ROLE AND ACTIVITIES OF ACQUIRENTE UNICO IN THE ITALIAN ELECTRICITY MARKET

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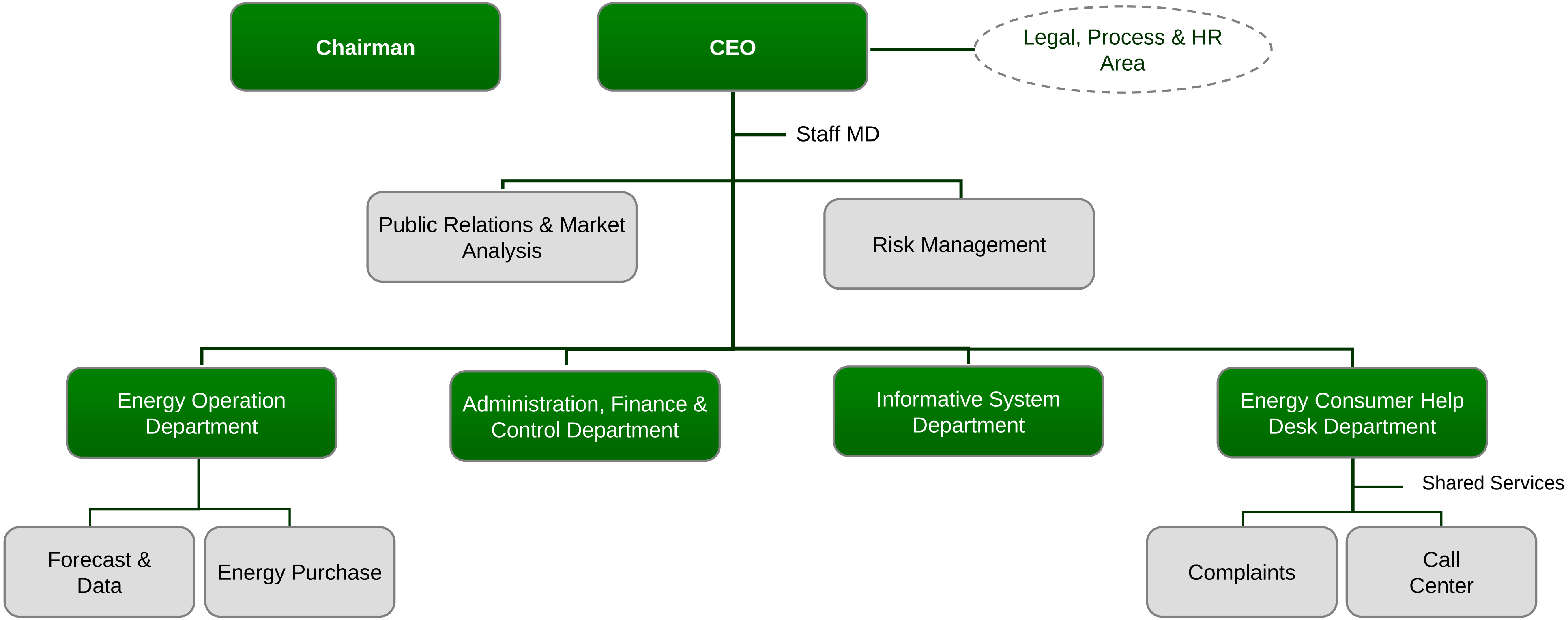
AU at a glance

- Acquirente Unico S.p.A. (AU) is a limited company controlled by "Gestore dei Servizi Energetici", incorporated by the State to guarantee energy supply to families and SMEs, by means of economy, continuity, safety and supply efficiency.

- AU purchases electricity to the best market conditions and transfers to distribution companies and entitled operators, to supply energy to small consumers out of the free market.

- In 2010 about 25 million of families and 5 million of SMEs have been supplied by AU. The energy amount purchased in 2010 has been about 89 TWh, representing almost 27% of whole national demand.

Organizational structure



- As at 30th June 2011, AU has a total of 127 staff members
- More than 60% are graduated

- Regulatory framework
- Main roles in energy market
- The “Maggior Tutela” Service
- Increasing roles to support liberalization

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Transposition of Directive 96/92/EC – the Italian way to the liberalised market

- The Lgs.Decree 79/99 provided for progressive opening-up of the demand-side market, thereby establishing two markets: an open or "**eligible**" market and a "**captive**" market.

