

SUMMARY OF RESULTS

Income Statement data

€ million	31/12/2020	31/12/2019	Change	Change %
Consolidated revenues	3,379.4	3,186.1	193.3	6.1%
Consolidated operating costs	2,254.6	2,185.3	69.3	3.2%
(Negative) fair value of commodities	0.3	0.1	0.2	N.S.
Income/(expenses) from equity investments of a non-financial nature	30.3	41.4	(11.0)	(26.7%)
EBITDA	1,155.5	1,042.3	113.2	10.9%
EBIT	535.0	523.2	11.8	2.2%
Net profit/(loss)	326.6	307.2	19.4	6.3%
Profit/(loss) attributable to non-controlling interests	41.6	23.5	18.1	77.1%
Net profit/(loss) attributable to the Group	284.9	283.7	1.3	0.4%

EBITDA

€ million	31/12/2020	31/12/2019	Change	Change %
Environment	50.3	52.0	(1.6)	(3.1%)
Commercial and Trading	72.4	69.1	3.3	4.8%
Overseas	25.3	16.9	8.4	49.4%
Water	614.4	505.0	109.4	21.7%
Energy Infrastructure	412.9	392.0	21.0	5.4%
Engineering and Services	14.7	13.0	1.7	13.5%
Corporate	(34.6)	(5.6)	(29.0)	N.S.
Total EBITDA	1,155.5	1,042.3	113.2	10.9%

Financial position data

€ million	31/12/2020	31/12/2019	Change	Change %
Net invested capital	5,851.2	5,169.5	681.7	13.2%
Net financial debt	(3,528.0)	(3,062.8)	(465.1)	15.2%
Consolidated Shareholders' equity	(2,323.3)	(2,106.7)	(216.5)	10.3%

Investments

€ million	31/12/2020	31/12/2019	Change	Change %
Environment	23.6	51.9	(28.3)	(54.6%)
Commercial and Trading	44.1	43.1	1.1	2.5%
Overseas	3.1	7.0	(3.9)	(55.9%)
Water	476.0	380.1	95.9	25.2%
Energy Infrastructure	325.1	287.8	37.4	13.0%
Engineering and Services	6.6	1.8	4.8	N.S.
Corporate	28.5	21.2	7.3	34.5%
Total	907.0	792.8	114.2	14.4%

Net financial debt

€ million	31/12/2020	31/12/2019	Change	Change %
Environment	268.0	256.5	11.5	4.5%
Commercial and Trading	(95.7)	(53.2)	(42.5)	79.8%
Overseas	(9.0)	(4.5)	(4.5)	99.7%
Water	1,483.7	1,286.5	197.2	15.4%
Energy Infrastructure	1,566.7	1,320.5	246.2	18.6%
Engineering and Services	31.1	6.7	24.4	n.s.
Corporate	283.2	250.4	32.8	12.6%
Total	3,528.0	3,062.8	465.1	15.2%

Debt at 31 December 2020: 1) is shown gross of € 14.7 million of receivables relating to IFRIC 12 of Acea SpA; 2) contains € 132.9 million of payables for dividends approved and not yet distributed to Roma Capitale; 3) is shown gross of € 17.4 mil-

lion of payables relating to some acquisitions of equity investments in the photovoltaic sector.

SUMMARY OF OPERATIONS AND INCOME, EQUITY AND FINANCIAL PERFORMANCE OF THE GROUP

DEFINITION OF ALTERNATIVE PERFORMANCE MEASURES

On 5 October 2015, ESMA (European Securities and Markets Authority) published its guidelines (ESMA/2015/1415) on criteria for the presentation of alternative performance measures which replace, as of 3 July 2016, the CESR/05-178b recommendations. These guidelines were transposed into our system with CONSOB Communication no. 0092543 dated 3 December 2015.

The content and meaning of the non-GAAP measures of performance and other alternative performance indicators used in these Financial Statements are illustrated below:

1. for the Acea Group, the EBITDA is an operating performance indicator and from 1 January 2014 also includes the condensed result of equity investments in jointly-controlled entities for which the consolidation method changed when the international accounting standards IFRS 10 and IFRS 11 came into force. EBITDA is determined by adding Operating profit/loss (EBIT) to “Amortisation, Depreciation, Provisions and Impairment”, insofar as these are the main non-cash items;
2. the *net financial position* is an indicator of the Acea Group’s financial structure, the sum of Non-current borrowings and Financial liabilities (excluding payables arising as a result of certain acquisitions during the two years 2019-2020) net of Non-current financial assets (excluding a part of Acea SpA’s receivables related to IFRIC 12 and securities other than equity investments), Current borrowings and Other current financial liabilities net of Current financial assets (including dividends to pay to Roma Capitale), and cash and cash equivalents;
3. *net invested capital* is the sum of “Current assets”, “Non-current assets” and “Assets and Liabilities held for sale”, less “Current liabilities” and “Non-current liabilities”, excluding items taken into account when calculating the net financial position;
4. *net working capital* is the sum of the current receivables, inventories, the net balance of other current assets and liabilities and current debts, excluding the items considered in calculating the net financial position.

SUMMARY OF RESULTS: ECONOMIC PERFORMANCE

Income Statement data

€ million	31/12/2020	31/12/2019	Change	Change %
Revenue from sales and services	3,205.3	3,021.8	183.5	6.1%
Other revenue and income	174.1	164.3	9.8	6.0%
Costs of materials and overheads	1,986.9	1,936.0	50.9	2.6%
Personnel costs	267.7	249.3	18.4	7.4%
Net income/(costs) from commodity risk management	0.3	0.1	0.2	n.s.
Income/(costs) from equity investments of a non-financial nature	30.3	41.4	(11.0)	(26.7%)
EBITDA	1,155.5	1,042.3	113.2	10.9%
Amortisation, depreciation, provisions and impairment	620.5	519.1	101.4	19.5%
Operating profit/(loss)	535.0	523.2	11.8	2.2%
Financial operations	(88.0)	(95.4)	7.4	(7.8%)
Equity investments	14.2	2.6	11.7	451.1%
Profit/(loss) before tax	461.2	430.4	30.8	7.2%
Income taxes	134.6	123.2	11.4	9.3%
Net profit/(loss)	326.6	307.2	19.4	6.3%
Profit/(loss) attributable to non-controlling interests	41.6	23.5	18.1	77.1%
Net profit/(loss) attributable to the Group	284.9	283.7	1.3	0.4%

Compared to 31 December 2019 the following changes occurred in the consolidation scope:

- on 13 January 2020 Acea International acquired from Impregilo the shares corresponding to 18.5% of the capital of Consorzio Agua Azul, thus reaching a total of 44% and exercising exclusive control over the company, thus consolidating it in full;
- on 28 February 2020 Acea Sun Capital continued its acquisition of photovoltaic systems, taking over 100% of Bersolar, on 7 May 100% of Euroline3, on 27 May 2020 49.9% of the company Energia and on 4 June 100% of the companies IFV Energy and PF Power of Future;
- on 22 April 2020 Acea Ambiente acquired 60% of the companies Ferrocarril and Cavallari, which in turn owns 100% of Multi-green; the companies operate in the provinces of Terni and Ancona performing selection and recovery of paper, iron, timber, plastics and metals and are also active in the management of the separate collection of production and packaging waste as well as in the disposal of waste;
- on 7 May 2020 Acea Elabori acquired SIMAM (Servizi Industriali Manageriali Ambientali), a leading company in the design, construction and management of water and waste treatment plants, in environmental works and reclamation, with integrated solutions featuring high technological content;
- on 15 April 2020 Acea Solar acquired the company Fergas Solar, operating in the field of the development and construction of photovoltaic plants;
- on 19 May 2020, Acea Innovation acquired 100% of the company Electric Drive Italia, a company that promotes the development of electric mobility through advanced IT solutions;
- on 31 July 2020 the company Acea800 was split up and the business unit was divided between the associates Acea Energia, areti and Acea Ato 2;
- on 31 August 2020 Acea SpA acquired 51% of Alto Sangro Distribuzione Gas, a company that holds the gas distribution network in the province of L'Aquila;
- on 16 November 2020 a further 15% of the company S.I.I. (operator of the Integrated Water Service of Terni) was acquired, thus coming to hold a total stake of 40%; following an

amendment to the Shareholders' agreements and starting from that date the company is fully consolidated;

- on 15 December 2020 the company Consorzio Acea was incorporated. This is controlled by Acea Perù (99%) and Acea Ato 2 (1%), and has signed a three-year contract for operation of the water pumping stations in Lima.

With regard instead to 2019, please note that:

- on 18 March Acea acquired 51% of the company Pescara Distribuzione Gas;
- on 30 April the companies Acea Solar and Acea Sun Capital were established; the latter includes the acquisitions of photovoltaic plants for a total of 28 MWp made during the second half of 2019;
- on 25 June Acea SpA set up the company Acea Innovation, operating in the field of technological innovation;
- on 4 July Acea Ambiente acquired 90% of Demap, a company operating in Piedmont in the field of plastics recycling, and on 18 October acquired 60% of Berg, a waste management company in the Municipality of Frosinone;
- from 7 October, Acquedotto del Fiora is fully consolidated following the amendment of the Shareholders' agreements that allowed Acea to exercise control over the company.

