



The structure
and role of

The Regulatory Authority for Electricity and Gas of Italy

January 2000

What is the Regulatory Authority for Electricity and Gas?

The Regulatory Authority for Electricity and Gas of Italy is an independent entity established under law no. 481 of November 14th 1995 to regulate and control the electricity and gas sectors.

As an independent statutory entity, the Authority makes its decisions according to its constituting law and adopts procedures and regulations with a high degree of autonomy in judgement and evaluation. It determines tariffs, service standards and technical and economic conditions governing the access and interconnections to the grid and its use, in all cases where technical, legal or other constraints would interfere with normal competitive market conditions, thereby failing to protect the interests of users and consumers.

The Authority is a board of three commissioners composed by a President and two Members. All three are appointed by a decree of the President of the Republic following nomination by the Council of Ministers upon proposal of the Minister of Industry, Trade and Craftsmanship. Nominations are submitted to the competent Parliamentary Commissions for scrutiny, based on a two-thirds majority vote.

The commissioners are selected from highly qualified and experienced professionals in the field. Appointments are for seven years and not renewable. To safeguard the Authority's independence and autonomy, commissioners are forbidden to have any professional relations whatsoever, either direct or indirect, with any company operating in the regulated sectors, during their term in office as well as during the subsequent four years.

In what ways is it autonomous?

Owing to its legal status the Regulatory Authority for Electricity and Gas sets its own procedures for the adoption of decisions and lays down internal rules relating to its organisation, functioning and accounting.

The Authority operates within general economic policy guidelines laid down by the Government and Parliament, taking full account of EU norms and directives. In its *Documento di Programmazione Economico-Finanziaria* (Three-year Economic and Financial Programme) the Government indicates to the Authority any areas for development it sees in the public utilities as corresponding to the country's general interests.

In turn, the Authority makes observations and recommendations to the Government and Parliament and presents an annual report on its activities and on the state of the regulated services to Parliament and the Prime Minister.

The Authority is a self-financing organisation funded through annual contributions paid by the regulated utilities and companies. The contributions are fixed as a percentage not superior to 0.1% of their revenues for the previous year.

Who does the Authority consist of? How long has it been operating?

The commissioners, appointed by Presidential decree on October 7th 1996, are Pippo Ranci (President), Giuseppe Ammassari and Sergio Garribba (Members).

The Authority was set up on December 4th 1996. It has been fully operational, since April 23rd 1997, when the internal rules on its organisation, functioning and accounting were published on the *Gazzetta Ufficiale della Repubblica Italiana* (Official Journal) and all functions previously attributed to other public entities were transferred to the Authority.

The Authority has its head office in Milan and a subsidiary office in Rome. It can employ a maximum of 120 staff, on permanent (80) and temporary contracts (40).

Staff on permanent and temporary contracts, and those on secondment from other public administrations, shall not carry out any other professional activity even if occasional. Moreover, staff should not retain interests, of direct or indirect nature, in the enterprises regulated by the Authority. A Code of Conduct sets behavioural rules for the directors and administrators.

The Commissioners

Pippo Ranci (President) - Professor of Economics at Milan's Università Cattolica, he has also taught at the Universities of Bergamo and Milan. One of the founders of *IRS, Istituto per la Ricerca Sociale* (Social Research Institute), he was its chairman from 1973 to 1982 and headed the Industrial Economics Research Unit until 1996. Consultant to the Ministry for Industry, Trade and Craftsmanship in the years 1974-1980 and to the Prime Minister of Italy in the years 1992-1993. He graduated in Economics from Milan's Università Cattolica and obtained a MA in Economics from Michigan University.

Giuseppe Ammassari (Member) - General Director of Industrial Production from 1988 to 1996 and General Director of Energy Resources from 1975 to 1988 of the Ministry of Industry, Trade and Craftsmanship. He has been board member of ENI, INA, IRI and Assitalia, as well as of other smaller companies. Former professor of Economic Statistics at the universities of Rome, Bari and Cassino. He graduated in Economics from Rome University.

Sergio Garribba (Member) - Director of the Energy Department at *ENEA, Ente Nazionale Energie Alteranative* (National Agency for New Technologies, Energy and Environment) from 1994 to 1996. Director of Energy Technologies, Research and Development at the OECD International Energy Agency, Paris from 1987 to 1993. Co-director of *IEFE, Istituto di economia delle fonti di energia* (Institute of Economics of Energy Resources) at Milan's Bocconi Commercial University from 1974 to 1984 and Director of Research from 1985 to 1987. Professor of Nuclear Power Systems at Milan's Polytechnic Institute. Associate researcher at the Massachusetts Institute of Technology from 1972 to 1973. He graduated in Nuclear Engineering from the University of California (Berkeley) and Milan's Polytechnic Institute.

