

The Italian retail electricity and natural gas markets: a slow march

by Antonio Sileo

Gas customers should be able to choose their supplier freely. Nonetheless, a phased approach for the completion of the internal market for gas should be preferred, once a specific deadline has been set. This would allow the industry to adjust its supply and demand patterns, and would ensure that adequate measures and systems are in place to protect the interests of customers and the actual right to choose their suppliers. Indeed, this is what the European Directive 2003/55/EC disposes. The opening of the market to competition occurred at an unusual speed for Italian habits. In fact, the identification of all the eligible customers to choose their supplier dates back to January 2003 (see Legislative Decree 164/2000).

However, the work is only half done. Even if all consumers can now freely choose their supplier, the latter is not free - at least for household consumers - to determine the price of delivery. The Italian Regulatory Authority for Electricity Gas and Water, actually, fixes the standard offer price at the beginning of each quarter. The supplier must provide the standard offer price, the so-called "servizio di tutela", to any customer requesting it.

In a similar way two distinct segments characterize the electricity retail market: the so-called "[maggior tutela](#)" and "free market".

"Maggior tutela" is that concerning those customers who purchase electricity under a standard offer: small enterprises with less than 50 employees and an annual turnover lower than 10 million and the households. Is characterized by the presence of "[Acquirente Unico](#)", a single buyer who is in charge of procuring electricity on the wholesale market to be then resold to standard offer retailers at a price reflecting the recognized costs borne by the single consumer, including procurement costs. The Italian Regulator Authority for Electricity Gas and Water establishes the standard offer price at the beginning of each regulatory quarter.

The "free market", instead, involves those customers who actively engage in the market and who purchase electricity at price conditions directly negotiated with retailers.

The standard-offer price is still far the most common purchase option on the retail market, both for the natural gas for both the electricity.

Even if the standard offer cannot be considered a regulated price, it represents a reference value that discourages competition among retailers and promotes customers' inertia towards better offers, as highlighted by the latest [Market Monitoring Report](#) of ACER (Agency for the Cooperation of Energy Regulators) in October 2014.

This setting is bound to be progressively superseded, as provided by the European legislation. The European Court of Justice ruled in 2010 that regulated prices can be only temporary measures.

On this respect, the process could see an acceleration in the next few months. A bill [proposal on competition](#) approved by the Council of Ministers on February 20th foresees the elimination of regulated standard offers and the fully opening to competition of both electricity and gas retail markets from 1° January 2018.

This date, however, cannot be considered completely reliable. Before the enactment, the bill will face first a long parliamentary discussion where the judgment and influence of many stakeholders, including the Italian Regulator, can be expected to weigh in.

Indeed, Italian Regulator has just released a report on the results of its monitoring of both the power and gas retail markets for the years 2012 and 2013. At a first glance, it highlights how the retail market is still immature, and how it is concentrated among few players, with few saving opportunities for a large share of customers, who in any case are largely unaware of them.

The bill proposal provides the right timing for the adoption of measures necessary to ensure that even the less informed customers are able to take advantage from the market. (So far, rumours of complete liberalization had suggested starting on July 2015 for gas and on July 2016 for electricity).

Indeed, several actions and objectives are planned which should give a positive response to the concerns about the bill, beginning with the guarantee of full information for the consumer.

Adequate attention is given to brand unbundling, which is already provided since 2011. Distribution system operators (vertically integrated) no longer will be allowed to use the same brand in their relations with consumers.

The same relevance has the proposal of measures allowing final consumers' portability and ensuring effectiveness, transparency and promptness of switching and invoicing operations. Prices' monitoring plans are also expected for the phases preceding and following the end of the standard offer price. Moreover, arrearage contrast measures are expected.

On the contrary, the adoption of a Development Economic Ministry's decree to provide measures untangling the previously mentioned points is questionable. These issues, indeed, represent a direct competence of the Italian Regulatory Authority for Electricity Gas and Water, which is already at work on them, in many different way. Does this represent a blow to the model of independent energy regulation? It is hard to deny that in this case a governmental intrusion into customary regulatory competences will have place.

Anyway, the bill does not specify how detailed the Ministry intervention should be, so this might be expected to be limited to the ratification of the Authority proposals.

It is certain that it will be a long journey that won't necessarily come to an end. In Italy, only 30% of the proposals of the Government are transformed into acts of law.