Finally, we can note that the merger by incorporation of the companies Brindisi Solar, Acquaviva, Compagnia Solare 2, Compagnia Solare 3 and SPES into the company Solaria Real Estate was carried out on 27 July 2020. In addition, the merger by incorporation of the companies Luna Energia, Sisine Energia, Urbe Cerig, Urbe Solar and Bersolar into the company KT4 was carried out on 26 October 2020. Both mergers have accounting and fiscal effects backdated to 1 January 2020.

For more details, see the paragraph *Criteria, procedures and consolidation scope*.

The table below shows the main impact of the change in the consolidation scope at 31 December 2020 (gross of intercompany adjustments).

€ million	Consortio	Pescara	AdF	Demap	Berg	Photovoltaic	Ferrocart	SIMAM	Alto Sangro	S.I.I.	EDI	Total
	Agua Azul	Distribuzione Gas							Distribuzione Gas			
Revenues	13.0	1.6	89.6	5.0	5.0	17.2	17.4	13.6	2.4	5.9	0.4	171.1
EBITDA	7.8	0.5	42.4	2.2	1.4	8.5	4.3	5.2	1.7	1.3	0.1	75.3
EBIT	4.5	(0.1)	19.8	1.8	(0.9)	2.6	2.9	3.7	1.3	(0.7)	0.0	34.8
EBIT	5.3	(0.3)	16.5	1.8	(1.0)	1.9	2.8	3.4	1.3	(0.9)	0.0	30.7
NP	3.1	(0.0)	10.4	1.7	(0.6)	2.5	2.2	2.5	0.9	(0.9)	0.0	21.8
NFP	0.7	(0.0)	0.8	1.5	(0.4)	2.3	1.3	1.7	0.4	(0.6)	0.0	7.9

At 31 December 2020 revenues from sales and services came to € 3,205.5 million, up € 183.6 million (+ 6.1%) on those of FY 2019, mainly due to the increase in revenues from the Integrated Water Service (+ € 128.8 million). This change is mainly due to: 1) the full consolidation of AdF for € 87,4 million (up to 7 October 2019 the Company was consolidated with the equity method), 2) Acea Ato 2 (+ € 25,9 million) as a result of the tariff increase determined following ARERA Resolution no. 580/2019/R/idr – MTI-3, which for the year 2020 marks the beginning of the third regulatory period (four-year period 2020-2023) (+ € 62.0 million); this increase was partially offset by the changes introduced by the new tariff cycle which determined the non-recognition of the contractual quality bonus which was therefore zero compared to the same period last year (when it was € 35.8 million); adjustments deriving from pass-through items (electricity, system change costs, etc.) were also down by € 3.0 million.

The following also contributed to the change: 1) the increase in revenues from waste disposal and landfill management (+ € 36.0 million) deriving for € 20.4 million from the change in the consolidation scope, while for the remainder mainly due to higher volumes processed and better tariffs; 2) the increase in revenues from gas sales for € 13.9 million mainly due to Acea Energia (25.4 million scm); 3) the revenues of foreign companies + € 14.9 million due to the full consolidation of Consortio Agua Azul, whose contribution amounted to € 12.9 million as well as the improved performance of Acea Perù, which recorded higher revenues for € 5.6 million.

These increases were partially offset by the reduction in revenues from the sale of electricity of € 29.5 million, of which € 21.6 million related to Acea Ambiente as a result of lower revenues from the CIP 6 contribution ended on 31 July 2019 (- € 18.7 million). The remaining change is mainly due to the revision of the value recognised for the mechanism for offsetting arrears (ARERA Resolution no. 100/2020) as well as for the effects deriving from the reduction in the number of customers served in the protected market and the updating of the tariff components for the remuneration of sales established by ARERA Resolution no. 576/2019. The total sale of electricity in the Greater Protection Service was 1,995 GWh, a decrease of 10.1% on an annual compared to the previous year. The sale of electricity on the Free Market amounted to 4,572 GWh for Acea Energia and 479 GWh for Umbria Energy, for a total of 5,051 GWh, with an increase compared to last year of 19.3%, primarily related to the B2B segment.

Other revenues show an increase of € 9.8 million (+ 6.0%) compared to the previous year. The change is mainly due to a number of items of an opposite sign: 1) higher energy grants received by photovoltaic companies of € 12.3 million (mainly following the change in the consolidation scope); these revenues represent the incentive provided by the GSE for energy production from photovoltaic sy-

stems; 2) the improvement in the IFRIC 12 margin of € 2.6 million as result of higher investments; 3) higher operating and capital grants (+ € 2.1 million) mainly deriving from the change in the consolidation scope, in particular AdF had an effect of € 1.7 million, partially offset by the decrease in contributions for EECs of € 2.0 million (related to the reduction in costs), and by the reduction in contingent assets and other revenue for a total of € 4.7 million, determined mainly by the recognition in 2019 of contingent assets of € 16.2 million related to the total cancellation of the administrative sanction imposed by the Italian Anti-Trust Authority notified on 8 January 2019, following the appeal presented by Acea to the Lazio Regional Administrative Court.

External costs increased overall by € 50.9 million (+ 2.6%) compared to 31 December 2019; with the variation due to the following effect of opposite sign:

- lower costs related to the supply of electricity, transport and metering (- € 19.5 million) in line with the trend recorded in revenues;
- higher material purchasing costs (+ € 16.6 million) mainly attributable to Gori (+ € 9.5 million) and Acea Solar (+ € 3.6 million), while the change in the consolidation scope had an effect of € 6.5 million;
- increase in costs for concession fees (+ € 5.2 million) mainly related to AdF for € 3.7 million, to Acea Ato 2 for € 0.8 million and Pescara Distribuzione Gas for € 0.3 million; the consolidation of S.I.I. generated higher costs of € 0.3 million;
- higher costs for services (+ € 35.6 million) which increased by € 43.8 million as a consequence of the change in scope (of which AdF € 23.9 million), and the higher costs of sludge disposal and transport (+ € 5.8 million with the same scope, in particular related to Gori and Acque Industriali), offset in part by the lower costs recorded by Gori (- € 15.9 million) also as a consequence of the transfer of regional works previously chargeable to the Campania Region and reversed to the company;
- greater other costs (+ € 11.5 million), mainly linked to contingent liabilities, in particular Acea Ato 2 (+ € 11.6 million).

The change in external costs was influenced by the change in the scope of consolidation for € 58.0 million, mainly attributable to AdF (€ 30.2 million), SIMAM (€ 5.6 million) and the IWS (€ 3.1 million).

Personnel costs increased by € 18.4 million compared to the previous year (+ 7.4%). The change in the consolidation scope (+ € 22.3 million) was mainly influenced by the full consolidation of AdF, which contributed an increase of € 12.3 million.

The average number of employees was 7,697 and increased by 626 compared to the previous year, mainly due to the effect of the change in the consolidation scope (+ 329).

€ million	31/12/2020	31/12/2019	Change	Change %
Personnel costs including capitalised costs	431.7	399.0	32.7	8.2%
Costs capitalised	(164.0)	(149.7)	(14.3)	9.6%
Personnel costs	267.7	249.3	18.4	7.4%

Income from non-financial equity investments represents the consolidated result according to the equity method included among the components forming the consolidated EBITDA of the

strategic companies. The following table also includes the results of AdF consolidated at equity until 7 October 2019 equal to € 2.6 million.

€ thousand	31/12/2020	31/12/2019	Change	Change %
EBITDA	127.0	144.1	(17.1)	(11.9%)
Amortisation, depreciation, impairment and provisions	(81.6)	(79.6)	(2.1)	2.6%
Financial operations	(3.3)	(8.0)	4.7	(58.8%)
Total profit/(loss) on equity investments	(0.0)	(0.0)	0.0	(13.4%)
Taxes	(11.7)	(15.1)	3.4	(22.6%)
Income from equity investments of a non-financial nature	30.3	41.4	(11.0)	(26.7%)

EBITDA rose from € 1,042.3 million at 31 December 2019 to € 1,155.5 million at 31 December 2020, recording an increase of € 113.2 million or 10.9%. The increase derives from the change in the consolidation scope for € 75.3 million, due mainly to AdF for € 42.4 million, to the new photovoltaic companies for € 8.5 million, to Consorcio Agua Azul for € 7.8 million, to SIMAM for € 5.2 million and to new companies of the environmental area for € 7.9 million.

With the same scope, the growth of EBITDA mainly derived from the tariff dynamics of the water sector (+ € 63.6 million), primarily as a result of the tariff increase determined following ARERA Resolution no. 580/2019/R/ldr – MTI and subsequent amendments, offset in part by the reduction to zero of the effects associated with the commercial quality bonus. This was followed by the increase in margins in the electricity distribution sector (mainly areti for € 26.5 million) deriving from the positive effect of the positive energy balance (+ € 11.7 million) mainly as a consequence of the equalisation effects, the regulatory accounting (+ € 6.0 million) as remuneration of the investments net of depreciation and amortisation, and for the effects associated with the reduction of network losses (+ € 7.6 million). The generation sector shows a decrease in EBITDA of € 6.5 million determined above all by the reduction in the prices on the energy markets, and by the reduction in the volumes produced owing to a drop in the water contributions.