- Consequently, the Decree provided for the setting-up of a company, called **Acquirente Unico SpA**, with the mission of ensuring an adequate availability of electricity generating capacity and electricity supply to the captive market, under criteria of continuity, security and efficiency of the service to and equal treatment of all captive customers."

The rationale behind the setting-up of AU

- At the start of the process of liberalisation of the Italian electricity industry, the generation and distribution business were **highly vertically integrated**;

- Enel (the former incumbent) and most of the municipally-owned companies were engaged in **both generation and distribution** of electricity. Furthermore, the distribution business was highly concentrated (85%) in the hands of the Enel Group.

- Consequently, if the responsibility for procuring electricity for captive customers had remained in the hands of distributors, the latter would have had no interest in **minimising the purchase price**.

Early stage (2004-2007)

- The decree of the Minister of Economic Development (MED) in December 2003 vested AU with the responsibility of **ensuring electricity supply** to the **captive market**;

- **In the initial stage of AU**, the MED and Energy and Gas Authority (AEEG) felt the need for defining **operational criteria** for AU's activity of procurement in the wholesale market;

- With the concurrent take-off of IPEX and of AU, the administered tariff has been replaced with a price paid by distributors (**Supply Price**), which reflects the costs incurred by AU to procure electricity in the open market.

After the full opening-up of the market (from 2007)

- Since the full opening-up of the retail market in 2007, with the institution of "**maggior tutela" market** (composed by domestic and SME customers), AU has operated **similarly to other market participants**, using the same procurement instruments;

- The guidelines issued to procure energy have been left and the share of electricity demand covered by contracts at regulated prices has progressively diminished, but AU has still been required to adopt **transparent and non-discriminatory procedures** and to balance its accounts;

- Through AU, even customers not opting for the open market are billed with market prices which are set through a **competitive play of demand** (expressed by AU) **and of supply** (competitively offered to AU)

Advantages from the setting-up of AU

- AU represents a **wedge between wholesale and retail markets**, thus permitting to avoid conflict of interests.

- AU is an aggregator of demand, permitting to **transfer market prices** even to customers who are not eligible for or who decide not to switch to the open market.

- The captive-market price has become a **benchmark** also for open-market participants.

Transposition of 2009 UE Energy Directives

- According to Lgs. Decree 93/11, implementing the Third Energy Package in the Italian legislation, MED **may revise the procedures for the provision of the supply price** to certain customers on the basis of periodical (at least every 2 years) monitoring surveys on the trends of the retail market and on the actual competitive conditions of such market;

- Moreover, AEEG shall ensure effective treatment and settlement of the **complaints** that final customers may afford with natural gas and electricity retailers and distributors, **even relying on AU**;

