WATER AND WASTEWATER SERVICES REGULATION IN ITALY

MULTI-LEVEL ORGANIZATION IN THE ITALIAN WATER SECTOR

Optimal Territorial Area (ATO)
Areas on the basis of which the water services are organised and on which the competent Authority exercises its powers regarding the organisation of the integrated water service to which the Region has allocated the functions exercised by the Local Authority

NATIONAL LEVEL

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

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

LOCAL LEVEL

Local Authorities (**EGA**)

EGA entrusts the water services to the SII operator

EGA approves the tariff proposal composed of investment plan and related financial plan, in agreement with the operator

OPERATORS

Integrated water services operator or **SII operator** is the subject who manages one or several services which are part of SII (extraction, conveyance and distribution of water for civil usage, sewerage and wastewater treatment)

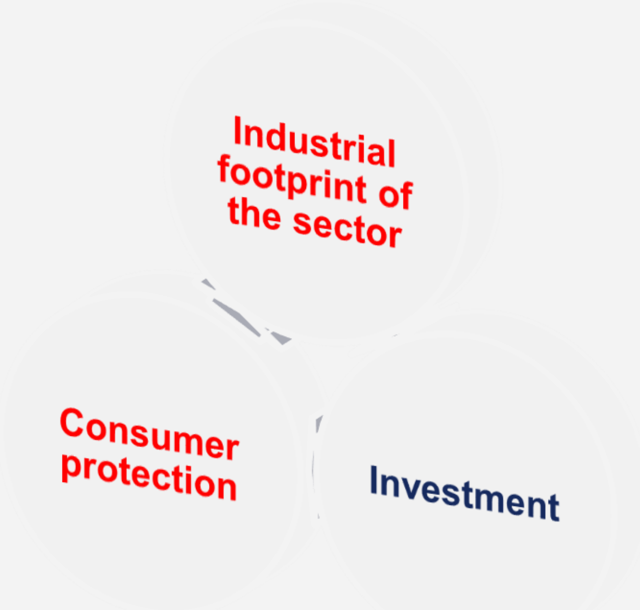
AEEGSI: THE STARTING POINT

- Law 481 of November 14th, 1995 established **AEEG** as an independent regulator setting the powers in the **electricity and gas** sectors
- Decree-Law 201 of December 6th, 2011 extended AEEG's powers also to **water sector: AEEGSI**

REGULATION has to balance different interests:

- **CAPITAL NEEDED BY WATER SECTOR INDUSTRY** for new infrastructure to ensure quality and safety of supply, but investors seek robust frameworks - *ex. Italy, €65 bn estimated investment needs for next decades*
- **CONSUMER PROTECTION** by ensuring universal access to water and wastewater services, at affordable prices
- **HIGHER ENVIRONMENTAL AND WATER QUALITY STANDARDS** required at EU level to ensure sustainability of water resource uses
- **NECESSITY TO GUARANTEE ACCESS TO SAFE DRINKING WATER FOR FUTURE GENERATION**
- **GOVERNING THE INTERACTION BETWEEN NATIONAL AND LOCAL DIMENSIONS**

MAIN AIMS IN THE ITALIAN WATER SECTOR (1)



1. Strengthening industrial footprint of the sector

- At present the number of operators is still higher than **2,500**
- Aeegsi objective is to reduce the number of operators by **encouraging consolidation** of the water industry

2. Improving consumer protection

- Quality standard levels of water services are not homogeneous throughout national territory
- Italian water regulation aims **has set national standards for: commercial and technical quality**

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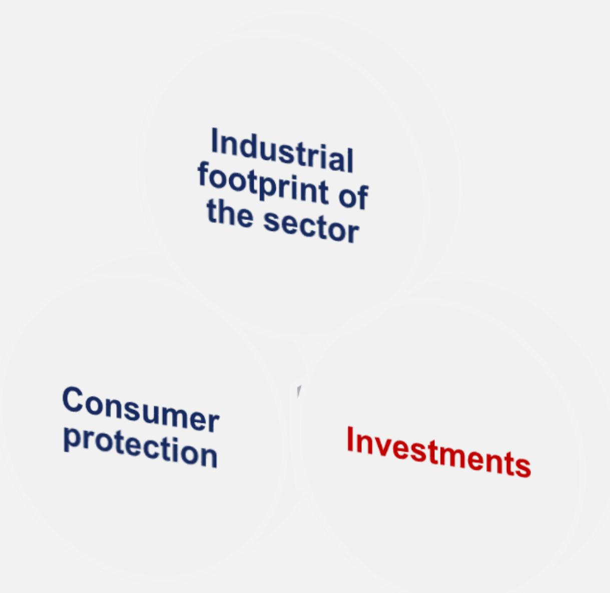
MAIN AIMS IN THE ITALIAN WATER SECTOR (2)