The Environment Area had a negative effect of € 9.5 million, mainly as a consequence of lower revenue related to the CIP 6 which ended on 31 July 2019 (- €19.6 million) offset in part by the increase owing to the higher electricity tariffs for conferment to landfill and higher volumes of compost treated. The Parent Company offset the increase in other sectors with a decrease in EBITDA of € 29.0 million; this change can be attributed to the combined effect of the recognition in 2019 of the contingent asset of € 16.2 million related to cancellation of the administrative sanction imposed by the Italian Anti-Trust Authority to which higher expenses were added for the Covid-19 emergency, the increase in personnel costs (higher number of resources) and the launch of various projects, offset only in part by higher re-invoicing to the Group companies.

EBIT increased by € 11.8 million compared to the previous year. This increase was mitigated by the growth of depreciation and amortisation (+ € 88.7 million compared to FY 2019), attributable mainly to the change in the scope for € 38.2 million (mostly AdF for € 20.8 million), and for the remainder to the increases recorded by areti (+ € 17.6 million), Acea Ato 2 (+ € 22.0 million) and Acea Energia (+ € 7.9 million). Below are details of the items influencing EBIT.

€ million	31/12/2020	31/12/2019	Change	Change %
Amortisation/depreciation of intangible and tangible assets and impairment	498.3	409.6	88.7	21.7%
Impairment of receivables	79.4	61.7	17.7	28.8%
Provision for risks and charges	42.8	47.8	(5.0)	(10.5%)
Amortisation, depreciation, impairment and provisions	620.5	519.1	101.4	19.5%

The increase in depreciation and amortisation is associated, net of the changes in the scope, mainly with investments in the period in all business areas and also took into account the developments connected with the technological platform common to the Acea Group. Areti contributed to the increase, in addition, also due to the acceleration of depreciation (started at year-end 2019) of first-generation electrical meters, according to the swap plan, related to the installation of second generation meters.

The increase in the item "Impairment of receivables" is mainly attributable to areti (+ € 13.2 million) which in 2019 benefited from the positive effects following Resolution 568/2019/R/eel which provided for the recovery of the portion related to the network tariffs.

Provisions for risks decreased by € 5.0 million referable to Acea Ato 5 (- € 4.2 million) and areti (- € 2.4 million), in part offset by the increase of Acea Ato 2 (+ € 2.4 million).

Net gains/losses from financial operations showed net expenses of € 88.0 million down by € 7.4 million compared to FY 2019. This

change was related in a positive way to the recognition of income of € 14.2 million as a result of the closure of the Business Combinations, as provided for in the accounting standard IFRS 3, and was partly due to operations that were accounted for according to the acquisition method. This change was offset, instead, by the change in the consolidation scope for € 4.4 million as an increase in net expenses, mainly due to the consolidation of AdF which had an effect of € 3.3 million, and the increase in the Group's debt; we can inform you that the "all-in" total average cost of the Acea Group's debt came out at 1.74% compared to 2.15% in the previous year.

The estimate of fiscal charges amounted to € 134.6 million, compared to € 123.2 million in the previous year. The overall increase of € 11.4 million was mainly due to the higher pre-tax profit. The tax rate for 31 December 2020 was 29.2% (28.6% at 31 December 2019).

The net profit attributable to the Group was € 284.9 million, and showed an increase of € 1.3 million compared to the previous year.

SUMMARY OF RESULTS: TRENDS IN FINANCIAL POSITION AND CASH FLOWS

Financial position data

€ million	31/12/2020	31/12/2019	Change	Change %
NON-CURRENT ASSETS AND LIABILITIES	6,602.2	5,825.8	776.4	13.3%
NET WORKING CAPITAL	(750.9)	(656.2)	(94.7)	14.4%
INVESTED CAPITAL	5,851.2	5,169.5	681.7	13.2%
NET FINANCIAL DEBT	(3,528.0)	(3,062.8)	(465.1)	15.2%
Total Shareholders' equity	(2,323.3)	(2,106.7)	(216.5)	10.3%
Total sources of financing	5,851.2	5,169.5	681.7	13.2%

Non-current assets and liabilities

Non-current assets and liabilities increased by € 776.4 million (+

13.3% from the previous year) compared to 31 December 2019, mainly due to the increase in fixed assets (+ € 670.3 million).

€ million	31/12/2020	31/12/2019	Change	Change %
Tangible/intangible fixed assets	6,235.4	5,565.1	670.3	12.0%
Equity investments	279.5	270.8	8.7	3.2%
Other non-current assets	772.1	637.0	135.1	21.2%
Employee severance indemnity and other defined-benefit plans	(122.0)	(104.6)	(17.4)	16.7%
Provisions for risks and charges	(157.0)	(151.4)	(5.5)	3.7%
Other non-current liabilities	(405.8)	(391.1)	(14.7)	3.8%
Non-current assets and liabilities	6,602.2	5,825.8	776.4	13.3%

The change in intangible fixed assets was mainly due to investments, which reached € 907.0 million, and amortisations and impairment, totalling € 498.3 million.

See the following table as regards the investments made in each operating segment.

Investments

€ million	31/12/2020	31/12/2019	Change	Change %
ENVIRONMENT	23.6	51.9	(28.3)	(54.6%)
COMMERCIAL AND TRADING	44.1	43.1	1.1	2.5%
OVERSEAS	3.1	7.0	(3.9)	(55.9%)
WATER	476.0	380.1	95.9	25.2%
Energy Infrastructure	325.1	287.8	37.4	13.0%
Engineering and Services	6.6	1.8	4.8	n.s.
Corporate	28.5	21.2	7.3	34.5%
Total	907.0	792.8	114.2	14.4%

The Environment Segment made investments of € 23.6 million and compared to 31 December 2019 they decreased by € 28.3 million. They refer mainly to the investments made by Acea Ambiente for works carried out at the San Vittore plants for the revamping of the 4th line, the Aprilia plants and for works at the landfill in Orvieto. The reduction was due mainly to the lower investments of Acea Ambiente compared to the previous year in which investments were made for the revamping of the Monterotondo (€ 17.9 million) and Aprilia (€ 19.9 million) plants. The change in the scope contributed to investments with an increase of € 1.9 million.

The Commercial and Trading Segment recorded investments of € 44.1 million, in line with the previous year and these mainly related for € 24.8 million to the cost of acquiring new customers in accordance with IFRS 15, for € 13.6 million to IT implementation projects and for € 4.0 million were related to cloud licences on which the new Customer Relationship Management is being designed.

The Overseas Segment showed a decrease of € 3.9 million, mainly due to the company Aguas de San Pedro.

The Water Segment invested a total of € 476.0 million, an increase compared to 31 December 2019 of € 95.9 million, due to higher investments by Acea Ato 2 (+ € 54.3 million) and the consolidation of AdF (+ € 26.2 million); there were higher investments for Gori (+ € 6.5 million) and Acea Ato 5 (+ € 3.5 million). The investments of the Segment refer mainly to extraordinary maintenance work, reconstruction, modernisation and expansion of plants and networks, the reclamation and expansion of water and sewer pipes of the various Municipalities and work on purification and transport plants (ducts and feeders).

The Energy Infrastructure and Energy Segment recorded an increase in investments of € 37.4 million referable substantially to areti (€ 16.9 million) and Acea Solar (€ 15.5 million). Investments by areti refer mainly to the expansion and upgrading of the HV,

MV and LV grids, work on the primary stations, secondary substations and meters, metering groups and remote control equipment with a view to improving service quality and increasing resilience. Intangible investments refer to projects for the re-engineering of information and commercial systems. The investments made by Acea Produzione regard mainly the extraordinary maintenance work of the Tor di Valle and Montemartini thermal power stations, the requalification work on the substations of the Salisano and Orte Power Stations and the extension and restoration of the district heating network in the territory of Mezzocammino in the south of Rome. The investments made by Acea Solar refer to the construction of photovoltaic plants on both agricultural and industrial soils.

The Engineering and Services Segment recorded investments of € 6.6 million (+ € 4.8 million) mainly due to the purchase of industrial and commercial equipment by Acea Elabori (€ 4.2 million). The change in the consolidation scope of SIMAM for € 2.4 million contributed to this.

The Corporate Segment made an increase in investments of € 28.5 million up compared to 31 December 2019 (+ € 7.3 million) which related mainly to IT developments and to investments on the offices used for the corporate activities.

Group investments concerning shared IT infrastructure totalled € 50.8 million.