What are the Authority's main objectives?

The Regulatory Authority for Electricity and Gas pursues two main objectives laid down in law no. 481 of November 14th, 1995: "*guaranteeing the promotion of competition and efficiency*" while "*ensuring adequate service standards*" in the electricity and gas sectors.

These objectives are to be pursued by ensuring "*uniform availability and distribution of services throughout the country, by establishing a transparent and stable tariff system based on defined criteria and by promoting the interests of users and consumers*". The tariff system is required "*to reconcile the economic and financial goals of the electricity and gas suppliers with the general goals of social well-being, environmental protection and efficient use of resources*".

Public administrations and enterprises shall provide the Authority with collaboration and full information for the performance of its functions.

What are the Authority's functions?

Under law no. 481 of November 14th, 1995, the main functions of the Regulatory Authority for Electricity and Gas are as follows.

Tariffs

To set basic tariffs for the regulated sectors, that is, maximum prices net of tax, and tariff adjustment according to a price-cap mechanism (defined as a ceiling on price variations for a set period). The price-cap mechanism establishes a limit on annual tariff growth equivalent to the difference between the target inflation rate and the increased productivity attainable by the supplier, as well as any other factors influencing tariffs such as quality and reliability standards.

Quality Standards

To establish quality standards for electricity and gas transport and distribution, as well as overall and guaranteed service standards, together with automatic refund mechanisms to consumers should the standards be not met. To monitor quality and reliability standards, and how the Citizens' Charter is adopted and applied by service suppliers. Standards may refer both to terms and conditions of the contracts (such as response time to calls or complaints) and to technical aspects of the service (such as continuity of supply and safety).

Market structure

To make observations and recommendations to the Government and Parliament regarding market structure, and adoption and enforcement of European norms and directives.

Competition

To report to the *Autorità garante della concorrenza e del mercato* (Italian Competition Authority) any suspected infringements of law no. 287 of October 10th 1990 by companies operating in the electricity and gas sectors.

Licensing

To make observations and recommendations to the Government and Parliament with regard to licences or authorisations, and to the Ministry of Industry, Trade and Craftsmanship with regard to licensing schemes, their renewal or any variations therein.

Unbundling

To draw up separate accounting and administrative procedures for the various activities according to which the electricity and gas sectors are organised. Unbundling meets the objective of achieving transparency and standardisation in the annual accounts of the regulated companies, so that electricity and gas costs can be broken down and allocated by activity and function to guarantee the promotion of competition and efficiency.

Monitoring and control

To monitor service suppliers, with the power to demand documents and data, call inspections and apply sanctions, and to determine when automatic refunds from service suppliers to consumers are to be made.

Complaints

To assess complaints by individual users and consumers and their associations and, whenever necessary, to oblige service suppliers to modify service conditions accordingly.

Litigation

To handle out-of-court settlements between users and consumers and service suppliers.

Transparency and openness

To publish and circulate information on the supply of services to ensure the maximum transparency; to set conditions for a competitive supply market and the widest possible choice for intermediate and final consumers.

How does the Authority work?

What is the decision-making process?

The Authority's decision-making process is defined by its internal rules and, with regard to the procedures according to which individual interests are represented and out of court litigation settled, by the procedures established by Presidential decree under law no. 400 of August 23rd 1988.

In adopting general rules and decisions, the Authority designates one of its officials in charge for all the necessary procedures, and one of its commissioners in charge for reporting on the preliminary findings and recommending a decision. A date is fixed by which any written observations should be submitted and, whenever necessary, any consultations with the interested parties and their associations should be arranged.

In adopting individual orders and notices, the Authority opens a formal inquiry in which one of its commissioners is appointed to report on its findings, to recommend a decision and to set the dates for the hearings and for written or oral confrontation with the interested parties to be presented, prior to final discussion by the Authority. The Authority may decide to open a formal inquiry on the basis of any report or information it receives, either accidentally or in the course of its inspections and monitoring and control functions, which might also constitute valid grounds. Should the results of the inquiry prove said grounds to exist, the Authority will open formal proceedings.

Transparency and openness in the decision-making process

The Authority applies criteria of transparency while adopting general rules and decisions. There is full consultation with service suppliers, as well as with interest groups (consumer, environmentalist, trade union, business and trade associations) through the circulation of documents and the collection of written comments. Documents for consultation can be discussed within the course of specific hearings prior to the approval of any measures.