Increasing investment in infrastructures

- **The sector suffers from lack of investments**
- Thanks to the Authority regulation, **investments have already increased by 55% over the last four years**

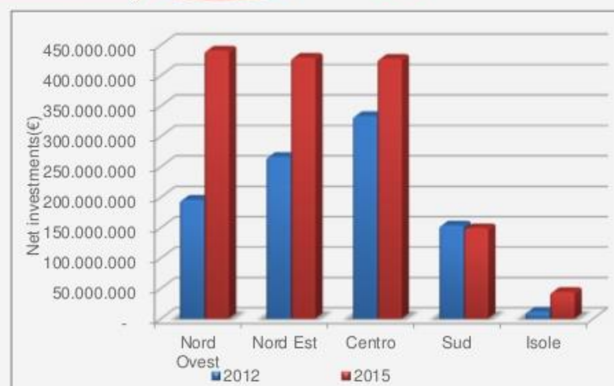
TREND OF INVESTMENTS AFTER THE ACTION OF A CENTRAL REGULATOR

	NET INVESTMENTS 2012 (€)	NET INVESTMENTS 2013 (€)	NET INVESTMENTS 2014 (€)	NET INVESTMENTS 2015 (€)
North-West	195.741.644	184.324.445	350.241.242	440.956.598
Nord-East	266.595.624	332.483.991	323.830.781	429.109.401
Centre	333.369.137	344.173.029	387.298.944	427.190.417
South	153.725.206	60.434.581	108.306.589	149.297.118
Islands	11.522.585	6.057.384	31.914.845	44.120.667
Italy	**960.954.196**	**927.473.430**	**1.201.592.401**	**1.490.674.201**

+55%

Data referred to:

- ***127 operators***
- ***40 mln inhabitants** (2/3 of Italian population)*



AEEGSI FLEXIBLE REGULATION BY SCHEMES

- **Asymmetric and innovative regulation** introduced by AEEGSI in 2013, to tackle fragmentation of sector (more than 2500 operators, mainly public)

- In the first regulatory period 2012 – 2015 (MTI), possibility for operators to choose 1 of **4 regulatory schemes**, according to 2 dimensions: level of investments and variation of objectives

- In the **new regulatory period 2016 – 2019 (MTI-2)** an additional incentive was added for aggregation of operators (to promote sector efficiency), leading to **6 possible regulatory schemes**

ASYMMETRIC REGULATION

For the first time, one single methodology for tariff calculation in Italy

[Aeegsi acts: DCO 339/2013; DCO 356/2013; DCO 550/2013; Del. 643/2013]

- Aeegsi approach in setting the Water Tariff Method (MTI) is based on **selectivity of regulatory schemes** according to the specific objectives and the related investment needs declared by the competent local Authorities.
- The mechanism introduced by Aeegsi **puts responsibility** on the stakeholders involved (i.e. local authorities in coordination with local competent bodies), whose request of resources must be coherent with the **selected objectives** and the **related necessary operations** .
- **For the years 2014 and 2015, one of the following four regulatory schemes could be selected:**