Equity investments and equity securities that do not constitute

control, association or joint control, increased by € 8.7 million compared to 31 December 2019. The change was determined by phenomena of the opposite sign. Among these we can note for equity investments in non-consolidated subsidiaries and associates (+ € 8.3 million):

- the measurement of consolidated companies using the equity method for + € 30.6 million;
- change in the consolidation scope of € 7.9 million due to the consolidation at equity of EnergiaSpA (+ € 24.5 million) partially offset by the full consolidation of Consorzio Agua Azul (- € 8.0 million) and S.I.I. (- € 8.6 million), which were previously consolidated at equity;
- other decreases of € 30.2 million, mainly related to dividend distribution.

The stock of **employee severance indemnity and other defined benefit plans** reported an increase of € 17.4 million, mainly due to the effect of the change in the consolidation scope (+ € 2.9 million) offset in part by the drop in the rate used (from 0.77% at 31 December 2019 to 0.35% at 31 December 2020).

Provisions for risks and charges increased by 3.7% compared to the previous year. The details by nature of the provisions are presented below. We can note that following the consolidation of S.I.I. the provisional effects of the Business Combination generated a difference of € 3.5 million while awaiting closure of the Purchase Price Allocation.

€ million	31/12/2019	Uses	Provisions	Release for excess provisions	Reclassifications/ other changes	31/12/2020
Legal	16.2	(2.2)	2.8	(0.6)	(0.1)	16.2
Taxes	9.3	(0.4)	0.6	(0.2)	(0.1)	9.2
Regulatory risks	27.6	(5.7)	5.5	(0.1)	0.1	27.4
Investees	7.5	0.0	0.0	(0.2)	3.0	10.3
Contributory risks	1.4	(0.3)	0.0	(0.1)	0.1	1.1
Insurance deductibles	10.3	(2.5)	2.8	0.0	0.4	11.0
Other risks and charges	25.2	(6.4)	8.1	(5.7)	2.4	23.7
Total provision for risks	97.5	(17.5)	19.9	(6.7)	5.7	98.9
Early retirements And redundancies	29.1	(22.1)	28.0	(0.1)	(3.1)	31.8
Post mortem	17.1	0.0	0.0	0.0	0.5	17.6
Provisions for settlement charges	0.1	(0.1)	0.0	0.0	0.0	0.0
Provision for charges payable to others	7.6	(0.5)	1.8	(0.1)	0.0	8.7
Total provisions for charges	53.9	(22.8)	29.8	(0.2)	(2.7)	58.1
Total provision for risks and charges	151.4	(40.3)	49.7	(6.9)	3.1	157.0

Net working capital

The change in **net working capital** compared to 31 December 2019 is attributable mainly to an increase in other current liabilities of € 90.3 million), current debts of € 26.9 million and to a decrease in

current receivables of € 54.0 million, partially offset by an increase in other current assets (+ € 41.8 million) and by inventories (+ € 34.6 million).

€ million	31/12/2020	31/12/2019	Change
Current receivables	981.5	1,035.5	(54.0)
of which end users/customers	934.2	935.1	(0.9)
of which Roma Capitale	38.7	86.7	(48.0)
Inventories	92.0	57.3	34.6
Other current assets	267.1	225.3	41.8

(follows)

€ million	31/12/2020	31/12/2019	Change
Current payables	(1,627.1)	(1,600.3)	(26.9)
<i>of which Suppliers</i>	(1,535.1)	(1,472.8)	(62.3)
<i>of which Roma Capitale</i>	(87.6)	(121.7)	34.0
Other current liabilities	(464.4)	(374.1)	(90.3)
Net working capital	(750.9)	(656.2)	(94.7)

Receivables from users and customers, net of provisions for the impairment of receivables € 640.0 million (€ 651.5 million at the end of 2019), fell compared to 31 December 2019 by € 0.9 million; we can note: 1) a reduction in receivables of Area Idrico of € 6.2 million mainly referable to Acea Ato 2 (- € 39.5 million) and Gori (- € 11.8 million) partially offset by the consolidation of S.l.l. (+ € 31.5 million); 2) a decrease in receivables of the Infrastructures Segment of € 3.5 million mainly regarding areti (- € 6.8 million) offset in part by Solaria Real Estate (+ € 4.9 million); 3) the Engineering and Services Segment recorded an increase in receivables of € 5.4 million deriving from the acquisition of SIMAM for € 5.6 million; 4) also overseas operations increased the amount of receivables by € 1.6 million mainly following the full consolidation of Consorcio Agua Azul for € 0.9 million and Consorcio Acea for € 0.5 million; 5) a decrease in receivables of the Environment Segment of € 2.2 million, deriving mainly from a reduction in receivables of Acea Ambiente (- € 9.8 million) and Bioecologia (- € 1.0 million) partially offset by the consolidation of the new acquisitions Cavallari, Ferrocarril and Multigreen (+ € 8.8 million); vi) an increase in receivables of the Commercial and Trading Segment of € 3.9 million mainly attributable to Umbria Energy (+ € 5.4 million) offset in part by Acea Energia (- € 1.5 million).

The decrease in provisions for the impairment of receivables was also due to the effects of the sale of non-performing receivables amounting to € 76.1 million at 31 December 2020. Receivables totalling € 1,267.6 million were transferred without recourse during 2020, of which € 185.7 million to the Public Administration. As regards **relations with Roma Capitale**, the net balance at 31 December 2020 was € 28.6 million payable by the Group, compared to the previous balance of € 33.7 million at 31 December 2019. The 2020 balance was mainly due to the recognition of share dividends related to financial year 2019 recorded in May (€ 86.7 million).

The change in receivables and payables was due to the accrual of the period and the effects of operations associated with offsets and collections, summarised below:

- February 2020: receivables of € 10.5 million relating to the Public Lighting service, 2018 fees and 2016-2018 pro-rata amounts were offset with Acea's share dividends for the year 2018;
- March 2020: receivables for € 20.4 million relating to water services for the years 2017-2018 offset by the Acea Ato 2 concession fee;
- June 2020: receivables for € 2.1 million relating to water services referred to drinking fountains (years 2015-2018) were offset by the Acea Ato 2 concession fee;
- September 2020: receivables of € 22.8 million relating to the Public Lighting service for 2019 fees and pro-rata amounts were offset with Acea's share dividends for the year 2018;
- September 2020: receivables for € 15.6 million relating to water services for the year 2019 were offset by the Acea Ato 2 concession fee;
- November 2020: collection of € 0.4 million for receivables of various kinds referred mainly to Acea;

- December 2020: receivables of € 21.4 million relating to water services for the year 2019 offset by the Acea Ato 2 concession fee;
- December 2020: collection of € 32.0 million for water user receivables related to year 2020.

During the period the stock of trade receivables recorded a reduction of € 48.0 million compared to 2019 due mainly to offsets and collections (€ 91.5 million) as detailed above and to accrual at the same time of invoices to users in the period (€ 43.3 million). Financial receivables increased by € 5.9 million compared to the previous period, to be attributed to the combined effect of: 1) offsetting of financial receivables in February and September (as noted above), and 2) accrual of receivables related to the Public Lighting service agreement, to the modernisation of security, to extraordinary maintenance, to the LED Plan agreement and to the works relating to the Public Lighting service.

As regards payables, in the period there was an increase of € 20.1 million. The main changes are listed below:

- recognition of the payable for Acea's share dividends accrued in 2019 of € 84.7 million, as resolved by the Shareholders' Meeting in May 2020;
- inclusion of the payable for Acea Ato 2 share dividends accrued in 2019 equal to € 2.0 million;
- recognition of the portion accrued in the period for the concession fee of Acea Ato 2 for € 25.3 million;
- reduction to zero of the Acea Ato 2 concession fee for 2016 due to offsets for the period for € 21.7 million;
- decrease in the payable for Acea's share dividends for 2018 of € 33.3 million following the payment made through offsetting in February;
- decrease in the Acea Ato 2 concession fee for 2017 of € 16.3 million and for 2018 of € 21.4 million following payment through offsets.

We can also inform you that in January 2021 the Acea Ato 2 concession fee was paid for a total of € 33.4 million thus paying off the payable position that had accrued in 2017 and 2019.

As described in the Consolidated Financial Statements at 31 December 2019 as part of the activities required for the first consolidation of the Acea Group in the 2018 Financial Statements of Roma Capitale, a round table was launched to reconcile the Roma Capitale Receivables and Payables. After several meetings and communications, on 22 February 2019 the Technical Department of the Municipality (SIMU) in charge of the management of the contracts with the Acea Group communicated several objections relating to the supply of both works and services for the period 2008-2018. These objections were completely rejected by the Group.

In order to arrive at a complete Resolution of the differences during 2019 a specific Joint Technical Committee was set up with the Acea Group.

Following several meetings, on 18 October 2019, the Joint Techni-

cal Committee drew up a report on the closure of the work, highlighting the results that emerged and proposing a favourable restart of the ordinary execution of the mutual obligations between the Acea Group and Roma Capitale.

As a first step after the completion of the work, the parties took steps to implement the results that emerged from the discussions, restarting the payment of their respective receivables and payables. In 2020 at total of € 33.3 million of receivables referred to the aforementioned Report were settled.