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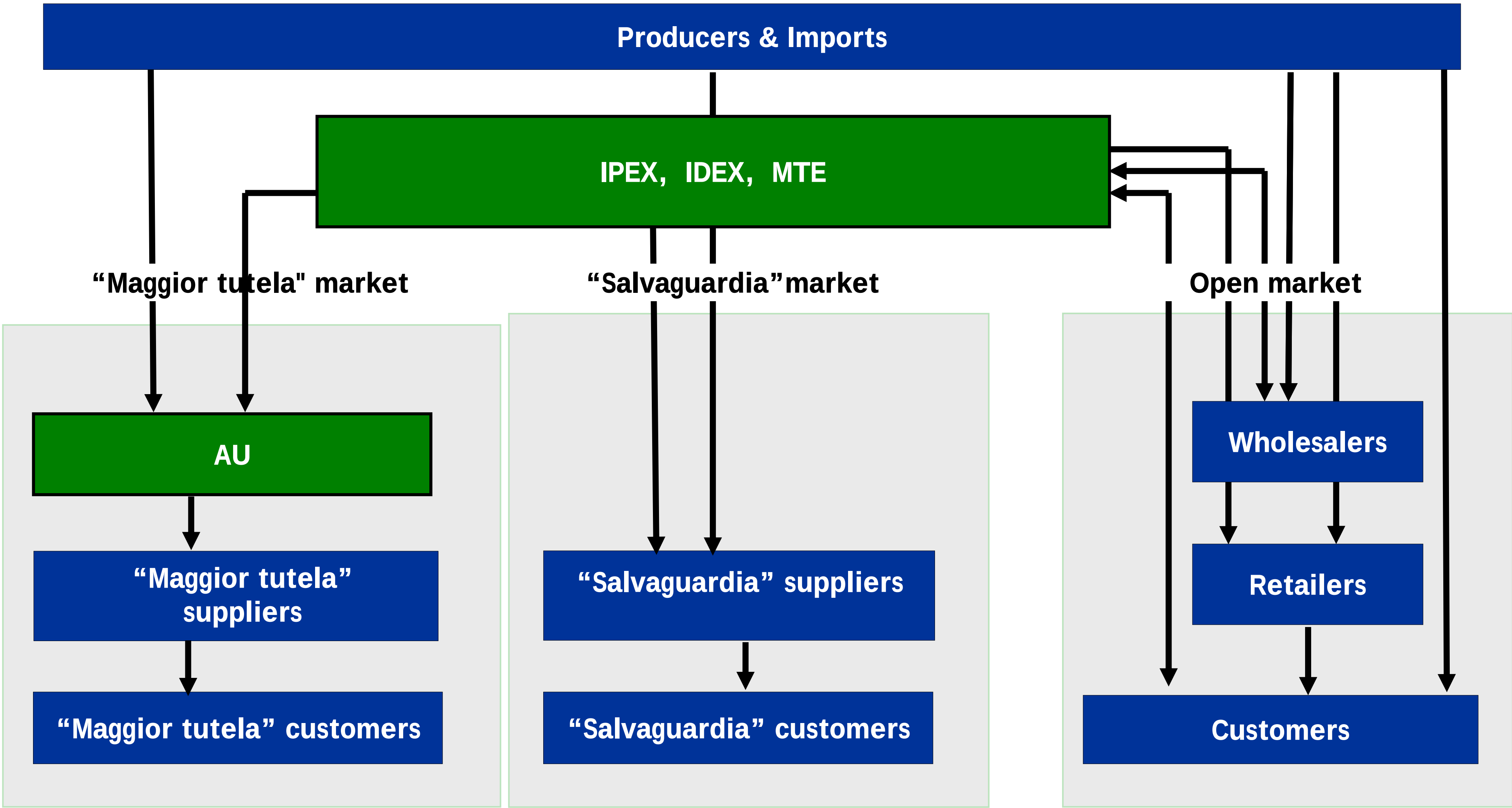
AU roles in the energy market



“Maggior tutela” market

- The Directive 2003/54/EC was transposed into the Italian legislation by Law-Decree no. 73 of 18 June 2007 (converted into Law no. 125 of 14 August 2007).
- The Decree established a "**maggior tutela" market**. This market includes all **households and small businesses** connected at low voltage (with less than 50 employees and a yearly turnover not exceeding 10 million euro) which have not chosen a supplier after 1 July 2007.
- AU is the company in charge of procuring electricity to cover the demand of the "maggior tutela" market and of supplying it to retailers serving this market (“maggior tutela” retailers).
- The terms and conditions for the “maggior tutela” service are laid down and quarterly updated by AEEG.

"Salvaguardia" market

- In addition to the "maggior tutela" market, Law-Decree 73/07 introduced a **"salvaguardia" market;**

- This market supplies electricity to all customers not falling under the universal service and who may temporarily find themselves without an electricity supplier or who have not explicitly switched supplier after 1 July 2007;

- Procedures and criteria for the provision of this service state that "salvaguardia" suppliers shall be selected by AU through **bidding procedures** organised by geographic area.

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The “Maggior Tutela” Service

- AU is in charge of procuring electricity for the "maggior tutela" market.

- The main stages of AU’s activity may be summarised as follows:

  - ✓ analysing and estimating the electricity demand of the “maggior tutela” market;
  - ✓ analysing electricity supply in Italy;
  - ✓ covering the electricity demand of the “maggior tutela” market;
  - ✓ supplying electricity to retailers of the “maggior tutela” market.

- Based on the guidelines issued by AEEG, AU sign electricity supply contracts with distributors, in order to apply a **single national price** to “maggior tutela” customers.

