WATER REGULATION: 
THE ITALIAN CASE 
AND THE EUROPEAN COOPERATION 

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GENERAL REMARKS

- **Regulation as a language**
  - Comparison of different aims, targets, etc....
  - Identification of possible choices
  - Evaluation of the consequences of each possible choice
  - Explication of the choice itself
  - Mutual understanding

- **Regulation as a common language**
  - Consumers
  - Companies
  - Financial operators
  - Politicians
  - Other stakeholders
THE BASIC PLOT

COMPANY

REGULATOR
- Independent Regulator
- Ministry
- Local Authority
- ……

CONSULTATION PAPER
- Standard costs
- ……

PUBLIC HEARINGS

PROCEDURE

PROVISION
- STAKEHOLDERS
  - Consumers
  - Trade Unions
  - ………

SERVICE DELIVERY
- Risk assessment
- Risk allocation
- Revenue-cap
- Cost plus
- Price cap
- ……
BENEFITS FROM INDEPENDENT REGULATION OF PUBLIC WATER AND WASTEWATER NETWORKS

- Define a clear and stable normative environment, necessary for attracting investment in the water and wastewater
- Provide incentives for water utilities to increase efficiency in network operations and maintenance
- Ensure that operators efficiencies are passed on to the customer
- Ensure technical and commercial quality standards for water and wastewater services
- Collect economic-financial information from local authorities and operators
- Enforce regulatory decisions: inspections, sanctions, infringement procedures

- Best practices of regulatory independence already experienced in regulation of electricity and gas networks in the EU, since the 1990s
THE ITALIAN INDEPENDENT REGULATOR: AEEGSI

- Law 481 of 14 November 1995 establishing AEEGSI as an independent regulator sets the powers for electricity and gas sectors
- Law Decree 201 of 6 December 2011 extended AEEGSI powers also to water sector

- **Regulatory functions**
  - Setting tariffs for protected markets and for the use of monopoly infrastructures
  - Setting conditions for third party access to the network
  - Setting compulsory standards for quality of service by incentives, penalties, refunds
  - Setting rules for separation of vertically integrated companies
  - Setting conditions for service supply and contracts

- **Monitoring functions** (compliance of regulation, wholesale markets, liberalisation process)
- **Enforcement functions** (consumer protection, infringement procedures, dispute settlement)
- **Advising functions** (opinions to Government and Parliament on market structure and promotion of competition)
MULTI-LEVEL GOVERNANCE IN WATER SECTOR

**NATIONAL LEVEL**
- Ministry of the Environment and the protection of land and sea [MATTM]
- The Italian Regulatory Authority for Electricity Gas and Water [AEEGSI]

**SUPRA-REGIONAL LEVEL**
- Basin Authorities

**REGIONAL LEVEL**
- Regions
- Arpa

**INTERMUNICIPAL LEVEL**
- ATO [69]

**LOCAL LEVEL**
- Municipalities
- Land Reclamation Authority
## INVESTMENTS REQUIREMENTS

In 2011 the OECD evaluated investment needs in Italy for **€65 bln over 30 years**

<table>
<thead>
<tr>
<th>Geographical area</th>
<th>Total 30 years (k€)</th>
<th>Yearly total (k€/year)</th>
<th>Public financing (k€)</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North - West</td>
<td>15.136.198</td>
<td>504.540</td>
<td>706.116</td>
<td>4.7%</td>
</tr>
<tr>
<td>North - East</td>
<td>13.537.169</td>
<td>451.239</td>
<td>1.204.368</td>
<td>8.9%</td>
</tr>
<tr>
<td>Centre</td>
<td>12.005.616</td>
<td>400.187</td>
<td>605.412</td>
<td>5.0%</td>
</tr>
<tr>
<td>South</td>
<td>15.858.934</td>
<td>528.631</td>
<td>1.757.482</td>
<td>11.1%</td>
</tr>
<tr>
<td>Islands</td>
<td>8.615.683</td>
<td>287.189</td>
<td>1.359.441</td>
<td>15.8%</td>
</tr>
<tr>
<td><strong>Italy</strong></td>
<td><strong>65.153.601</strong></td>
<td><strong>2.171.787</strong></td>
<td><strong>5.632.820</strong></td>
<td><strong>9.1%</strong></td>
</tr>
</tbody>
</table>

In 2012, at the beginning of its activity in the water sector, AEEGSI estimated that only **56% of the planned investments had been realized**
## AEEGSI ACTION: IMPACT ON INVESTMENTS

<table>
<thead>
<tr>
<th>Region</th>
<th>NET INVESTMENTS 2012 (€)</th>
<th>NET INVESTMENTS 2013 (€)</th>
<th>NET INVESTMENTS 2014 (€)</th>
<th>NET INVESTMENTS 2015 (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North-West</td>
<td>195,741,644</td>
<td>184,324,445</td>
<td>350,241,242</td>
<td>440,956,598</td>
</tr>
<tr>
<td>Nord-East</td>
<td>266,595,624</td>
<td>332,483,991</td>
<td>323,830,781</td>
<td>429,109,401</td>
</tr>
<tr>
<td>Centre</td>
<td>333,369,137</td>
<td>344,173,029</td>
<td>387,298,944</td>
<td>427,190,417</td>
</tr>
<tr>
<td>South</td>
<td>153,725,206</td>
<td>60,434,581</td>
<td>108,306,589</td>
<td>149,297,118</td>
</tr>
<tr>
<td>Islands</td>
<td>11,522,585</td>
<td>6,057,384</td>
<td>31,914,845</td>
<td>44,120,667</td>
</tr>
<tr>
<td>Italy</td>
<td>960,954,196</td>
<td>927,473,430</td>
<td>1,201,592,401</td>
<td>1,490,674,201</td>
</tr>
</tbody>
</table>