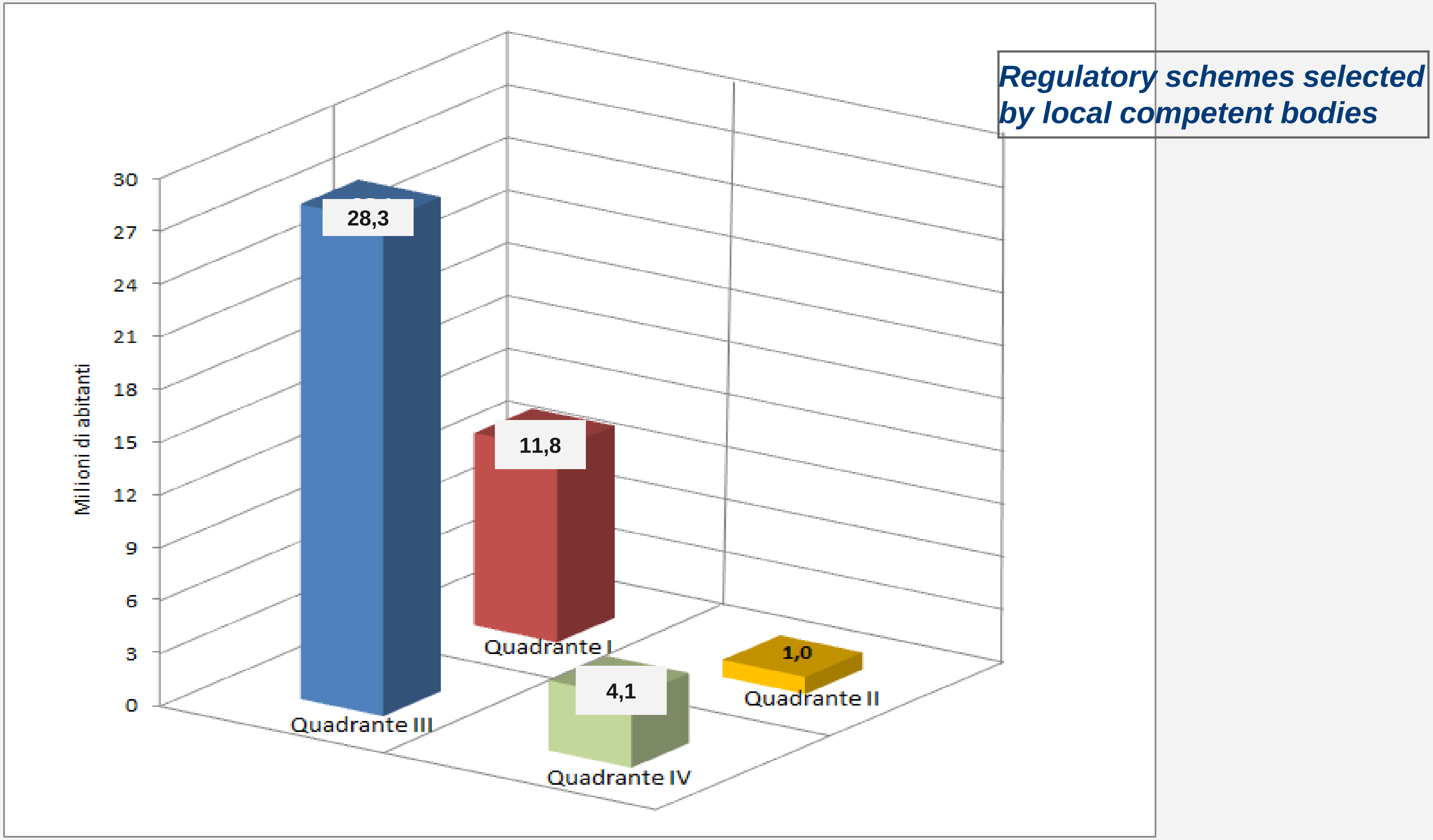
MTI (2012-2015)

		No modification of objectives or activity of the local competent body	Modification of objectives or activity of the local competent body
INVESTMENTS	$\frac{\sum_{2014}^{2017} IP_t^{exp}}{RAB_{MTT}} \leq \omega$	QUADRANT I	QUADRANT II
	$\frac{\sum_{2014}^{2017} IP_t^{exp}}{RAB_{MTT}} > \omega$	QUADRANT III	QUADRANT IV

Systematic change of activities by the competent local body, for instance in terms of width of the area served which requires a redefinition of costs declared in the area plan

Necessity of relevant additional investments, whose sustainability requires adequate measures

IMPACT OF AEEGSI REGULATION (2012-2015)



NEW REGULATORY PERIOD (2016 – 2019)

