

PRESS RELEASE

Energy: from July an +2.8% increase for electricity, gas falls by 2.9%

The seasonality of prices in wholesale markets influences the trends of updates

Milan, 28th June 2017 – In the third quarter of 2017 the electricity *bill* increases and the gas *bill* decreases for the average household¹. From the 1st of July for the average household the electricity *bill* will record a variation of +2.8%, while the gas *bill* will record a variation of -2.9%. This is what is expected by the updating of the *reference prices* for families and small *standard offer market* consumers for the third quarter of 2017. Both the variations are mainly connected to the trends in wholesale market prices in the next quarter, influenced by the seasonality of the period.

In particular, the electricity trend is linked to prices in the national wholesale market which are expected to rise in the next quarter, as a result of the expected high consumption connected to the seasonality of the hot summer period, already manifested in the particularly scorching month of June and with little hydro-electricity accumulated from the past winter. For gas, however, the season of low consumption at the European and national level implies – as expected – a reduction in prices in the continental wholesale markets.

In detail, for electricity the cost (before taxes) for the average household in the rolling year² (between 1st October 2016 and 30th September 2017, inclusive) will be 512.52 euros, with a variation of +1.8% compared to the 12 equivalent months of the previous year (1st October 2015 – 30th September 2016), corresponding to an increase of approximately 9 euros/year. In the same period the cost of the average household for the gas *bill* will be approximately 1,029 euro, with a variation of -3.6% in relation to the rolling year, corresponding to a saving of approximately 40 euros/year.

In the third quarter of 2017 the trend for the **electricity** price, as mentioned, is mainly determined by an increase in supply costs, linked to an estimate of a significant increase in wholesale market prices (with prices for the Single National Price approximately 20% higher compared to the 2nd quarter) which reflects the increase in consumption, sustained by the high temperatures of the summer season. Increases have already been recorded in the current month of June, also confirmed by the marked growth in wholesale *forward* prices³. Furthermore, the ongoing need to recover part of the strong increases in wholesale price from the start of the year, triggered by the emergencies on connected European markets, especially the French emergency characterised by the unexpected shutdown of numerous trans-Alpine nuclear power plants, is also contributing to the increase. Phenomena that, it should be remembered, led to electricity prices in the first quarter that were much higher than expected, with a difference in purchase costs to be recovered over time. A need for recovery that also concerns the 2nd trimester of the year to a lesser degree, above all for the aforementioned increases in June.

However, dispatching costs on the *bill* have slightly declined compared to the 2nd trimester of the year (the costs sustained by the –Terna- network Operator for maintaining the electrical system in equilibrium and safety). The components related to general system charges have not undergone any changes as well as the network tariffs remained stable for the entire year.

¹ The average household has an average electricity consumption of 2,700kWh per year and a subscribed demand of 3kW; for gas consumption is 1,400 cubic metres per year.

² Rolling year is to be understood as the year made up of the quarter subject to updating and the three previous quarters, also considering consumption associated with each quarter.

³ With the reformed standard offer, purchases of electricity by the Single Buyer are entirely carried on spot markets.

Equally, the decrease in **gas** is mainly linked to the trend of supply costs which, given the normal seasonality, is decidedly declining, with wholesale market prices expected to strongly decrease in the next quarter compared to the 2nd quarter of 2017. Distribution costs are, however, slightly increased due to adjustment of the tariff equalisation component.

Electricity – In detail, the increase of electricity bill for the average household is determined by the increase in supply costs for energy, which leads to an +2.8% increase in the overall variation in cost for the average customer. An increase which includes the growth in purchase costs (+3.1% which, as mentioned, is substantially determined by the seasonality of prices), partially counter-balanced by the reduction of the dispatching component (-0.3%).

However, all other marketing and sales, transmission, distribution and measurement components and general charges remain unchanged.

Natural gas – In detail, the decrease of gas is mainly determined by the marked reduction of the C_{MEM} (Effective average market cost component) component related to supply costs, -4% in cost for the average customer, reflecting the forecasts of a decrease in the wholesale prices in the forward markets in Italy and in Europe (with quarterly $P_{FOR,forward}$ prices for the 3rd quarter recording a -12.9% decrease compared to the previous quarter). A reduction counter-balanced by a slight increase of the distribution and measurement component, +1.1% on cost for the average customer, following a reactivation of the UG1 gas distribution tariff equalisation component, This is how the total of the -2.9% decline for the average customer's cost was reached.