We can inform you finally that, as regards the Public Lighting service, following the opinion given by the AGCM (Antitrust Authority) in Bulletin no. 49 of 14 December 2020, Roma Capitale began checking the conditions of congruity and economic convenience of the performance terms pursuant to the service contract between the Administration and Acea SpA (and through it areti) compared with the terms pursuant to the CONSIP – Luce 3 Convention and, in addition, on the basis of the positions expressed by the AGCM in the said opinion, expressed queries over the legitimacy of the award to Acea SpA. On 8 February 2021, with a note ref. DG 1585/2021, Roma Capitale communi-

cated the results of the said checks, affirming definitively “the congruity and convenience of the economic terms currently in being with respect to the qualitative and economic parameters of the CONSIP – Luce 3 Convention” and confirming “the correctness of the prices applied for the Public Lighting service”, overcoming definitively all reserves on the congruity of the prices charged in the context of the contractual relationship in being between Roma Capitale and Acea SpA. In the same note, the Administration therefore ordered the restart of the procedures for payment of Acea’s ascertained receivables in relation to the service contract. We can note that the said communication regards the correctness of the prices charged, without affecting the Administration’s intention, already manifested, to terminate the relationship with Acea to call for tenders and thus make a new award for the Public Lighting service.

The following table presents an analysis of receivables and payables, including those of a financial nature, between Acea Group and Roma Capitale, as regards both net credit exposure and debt exposure, including financial items.

Receivables due from Roma Capitale			
€ million	31/12/2020	31/12/2019	Change
Utility receivables	42.0	90.6	(48.5)
Provisions for impairment	(9.3)	(9.3)	(0.0)
Total receivables from users	32.7	81.2	(48.5)
Receivables for water works and services	2.3	2.5	(0.2)
Receivables for water works and services to be invoiced	1.8	1.5	0.4
Contributions	0.0	0.0	0.0
Provisions for impairment	(1.9)	(1.9)	0.0
Receivables for electrical works and services	4.1	3.8	0.3
Receivables works and services – to be billed	0.0	0.0	0.0
Provisions for impairment	(0.3)	(0.3)	0.0
Total receivables for works	6.0	5.5	0.5
Total trade receivables	38.7	86.8	(48.0)
Financial receivables for Public Lighting service – billed	129.3	138.8	(9.5)
Provisions for impairment	(30.2)	(30.2)	0.0
Financial receivables for Public Lighting service – to be billed	65.0	39.2	25.8
Provisions for impairment	(22.0)	(15.0)	(7.0)
M/L term financial receivables for Public Lighting service	11.8	15.2	(3.5)
Total Public Lighting receivables	154.0	148.2	5.9
Total receivables	192.7	234.9	(42.2)
<hr/>			
Payables due to Roma Capitale			
€ million	31/12/2020	31/12/2019	Change
Electricity surtax payable	(15.2)	(15.3)	0.0
Concession fees payable	(62.2)	(96.4)	34.2
Other payables	(11.0)	(10.1)	(0.9)
Dividend payables	(132.9)	(79.5)	(53.4)
Total payables	(221.3)	(201.2)	(20.1)
Net balance receivables payables	(28.6)	33.7	(62.3)

Current payables rose due to the increase in the stock of trade payables (+ € 62.3 million). This effect was recorded in particular with reference to payables of Acea Energia (- € 48.5 million).

Other current assets and liabilities recorded an increase of € 41.8 million (of which € 6.9 million for change in scope) and € 90.3 million (of which € 6.1 million for change in scope) compared to last year. In detail other assets rose as a result of the increase in tax receivables of € 4.9 million, in receivables for energy equalisation of € 5.8 million and in receivables from the OTAA of € 16.0 million deriving from the consolidation of S.I.I.

As regards the increase in other current liabilities we can note an increase in payables to municipalities of € 11.1 million, in accrued expenses and deferred income of € 27.6 million as a consequence mainly of the consolidation of S.I.I. and SIMAM and in tax payables of € 26.7 million owing to higher IRES payables.

Shareholders' equity

The **Shareholders' equity** amounted to € 2,323.3 million. The changes, amounting to € 216.5 million, are detailed in the relevant table and are basically due to the distribution of dividends, the accrual of 2020 profits, and the change in the cash flow hedge reserves and those formed by actuarial profits and losses as well as the change in the consolidation scope.

Net financial debt

Group debt recorded an overall increase of € 465.1 million, going from € 3,062.8 million at the end of 2019 to € 3,528 million at 31 December 2020. This change is the direct consequence of investments, the trends in operating cash flow and the change in scope (+ € 27.2 million). In addition, the effect related to the Covid-19 emergency contributed to an increase in debt, resulting in a delay of collections from customers and a postponement of collections related to regulatory items.

€ million	31/12/2020	31/12/2019	Change	Change %
Non-current financial assets/(liabilities)	2.9	2.4	0.5	23.2%
Parent company, subsidiaries and associates current financial assets/(liabilities)	21.2	26.2	(5.0)	(19.2%)
Non-current borrowings and financial liabilities	(4,154.3)	(3,551.9)	(602.4)	17.0%
Net medium/long-term debt	(4,130.2)	(3,523.4)	(606.8)	17.2%
Cash and cash equivalents and securities	642.2	835.7	(193.5)	(23.2%)
Short-term debt	(224.0)	(541.9)	317.9	(58.7%)
Current financial assets/(liabilities)	173.0	111.5	61.5	55.1%
Parent Company and associates non-current financial assets/(liabilities)	11.1	55.3	(44.2)	(80.0%)
Short-term financial position	602.2	460.5	141.7	30.8%
Total net financial position	(3,528.0)	(3,062.8)	(465.1)	15.2%

As regards the **medium/long-term** component, the increase of € 606.8 million compared to the end of 2019 refers to the increase in non-current payables and financial liabilities (+ € 602.4 million). This change derives from an increase in bond loans of €

499.1 million and an increase in payables for medium/long-term loans of € 103.2 million (of which € 59.3 million owing to IFRS 16), as shown in the following table:

€ million	31/12/2020	31/12/2019	Change	Change %
Bonds	3,253.4	2,754.3	499.1	18.1%
Medium/long-term borrowings	900.8	797.6	103.2	12.9%
Medium/long-term debt	4,154.3	3,551.9	602.4	17.0%

Bonds of € 3,253.4 million increased by a total of € 499.1 million mainly due to the placement of the bond issued in January 2020 by the Parent Company under the Euro Medium Term Notes (EMTN) programme. The amount of € 495.3 million includes the long-term portion of the arrangement costs.

Medium/long-term loans of € 900.8 million recorded a total increase of € 103.2 million due to the Parent Company (+ € 39.0 million) which entered into a new loan of € 100.0 million (net of

the long-term portion of arrangement costs) offset by the reclassifications as short-term of the principal instalments of the other loans, to Gori (+ € 42.0 million) which obtained during 2020 another two disbursements of the loan entered into in 2019 and for € 44.9 million to the change in the consolidation scope offset for € 32.1 million by the reduction of areti. The following table shows medium/long-term and short-term borrowings (excluding the portion due to application of IFRS 16) by term to maturity and type of interest rate:

Financing	Total residual debt	By 31/12/2021	From 31/12/2021 to 31/12/2025	After 31/12/2025
€ million				
fixed rate	315.2	29.8	221.1	64.3
floating rate	442.9	62.5	196.9	183.4
floating rate in cash flow hedges	195.4	19.7	57.3	118.4
Total	953.6	112.1	475.3	366.1

The **fair value** of Acea hedging derivatives was a negative € 0.3 million, decreasing by € 0.7 million compared to 31 December 2019 (a negative € 1.0 million). The fair value of AdF hedging derivatives was a negative € 4.4 million (at 31 December 2019 it was a negative € 4.1 million), while that of Gori was a negative € 1.6 million.

The short-term component was a positive € 602.2 million and, compared to the end of 2019, shows an increase of € 141.7 million, generated for € 97.4 million by the Parent Company and for € 32.6 million by Gori. The expansion of the consolidation scope contributed to the change for € 9.4 million.

At 31 December 2020 the Parent Company had unused committed credit lines of € 500.0 million, uncommitted lines of € 558.0 million of which € 140.0 million used, as well as unused and available medium/long term loan lines of € 250.0 million. No guarantees were granted in obtaining these lines.