Data referred to:
- **127 operators**
- **40 mln inhabitants (2/3 of Italian population)**

### PLANNED INVESTMENTS FOR THE PERIOD 2014-2017: € 5,506,412,296

Water Tariff Method - MTI (2014-15)

AEEGSI approved tariffs for **1,961 operators** regarding **49.8 mln population**. The new tariffs had an average yearly increase of **4.04% in 2014 and 4.46% in 2015**.
1. Regulation in **critical areas** faces huge problems often difficult to manage and to solve...
2. ... nevertheless, the tools – the language – should **remain the same**
3. The hurdles sometimes are due to scarcity of water, environmental issues, but they might be connected with low agreement on the actions to be taken as well as on the problems to be tackled
4. **Dialogue**, reciprocal **knowledge**, **comparison** of the effects of similar regulatory solutions, **identification** of new tools to be introduced due to good performance in other similar situations, etc. are all parts of a good regulatory system in an essential way
5. Need of a constructive and effective dialogue (technical and institutional) with EU Institutions
6. **WAREG** a key opportunity for:
   - free discussion
   - mutual understanding
   - identification of regulatory solutions
WAREG ESTABLISHMENT: THE PROCESS

1. WAREG foundation
   - 12 Members
   - Common objectives
   - 1st meeting Milan (AEEGSI)
     23 APR 2014

2. Internal Rules
   - Organisational structure
   - 3rd meeting, Dublin (CER)
     26 JAN 2015

3. 20 Members
   - 5th meeting, Budapest (HEA)
     29 SEPT 2015

2013 – 2014

- Bilateral contacts
- Preparation

23 SEP 2014

- 2nd meeting, Lisbon (ERSAR)
- 18 Members
- Action Plan 2015-’16

28 MAY 2015

- 4th meeting, Edinburgh (WICS)
- President (AEEGSI Ita)
- 2 VPs (WICS Sco, HEA, Hun)

16 DEC 2015

- 6th meeting, Bucharest (ANRSC)
WAREG MEMBERS

Membership is open to any regulatory body in Europe. Current Members are:

20 MEMBERS

| AEEGSI – Italy | MAGRAMA – Spain |
| AENR – Moldova | MEDDE – France |
| ANRSC – Romania | MRA – Malta |
| CER – Ireland | NCC – Lithuania |
| ECA – Estonia | NIAUR – Northern Ireland |
| ERRU – Albania | KSST – Denmark |
| ERSAR – Portugal | PUC – Latvia |
| ERSARA – Azores | SSW – Greece |
| EWRC – Bulgaria | VMM – Flanders (BEL) |
| HEA – Hungary | WICS – Scotland |

4 OBSERVERS

| OFWAT – England/Wales | Hrvatske vode – Croatia |
| Min. Dev. – Montenegro | WWRO – Kosovo |
Independent regulators

- Regulators can set independently charges, assessing the economic and financial resources required by water companies to carry out their functions
- They can approve tariffs prepared by Local Authorities

Anti-Trust Authorities

- Within or separated by Ministry
- Cannot set price independently

Minister, Ministerial Agency or local authority

- Regulatory Agencies act solely as advisory bodies to Ministers
- Municipalities, inter-municipalities or local authorities formally approve charges
- Regulators cannot set price independently

MODELS OF GOVERNANCE IN EUROPE
The Structure of WAREG

- Assembly
  - President
  - 2 Vice Presidents
- Secretariat
- Institutional Working Group
- Regulatory Working Group
WAREG AIMS

1. Exchange common practices, information, joint analysis and comparison of existing water sector regulatory models and performance of water utilities
2. Promote capacity building, organize specialized training, technical assistance, exchange of know-how and experience
3. Promote stable regulation of water sector at European level for water and waste water services, supporting sustainability of services, adequate infrastructure investment, proper service quality standards and consumer protection
4. Establish an effective dialogue with the institutions of the European Union on issues of common interest
5. Ensure that the role of the economic regulator of water is understood at international level, in institutions and fora
6. Maintain open and effective the dialogue with national, European and international water sector stakeholders
WAREG Target Audience

- Member and non member regulators
- National governments and policy makers
- Water & Wastewater providers (e.g. Eureau)
- International organisations (e.g. OECD, IWA, IWRA)
- EU Institutions (e.g. EU Commission, EU Parliament, EU Council)
- Financial institutions (e.g. World Bank, development banks..)
- Consumer associations
- Academic and research organisations
CONCLUSIONS: SOME ISSUES

- In the near future, in Italy the main hurdle for regulation is going most likely to be the social and political sustainability of increasing tariffs:
  - Finding money for investments
  - Reorganizing water industry (from 2500 to less than 100...)
- Effects of a possible decrease in both domestic and industrial consumption (deepened by a higher tariff...), still to be evaluated
- Regulation will be tested not only on technical ground: dialogue with stakeholders, media, politicians, etc.
- Experience sharing and cooperation with Regulators in Europe will increase through WAREG