The quarterly update in detail

The aggregations and graphs respect the new features introduced by the 'bill 2.0'⁴

Electricity – In detail, from 1st July 2017, the electricity *reference price* for the average customer will be 19.723 euro cents per kilowatt hour, tax included, divided as follows⁵:

Cost for the energy:

- 7.89 euro cents (39.99% of the total bill) for energy supply costs;
- 1.66 euro cents (8.41%) for retail marketing.

Cost for meter transport and management:

- 3.95 euro cents (20.05%) for distribution, measurement, transport, transmission and distribution equalisation, and quality services.

Cost for system charges:

- 3.62 euro cents (18.37%) for *general system charges*, set by law.

⁴ In detail, the bill 2.0 has a simplification of the contents and the terms used in the synthetic bill, which is the bill sent to everyone, essential for understanding the final cost. The first page of the bill also indicates the average unit cost per kilowatt hour/ standard cubic meter, as the ratio between the total cost and the consumption invoiced. Those who want to gain further insight into the different cost headings can request that their supplier provide them with the detailed elements, i.e. the various pages with an analytical description of the components that determine the overall cost. The detailed elements will always be sent in the event of a response to complaints. Explicit evidence is also given for the "system charges cost", an item that to date has been indicated within the network services and has guaranteed greater clarity in the event of recalculations, that is, in the case of compensation, which are particularly highlighted in a dedicated box.

⁵ The resolution of 30th April 2015, 200/2015/R/COM – Bill 2.0 – contemplates, from the 1st January 2016, a different aggregation of the individual components in the bill invoicing to final customers, and in particular the items that were included in *Sales services* converge as such in the item *Cost for energy*, while the items that were included in *Network services* converge into two different aggregations that are *Cost for meter transport and management* (distribution, measurement, transport, transmission and distribution equalisation, quality) and *Cost for system charges*.

Taxes:

- 2.60 euro cents (13.18%) for taxes which include VAT and duties.

In the 3rd quarter of 2017, the system charges are made up as follows:

- 78.95% incentives for renewable sources and similar (component A3);
- 3.40% charges for the safety assurance of nuclear energy and territorial compensation (component A2 and MCT), including the 135 million euros/year intended for the Italian State Budget;
- 6.86% subsidies for manufacturing companies with high electricity consumption (component 'Ae');
- 6.71% promotion of energy efficiency (component UC7);
- 1.08% support for system research (component A5);
- 1.08% compensation for minor electricity companies (component UC4);
- 0.96% special tariff regimes for the company Rete ferroviaria Italiana, for the universal and goods service (component A4);
- 0.96% electrical bonus (component As)

Natural gas – In detail, from 1st July 2017, the gas *reference price* for the average customer will be 71.08 euro cents per cubic metre, tax included, divided as follows⁶:

Cost for natural gas:

- 22.02 euro cents (equal to 30.99% of the total bill) for the supply of natural gas and for related activities;
- 0.57 euro cents (0.80%) for the gradual application price reform for the natural gas protection service;
- 5.06 euro cents (7.11 %) for retail sales.

Costs for meter transport and management:

- 13.16 euro cents (18.52%) for distribution, measurement, transport, distribution equalisation and quality services.

Costs for system charges:

- 2.16 euro cents (3.04%) for general system charges, set by law.

Taxes:

- 28.11 euro cents (39.54%) for the taxes that include duties (21.51%), additional regional tax (2.86%) and VAT (15.18%).

All resolutions are available on the website www.autorita.energia.it

⁶ The resolution of 30th April 2015, 200/2015/R/COM – Bill 2.0 – contemplates, from the 1st January 2016, different aggregation of the individual components in the bill invoicing to final customers, and in particular the items that were included in *Sales services* converge as such in the item *Cost for natural gas*, while the items that were included in *Network services* converge into two different aggregations that are *Cost for meter transport and management* (distribution, measurement, transport, distribution equalisation, quality) and *Cost for system charges* (equalisation of sales marketing, arrears for last resort services and interventions for energy saving and the development of renewable sources).