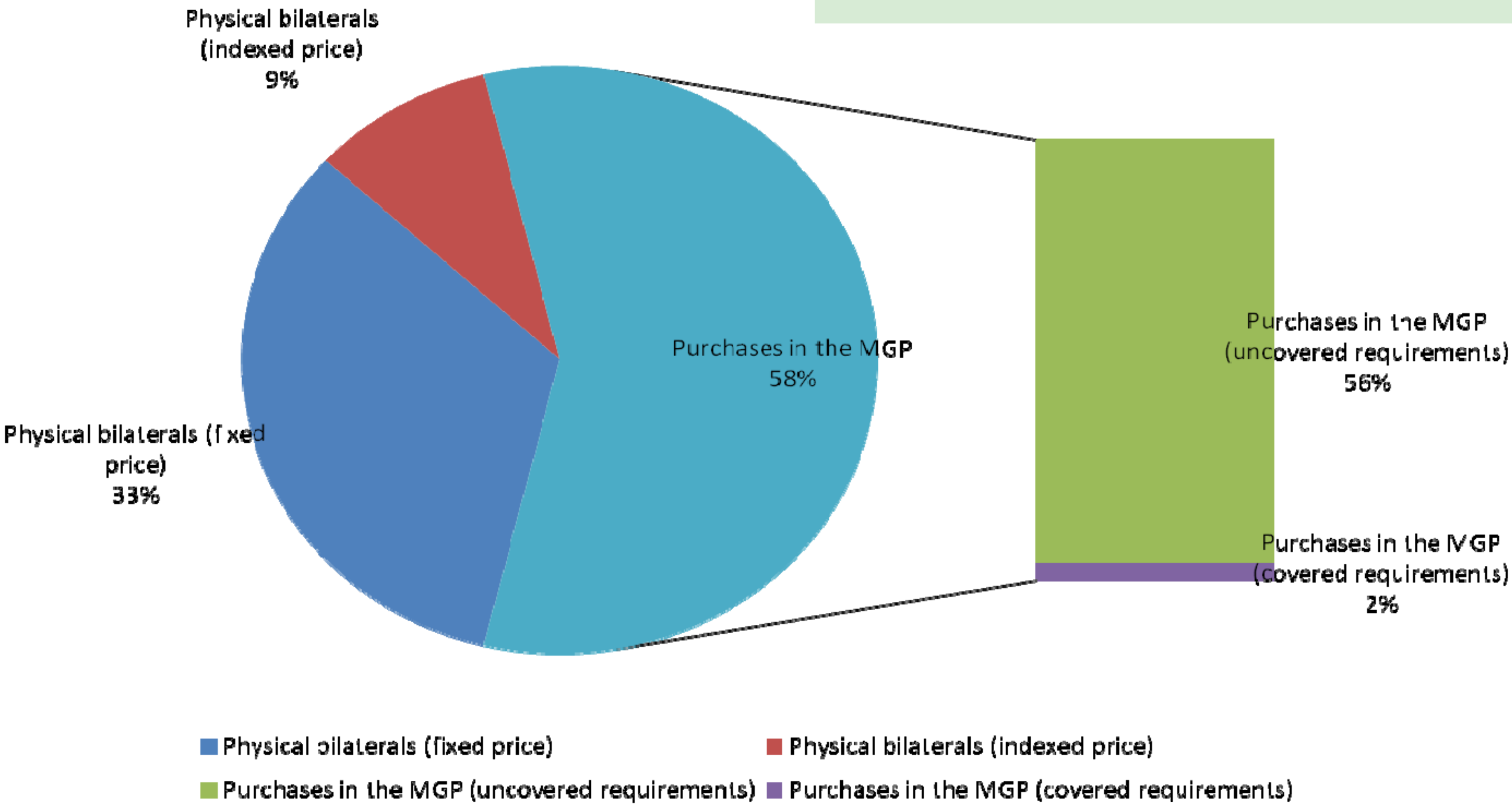
Procurement options

- AU covers the demand of the "maggior tutela" market through a **procurement portfolio**, which diversifies supply sources and uses appropriate price-risk hedging instruments, minimising the purchasing cost;
- AU operates similarly to other market participants, using **the same procurement instruments**, such as:
  - ✓ physical bilaterals contracts;
  - ✓ import contracts, after securing the related interconnection capacity (transmission capacity rights are allocated via competitive bidding procedures)
  - ✓ purchasing electricity on IPEX/MTE, eventually hedging the price risk through CfD (in 2010 AU has represented about 24% of IPEX volumes)

The “Maggior Tutela” Service

Electricity covered by type of contract

Demand Forecast in 2011: 84.7 TWh



Supply of electricity to "maggior tutela" suppliers

- After procuring electricity, AU sells it to distributors/retailers serving the "maggior tutela" market at a "Supply Price". Law-Decree 73/07 provided that:

  - ✓ distributors with at least 100,000 customers should set up retailing companies in order to provide the "maggior tutela" service;
  - ✓ all companies providing the "maggior tutela" service should purchase their electricity from AU;

- Currently, AU's counterparties are more than 100;

- With each of these counterparties, AU has signed a contract in a standard format approved by AEEG.