It must be noted that the long-term Ratings assigned to Acea by the International Ratings Agencies were:

- Fitch “BBB+”;
- Moody’s “Baa2”

REFERENCE CONTEXT

PERFORMANCE OF THE EQUITY MARKETS AND THE ACEA STOCK

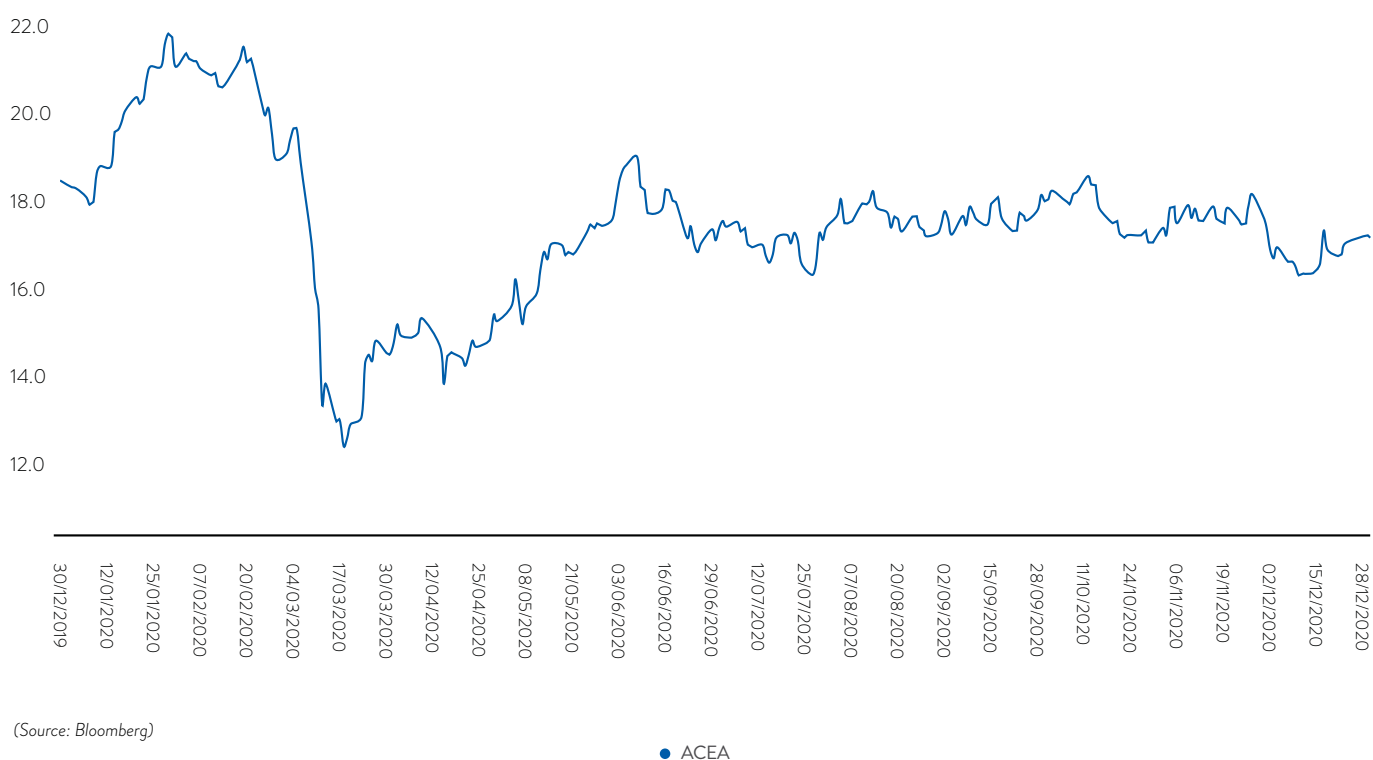
2020 was a year marked, at the global level, by the significant “health emergency” caused by the spread of Covid-19 which led to the deepest economic recession since the second world war. In this context, the international equity markets recorded divergent trends.

After the gains of the first weeks of the year, stock markets all over the world recorded sharp losses, above all in March and April, owing mainly to the effects of the lockdowns decided by the various countries to limit the pandemic. These drops were partially recovered,

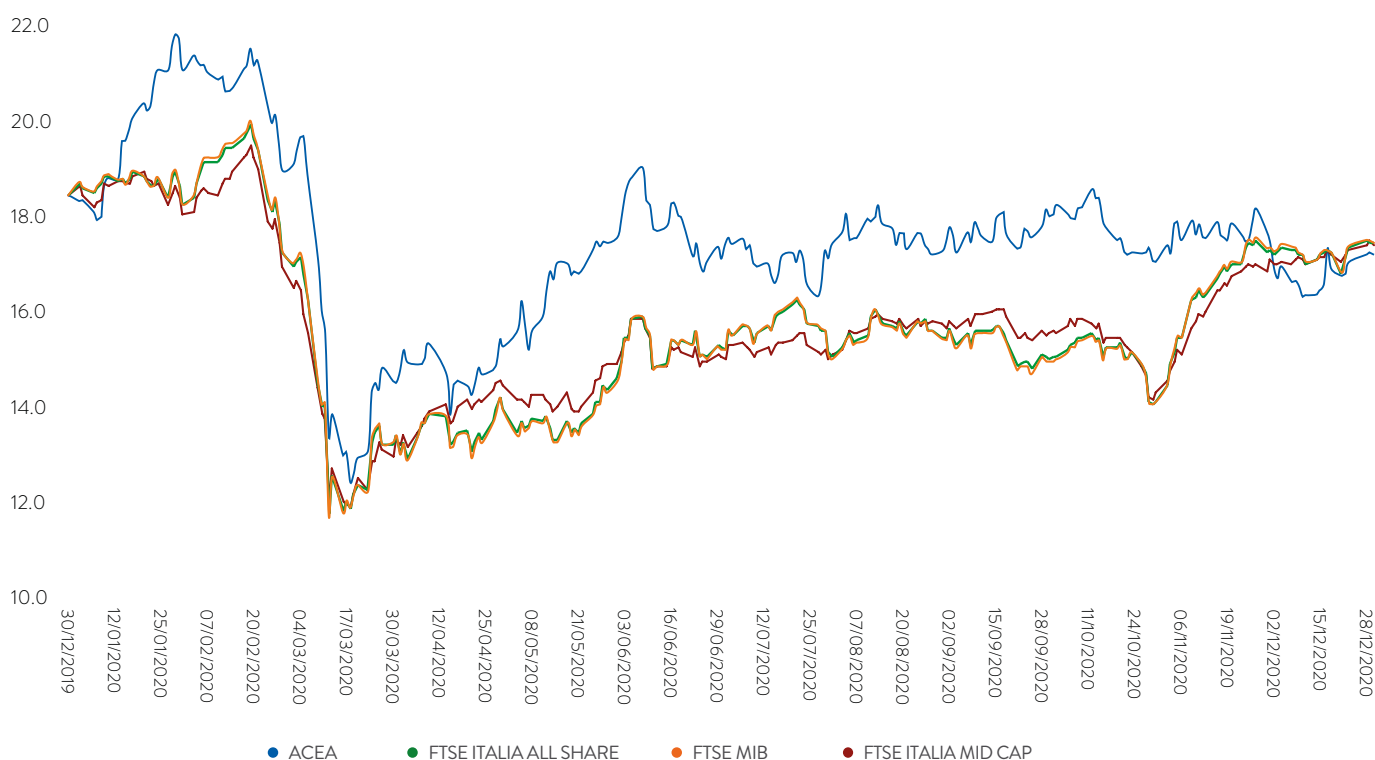
in the last months of 2020, thanks to the supporting actions resolved by the Governments and Central Banks and to the first vaccines against Covid-19 being made available.

The performance was positive overall for the US and Asian indices. The European stock markets went in the opposite direction and, with the exception of Frankfurt, recorded a negative trend.

Acea showed performance substantially in line with the Italian market, recording a drop of 7%. The stock recorded on 30 December (last day of opening of the market in 2020) a closing price of € 17.15 (capitalisation: € 3,652.3 million). The maximum value of € 21.8 was reached on 29 January, while the minimum value of € 12.4 was reached on 18 March. During 2020, the daily average volumes were approximately 165,000, slightly higher than in 2019.



The following normalised graph shows the performance of the Acea stock, compared to Stock Market indices.



(Chart normalised to Acea values – Source: Bloomberg)

Change % at 31/12/2020 (compared to 31/12/2019)

Acea	-7.0%
FTSE Italia All Share	-5.6%
FTSE Mib	-5.4%
FTSE Italia Mid Cap	-5.8%

During 2020 Acea took part in numerous events (meetings, expanded presentations, Utilities Conferences, roadshows and reverse roadshows) with approximately 220 equity investors, buy-side analysts, credit investors and analysts. In consideration of the serious “Covid-19” pandemic which spread at the global level, most of the communication events were held in “virtual” mode.

In addition conference calls with the financial community were organised, also on the occasion of approval of the annual and interim results and of the 2020-2024 Business Plan, and more than 240 analysts/investors took part in these.

In 2020 around 160 studies/notes on the Acea stock were published. Seven brokers analyse the Acea stock with the greatest continuity, of which six express “positive” judgements and the other a “neutral” one.

ENERGY MARKET

In Italy during 2020 cumulative electricity demand (302,751 GWh) decreased by -5.3% compared to the same period of the previous year. The reduction was concentrated in the period

March-July 2020, particularly in April, and derived largely from the effects of the Covid-19 health emergency.

Electricity demand in Italy in December 2020 was 25,944 billion GWh, up compared to the same month in 2019 (+1.1%). This figure was obtained due to an extra working day (21 v. 20) and a lower average monthly temperature compared to December of the previous year (-1%). The seasonally adjusted figure corrected for calendar and temperature effects brings the variation to -0.6%.