Regulatory period 2016 – 2019. Decentralised choices by operators

Identification of **critical issues**

Definition of specific **objectives**

Detailed **investment** planning up to 2019

Selection of a regulatory scheme by the operator

Opex national average OPM=109 euro/inhabitant

Operators more efficient than national average

ω=0,5

Expected investments exceeding 50% RAB

		$\frac{Opex^{2014}}{pop} \le OPM$	$\frac{Opex^{2014}}{pop} > OPM$	AGGREGATIONS, VARIATIONS IN OBJECTIVES OR IN ACTIVITIES OF THE OPERATOR
INVESTMENT	$\frac{\sum_{2016}^{2019} IP_t^{exp}}{RAB_{MTI}} \le \omega$	SCHEME I Investment in relation to existing infrastructure LOW Aggregations/ New specific objectives NO	SCHEME II Investment in relation to existing infrastructure LOW Aggregations/ New specific objectives NO	SCHEME III Investment in relation to existing infrastructure LOW Aggregations/ New specific objectives YES
	$\frac{\sum_{2016}^{2019} IP_t^{exp}}{RAB_{MTI}} > \omega$	SCHEME IV Investment in relation to existing infrastructure HIGH Aggregations/ New specific objectives NO	SCHEME V Investment in relation to existing infrastructure HIGH Aggregations/ New specific objectives NO	SCHEME VI Investment in relation to existing infrastructure HIGH Aggregations/ New specific objectives YES

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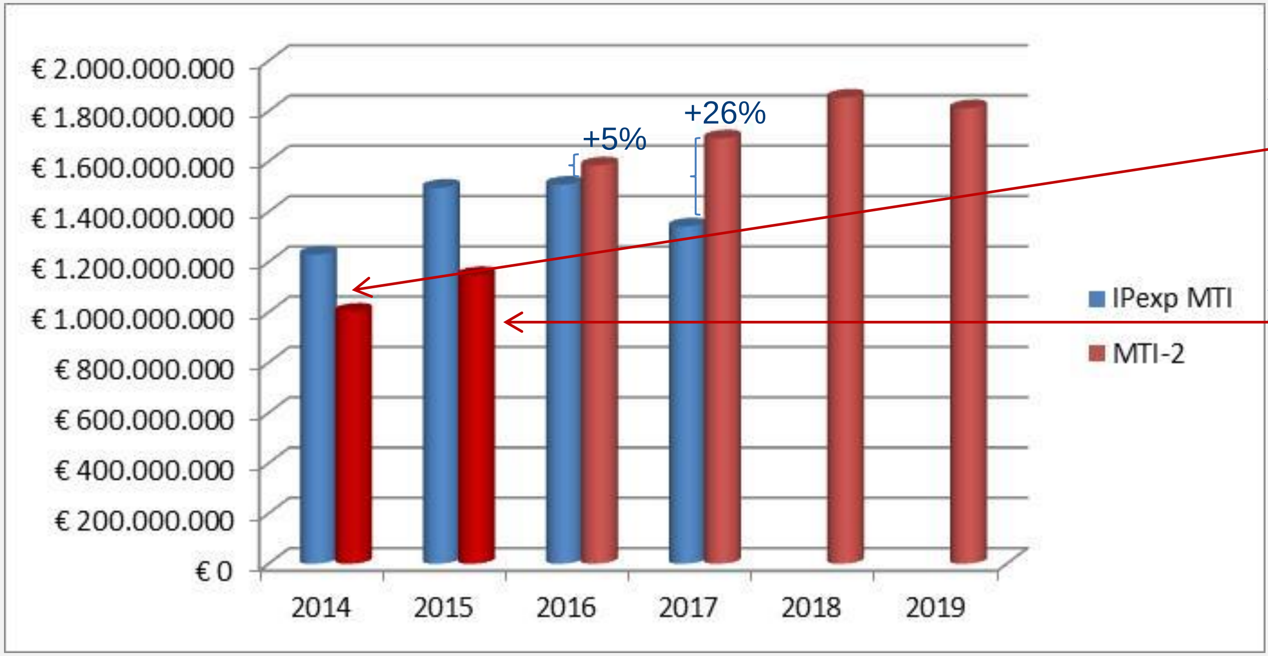
FOCUS ON TARIFFS APPROVED BY AEEGSI [YEARS 2016-2019]

- AEEGSI approved tariffs for **97 operators** regarding **32.222.800 inhabitants,** with planned investments for **€ 5.374.194.324** referred to the period 2016-2019

Planned investments *vs* investments made



- Year 2014: 82% of planned investmentes were realized
- Year 2015: 77% of planned investmentes were realized

*data referred to **127 operators, 44 mln inhabitants***

Thank you for your attention