The Authority also holds periodical hearings with interest groups and their associations. Specific procedures are set for such hearings which allow for special or urgent issues to be raised by including them for discussion on the agenda.

Publication and circulation of the Authority's decisions

The Authority is required to publish its decisions in a periodical Bulletin. General rules and provisions are also published in the *Gazzetta Ufficiale della Repubblica Italiana* (Official Journal). Decisions and news of the Authority's activities can be found on its web site (www.autorita.energia.it).

How to appeal against the Authority's decisions?

Appeals against Authority rules, decisions orders and notices can be made before the *TAR, Tribunale amministrativo regionale* (Regional Administrative Court) for the Lombardy Region. Appeals against sentences taken by the Regional Administrative Court can be made before the *Consiglio di Stato* (Council of State).

What are the Authority's main actions?

Most of the Authority's early measures were addressed at issues left unresolved by the previous regulatory system whereas the main activity today consists of adopting structural measures. These include drawing up new tariff systems and defining quality standards, while promoting competition and protecting users and consumers. To this end, the Authority systematically collects information and data on aspects of the national electricity and gas system such as quality, reliability and consumer protection.

The Authority's activities, in coordination with those of other public administrations, focus on the following:

- definition of a new tariff system for the supply of electricity to final consumers, with the introduction of uniform tariff constraints all over the country, as well as methods for their periodical adjustment and the definition of compensation mechanisms in order to recognise different distribution and retail costs over the different geographic regions;
- setting rules to allow all users of the electricity grid freedom of access under non-discriminatory conditions, while ensuring impartial and neutral transmission and dispatching by the independent transmission operator; defining the technical and economic conditions for the access and use of the national grid, especially for eligible clients as foreseen by the European directive on the internal market;
- definition and review of tariffs for gas supplied through urban networks and of rules for access to and use of the natural gas pipeline system while monitoring existing practice;
- observations and recommendations to the Government and Parliament on the adoption and implementation of European directives on common rules for both the internal electricity and gas markets;

- directives on accounting and administrative unbundling of activities and services supplied by vertically and horizontally integrated companies, also in order to prevent cross-subsidies and discriminatory behaviour;
- recommendations to the competent ministries on the renewal and review of licences or authorisations, conventions and public policy implementation agendas; observations and recommendations on the reorganisation of local public services, on the simplification of administrative procedures and the harmonisation of energy taxes;
- quality regulation for electricity and gas with the introduction of overall and guaranteed standards and automatic refunds to consumers wherever standards are not met; definition of common criteria for the assessment of quality standards; monitoring that Citizens' Charters are being adopted and applied by service suppliers; certification of data on quality standards and organisation of technical inspections;
- environmental protection by introducing incentives for plant and technologies using renewable sources; promoting the efficient use of resources and demand-side management, and by drawing up of legislation on plant and infrastructure restoration, and on reduced exposure to electromagnetic fields;
- protecting the interests of consumers in the case of any infringement of current tariff regulations and general conditions governing the supply of electricity and gas; setting minimum standards for contractual terms of supply.
- assessment and settlement of complaints from users and consumers, by establishing procedures for out-of-court settlement of disputes; definition of measures to improve transparency of bills and contracts.

The international context

By setting up an independent regulatory authority for electricity and gas, Italy has brought itself into line with the changes taking place in many advanced countries. The processes of liberalisation, reorganisation and privatisation underway in the electricity and gas sectors world wide have involved a review of regulatory regimes. In many cases, direct government control, either through ministries or inter-ministerial commissions, has been replaced by new regulatory authorities, each with varying degrees of autonomy and independence.

The countries that first started to liberalise and reorganise their energy markets, like the United States and the United Kingdom, were also the first to experiment the new regulatory models. In the early 1990s, independent regulatory authorities were also set up in Canada, Australia, Latin America (Argentina, Brazil, Chile) and Scandinavia (Finland, Sweden and Norway). Spain, Portugal and Italy have followed suit.

Under the impetus of European Union policy aimed at setting up an internal electricity and gas market, the Italian energy sector has started its transition from a national to a European framework, gradually moving away from a state monopoly to a market-oriented sector. The Regulatory Authority for Electricity and Gas has from the very start of its operations worked closely with other European independent regulatory authorities as well with the European Commission and other international organisations.

Organisation

The Authority is organised into three main operational areas (Electricity, Gas, Quality and Consumer Affairs) and three service departments (Legislative and Legal Affairs, Research and Documentation, Administration and Personnel). The External Relations office liaises with the press and media, and with the external relations of other administrations.

The Authority has its head office in Milan and an office in Rome.

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