At the territorial level the annual change was negative everywhere: -6.3% in the North, -5.0% in the Centre, -4.1% in the islands and -3.2% in the South. In monthly terms, the seasonally-adjusted figure corrected for calendar and temperature effects of electricity demand in December 2020 showed an increase (+0.3%) compared to the previous month.

89.4% of electricity requirements were covered by net national (Italian) production and the remaining share was covered by imports from abroad (balance of imports down by 15.6% compared to the same period of the last year).

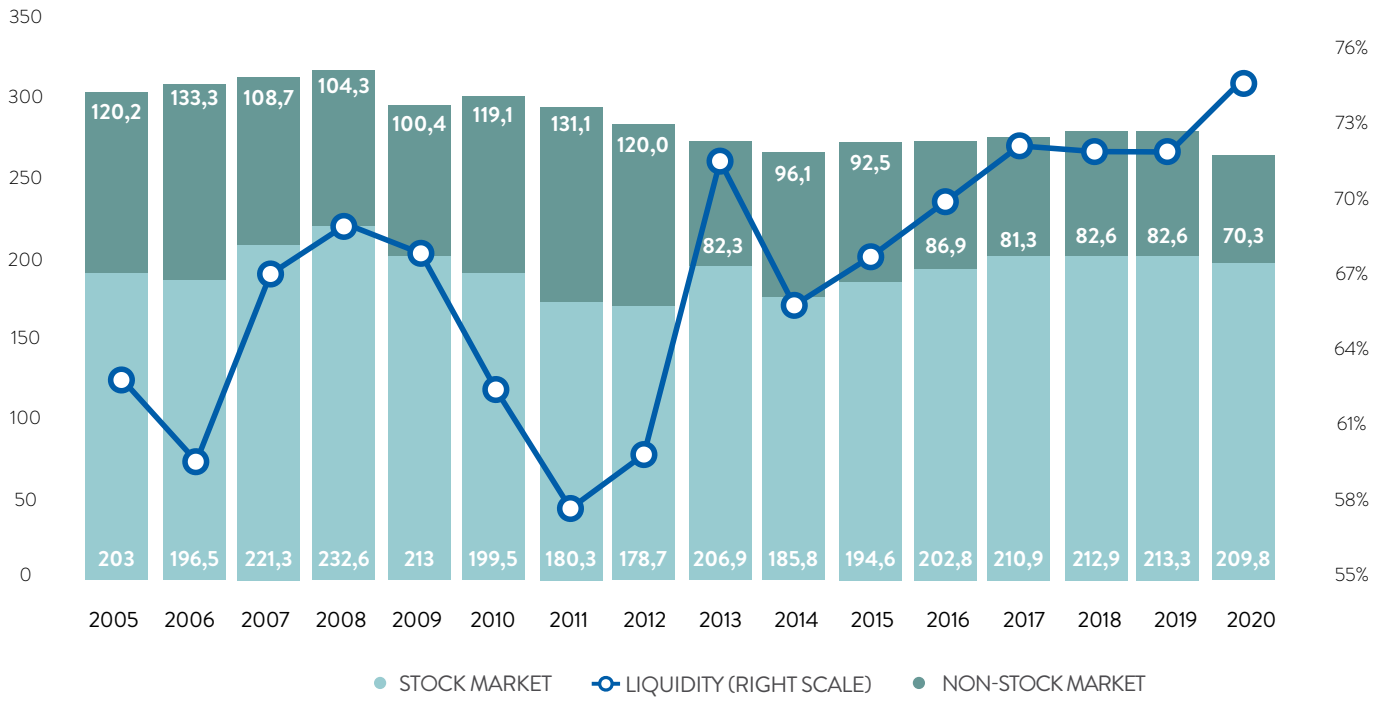
The net national production (273,108 GWh) showed a decrease of 3.8% compared to the same period in 2019. Specifically, energy produced by wind (-7.4%), energy produced by thermal sources (-6.4%) and energy produced by geothermal sources (-0.8%)

decreased, while energy produced by photovoltaic sources (+9.6%) and energy produced by water (+0.8%) increased. With regard to the results of the Italian electric power market, volumes traded on the Day Ahead Market continued to record a significant decrease on an annual basis (-5.5%), falling to 280.2 TWh. Volumes traded on the power exchange decreased by 1.9% to

209.8 TWh, while volumes traded over the counter, recorded on the PCE and nominated on the DAM, decreased to 70.3 TWh (-15.0%).

As a result, market liquidity stood at 74.9%, increasing by 2.8% over 2019.

LIQUIDITY ON THE DAM³



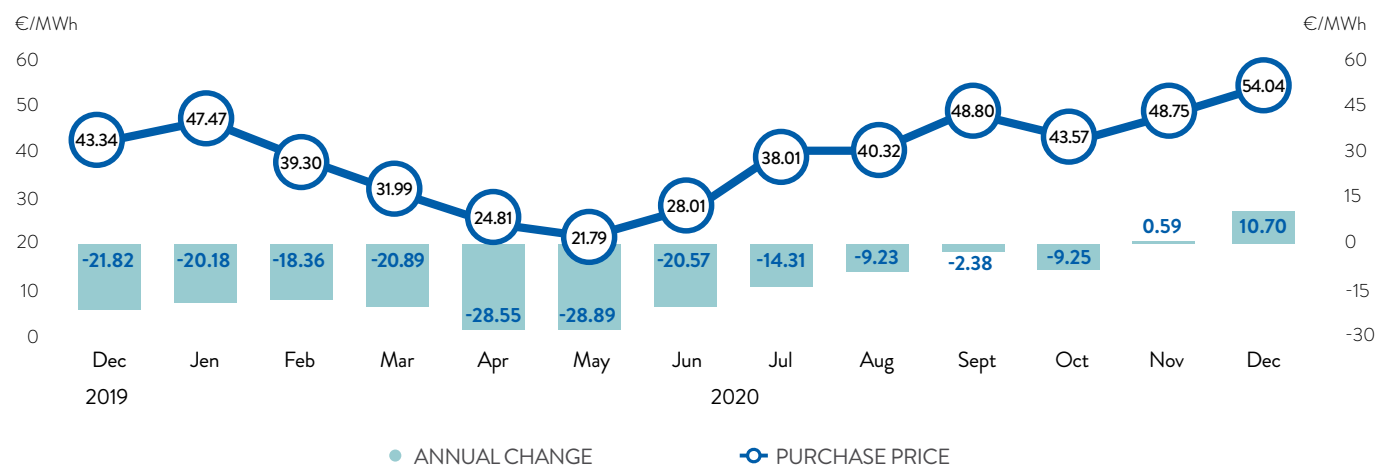
During 2020, the average energy purchase price (SNP) recorded an average of 38.92 €/MWh, a record low, down compared to 2019 by -25.6%.

An analysis of hourly segments showed a downward trend both in off-peak hours, where there was a decrease of - € 13.12/MWh

(-26.9%) and in peak hours, where there was a decrease of - € 14.01/MWh (-23.7%). Prices stood at € 35.61/MWh and € 45.11/MWh respectively.

The peak/baseload price ratio was 1.16 (+0.03 compared to 2019).

DAM: SINGLE NATIONAL PRICE (SNP)³



³ Source: GME Newsletter, December 2020.

Zone sales prices ranged from 46.21 €/MWh in Sicily to 37.79 €/MWh in the North. An annual reduction was observed on all zones. Domestic purchases totalled 271.6 TWh, and decreased on an annual basis (-6.3%). An analysis by zone shows purchases down annually over the whole country, in particular in the North (-7.2%), the Centre North (-6.9%), Sardinia (-5.9%), the Centre South (-4.4%) the South (-4.4%) and Sicily (-4.4%). Purchases of energy in foreign areas (exports), amounting to

8.6 TWh, increased compared to the previous year (+26.2%). Sales of electricity produced nationally reached 238.3 TWh, a decrease compared to a year ago (-5.2%). An analysis by zone shows reductions ranging between the volumes of the Central South (-17.4%) and the volumes of the North (-2.3%).

Energy sales in foreign areas (imports) fell compared to 2019, down to 41.9 TWh (-7.4%).

DAM: SELLING PRICES⁴



TARIFFS FOR TRANSPORT SERVICES

2020 was the fifth year of the new regulatory period, the term of which has been increased from four to eight years (2016-2023) divided into two sub-periods.

The regulations are included in three Integrated Texts: “Integrated Text of provisions of the Authority for providing electricity transmission and distribution services (TIT)”, annex A to Resolution 568/2019/R/eel, the “Integrated Text of provisions of the Authority for providing the electricity metering service (TIME)”; annex B to Resolution 568/2019/R/eel, and the “Integrated Text on provisions of the Authority on the economic conditions for providing connection services (TIC)”, annex C to Resolution 568/2019/R/eel, published on 27 December 2019.

For the distribution service, ARERA confirmed unbundling of the tariff applied to end customers (the so-called “compulsory tariff”) from the reference tariff for determination of the constraint on revenue permitted to each company (the reference tariff). The compulsory tariffs for the year 2020 were published with Resolution 568/2019/R/eel on 27 December 2019.

