so called “social bonus”, currently under revision to face growing needs, is not a social tariff but a discount on the energy bill applicable to all contracts for socio economic vulnerable customers or in need, allows a reduction of 15-20% of energy expenditure. In this context we would also like here to call the attention of the EC also on the significant critical side effects that arrears or late payments pose to the economic sustainability of supply side operators in competitive retail markets.