Supply price to “maggior tutela” suppliers

“Supply Price”, calculated on a monthly basis by AU, is equal to the sum of 3 components:

- the average (weighted for the respective volumes of electricity) cost incurred by AU:
  - ✓ to buy electricity in the IPEX/MTE;
  - ✓ to buy electricity by means of bilateral contracts (OTC);
  - ✓ to hedge the risks of electricity price fluctuations through Contracts for Differences (CfDs) or other types of contract;
- the cost incurred by AU as a dispatching user;
- the fee owed to AU for its activity of electricity purchase and supply for the “maggior tutela” market.

End user price

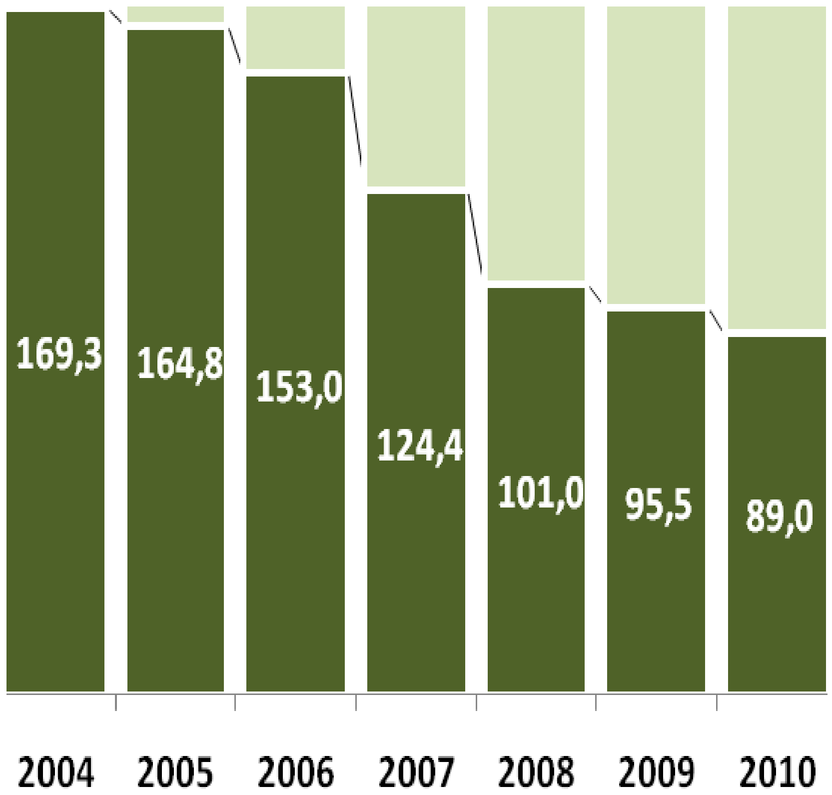
- At the end of each quarter and in respect of the following quarter, AEEG updates the end user price, which is roughly composed by:

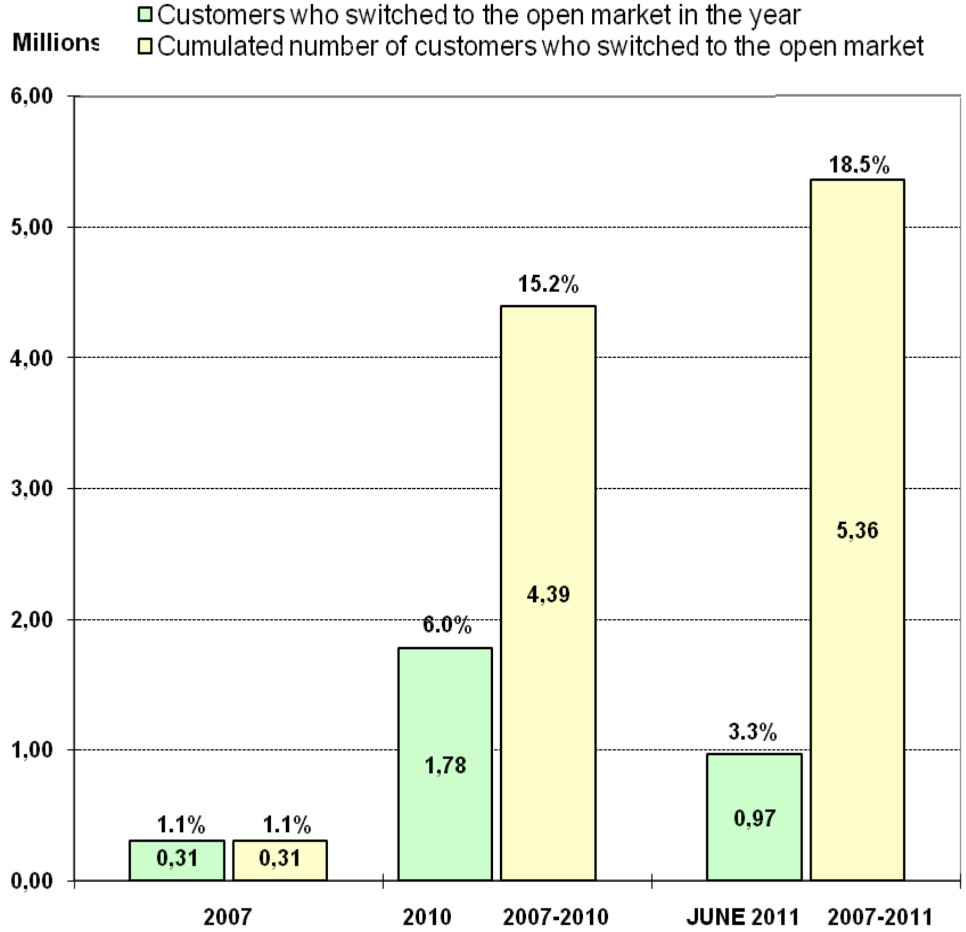
• Supply Price	55%
• Marketing Costs (customers management)*	4%
• Transmission, Distribution and Metering Tariffs*	15%
• System general costs (incentives to FER, system research, etc.)*	12%
• Tax and VAT	14%

- The price-setting mechanism faithfully reflects underlying costs defined by AEEG (*), and a market signal deriving from wholesale market (Supply Price)

The "Maggior Tutela" Service

Supply of electricity to the maggior tutela market (TWh)





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Helping consumers enjoy the benefits of liberalisation

- AU pays a steady and increasing attention to the consumers' problems in the liberalised energy markets.
- Since 2006, AU has set up (together with AEEG) a standing working group with main Consumers' Associations to deepen issues concerning market liberalisation and to develop projects and proposals.
- Participants in the working group are also main organizations representing SMEs in the energy sector.
- As an example, in 2010 the following issues has been treated and discussed:
    - How to deal with two-tier prices
    - Natural gas market fundamentals
    - Energy bills' transparency to protect consumers

Increasing roles to support liberalization

Sportello per il Consumatore (Energy consumers' help desk)

- The full opening-up of the electricity market had the following implications for household customers:
  - need for more information, so as to capture the opportunities offered by the open market
  - Increased litigations between final customers and service suppliers
- This led AEEG to develop instruments to tackle these issues, including the creation of a call centre providing consumers with information about the liberalisation of the electricity and gas markets
- This centre was subsequently merged with the complaints' office, giving rise to the **Energy Consumers' Help Desk**. The help desk has been managed by AU since 2009 though a task force of experts
- In 2010, the call centre recorded over **650,000 calls** and the complaints' office received about **30,000 complaints**, with significant increases with respect to the expected estimate.

Increasing roles to support liberalization

The Integrated Information System

- The full opening-up of markets brought about major changes due to the **constant increase in the number of customers switching to the open market**, thus causing high costs in the management of switching processes and problems in identification data of withdrawal points and of final customers.
- The need thus arose to set up a system capable of processing a huge number of data; Italian law-makers responded to this requirement with Law 129/2010, which provided for the creation of an **Integrated Information System** and assigned the development and operation of the system to AU.
- The System, which is being developed, will support the set of **information procedures and processes concerning the management of final customers**; among these procedures and processes, the most complex and significant one is supplier switching