In view of the Covid-19 emergency, on 28 May 2020 ARERA published Resolution 190/2020/R/eel containing urgent actions necessary to implement the provisions of the Italian Relaunch Decree on the reduction of expenditures incurred by low voltage

electricity user accounts other than domestic users for the months of May, June and July 2020.

Subsequently, on 4 August 2020, with Resolution 311/2020/R/eel the Authority gave instructions to the Energy and Environmental Services Fund (Cassa per i Servizi Energetici e Ambientali – CSEA) in relation to management of the resources paid into the Covid-19 Emergency Account under the terms of the Relaunch Law Decree and to the activation of compensation to be paid to distributor companies for the lower receipts deriving from the provisions of Resolution 190/2020/R/eel.

On 1 October the data for calculating the compensation paid financially on 29 October 2020 were sent to the CSEA for an amount of € 12.6 M.

The regulations in force in the previous regulatory sub-period include:

- regulatory lag and return on invested capital;
- extension of regulatory useful life;
- tariff adjustment criteria: distribution, sale, measurement.

With regard to the first point, ARERA confirmed the method for offsetting the regulatory lag, recognising new investments made for both Distribution and measurement (without backdating).

The criterion based on the increase in the remuneration rate of invested capital recognised for new investments, of 1% (of the year t-2) was replaced by the introduction of recognition in the capital base (so-called “RAB”) also of investments made in the year t-1,

⁴ Source: GME Newsletter, December 2020.

measured on the basis of pre-final data communicated to ARERA. These data were used for the determination of the provisional tariffs of reference published in Resolution 162/2020/R/eel on 12 May 2020 and will then be replaced by the final data for the determination of the definitive tariffs of reference published by February of the following year.

On 28 April 2020 ARERA published Resolution 144/2020/R/eel with which it determined the definitive tariffs of reference for distribution and metering services for the year 2019.

In the year t , the ARERA only recognises the remuneration of the invested capital concerning the assets which entered use in the year $t-1$, without recognising the relevant depreciation rates (which are still recognised in the year $t-2$).

In the new sub-period, ARERA confirmed the previously established regulatory useful life.

With Resolution 639/2018/R/com of 6 December 2018, ARERA updated the values of the parameters used to calculate the rate of return on net invested capital (WACC) for the three-year period 2019-2021, establishing a value of 5.9% for the distribution service.

With Resolution 380/2020/R/com of 13 October 2020, ARERA launched a proceeding to update the criteria for determining and updating the WACC for the WACC regulatory period that begins on 1 January 2022 (the PWACC).

In terms of operating costs, the new company-based tariff covers the specific costs by means of a national average cost adjustment coefficient, calculated by the ARERA on the basis of actual company costs and on the basis of scale variables.

These costs, when calculating the company-based tariff, according to the definitions of Resolution no. 568/2019, are supplemented by flat rate connection contributions acknowledged throughout Italy, and will be considered as other grants and no longer deducted from operating costs.

Furthermore, the flat rate connection contributions of each company are deducted directly from the invested capital considering them as equal to MV/LV assets.

Updating of the distribution reference tariff after the first year is individual and based on financial increases reported by the companies on the RAB databases. The updating criterion envisages that:

- the portion of the tariff covering operating costs will be updated using the price cap mechanism (with a productivity recovery target of 1.3%);
- the part covering the costs concerning the remuneration of the invested capital will be updated through the deflator of the fixed gross investments, the change in the volume of service provided, the gross investments that are operational and differentiated by level of voltage and rate of change connected to the increased remuneration recognised for incentivised investments;
- the part covering the depreciation will be updated through the deflator of the fixed gross investments, the change in volume of service provided, the rate of change connected to the reduction in the gross invested capital due to disposal, withdrawal and end of useful lifetime and the rate of change connected to the investments that are now operational.

ARERA confirms for 2020 the mechanism, already introduced in the third regulatory period, for the higher remuneration of certain categories of investments made until 2015, not extending this mechanism also for the 2016-2023 cycle.

In Resolution 568/2019, ARERA allows the distribution companies concerned to submit an application by 30 September 2020 to request the single payment of the highest amount due with regard to the entire residual duration of the incentive.

For *areti*, which did not adopt the aforementioned mechanism, Resolution 379/2020/R/eel of 13 October 2020 recognised the incentivised investments made in the years 2014-2015 for the tariff years 2016-2018 of € 0.7 million.

As regards marketing, ARERA confirmed a single reference tariff that reflects both the costs for managing the network service and marketing costs, with recognition of the specific capital costs also for investments in marketing activities (single all-inclusive company tariff for the distribution and marketing service).

With regard to the transmission tariff, the ARERA confirmed the introduction of a binomial tariff (capacity and consumption) for high voltage customers, and the cost tariff structure for the transmission service to Terna (CTR), also introducing a binomial price. Given the two tariffs, the equalisation mechanism has been confirmed.

The general equalisation mechanisms for distribution costs and revenue for the regulatory cycle in force are:

- equalisation of the revenues from the distribution service;
- equalisation of the transmission costs;
- equalisation of the value of the difference between effective losses and standard losses.

The purpose of equalising the revenues of the distribution service is to equalise the revenues deriving from the comparison between the revenues billed to users through the compulsory tariff and the distributor's allowed revenues, calculated through the company's tariff of reference.

With Resolution 568/2019, ARERA established that the equalisation of the revenues from distribution would be reduced by an amount equal to 50% of the net revenues from the use of the electrical infrastructure for purposes additional to the electric service, recorded at the end of year $n-2$.

The equalisation of the transmission costs has the objective of making passing for the distributor the cost recognised to Terna.

With Resolution 568/2019, by 31 July 2020 distribution companies are required to communicate to CSEA the information relating to the number of operations of increase or reduction of committed power requested by domestic customers connected to their grids. In this regard, on 9 June 2020 the Authority published Determination 10/2020-DIEU with which it establishes that this equalisation will be managed by CSEA with a single collection of data for the entire three-year period with the same phases and timing envisaged in the general equalisation of the year 2019.

On 19 December 2019, Resolution no. 559/2019/R/eel confirmed the standard loss values to be applied to withdrawals, injections and interconnections between networks referred to in Table 4 of the TIS for the year 2020.

With regard to the procedure initiated with Resolution 677/2018/R/eel on the finalisation of the regulation of losses on distribution networks for the three-year period 2019-2021, on 9 June ARERA published consultation document 209/2020/R/eel. *Arete* communicated its observations within the terms established (10 July 2020). This document envisages:

- the updating of the conventional percentage factors for commercial losses to be applied to distribution companies for equalisation for the aforementioned three-year period and consequently the revision of the standard loss factors to be applied to end customers from 1 January 2021;
- the establishment of a new trajectory for the reduction of commercial losses recognised to distribution companies in the three-year period 2019-2021, as well as the modification of the methods for calculating and applying the mechanism for mitigating commercial losses;
- the introduction of a mechanism for decoupling part of the network losses attributable to fraudulent "non-recoverable" use due to external elements not dependent on the actions of the companies themselves.

Resolution 449/2020/R/eel of 10 November 2020 perfected the rules on network losses for the three years 2019-2021.

In particular, the algorithm for calculating the deltaL equalisation relating to the value of the difference between the effective losses and the standard losses starting from the year 2019 was modified; the percentage factor applied for equalisation purposes for commercial losses of electricity on the networks with obligation to connect third parties for the “centre” zone and for the LV voltage level was modified, going from 2% to 1.83%.

In addition, with a specific application to be presented by the end of May 2022, the Resolution provides for recognition of network losses attributable to non-recoverable fraudulent withdrawals that manifest with exceptional amounts compared to the levels recognised conventionally. The recognition is provided for exclusively in the case of a negative net equalisation balance on the three years 2019-2021 and will have a value at the most equal to what is necessary to reduce this balance to zero.

Equalisation of the purchase of electricity supplied for own use in transmission and distribution continues to be regulated in the new regulatory period.

In the new Transport Integrated Text, the ARERA has confirmed the mechanism of advance recognition on a two-monthly basis, of equalisation balances for revenue from the distribution service and transmission costs. With Determination 19/2020 of 13 November 2020, ARERA defined the operating methods of managing the general equalisation mechanisms, confirming the method of calculating the advances every two months.

On 7 December 2020, in a CEM (Certified E-Mail) communication, the CSEA communicated the 2020 equalisation advances. The first 5 bimonthly periods were settled by CSEA on 31 December 2020 for a value of € 116.5 million, while the advance related to the sixth bimonthly period will be settled by 15 February 2021 for a value of € 23.3 million.

Further impact on the equalisation is linked to the fact-finding investigation launched with Resolution 58/2019/E/eel on the settlement of the economic items related to the electricity destined for States included in Italian territory, the Authority, with Measure 491/2019/E/eel, ordered areti to carry out – by 31 December 2019 – the actions necessary to define correctly the dispatching point of export related to the electric frontier with the Vatican City State, and to obtain the measurement data of the electricity sold to the said State.

On 20 December 2019, the company stated that it had complied with the requirements.

The Authority decided that the elements acquired constituted a condition for the launch of a proceeding aimed at ascertaining any breaches on the subject of settling the economic items related to the electricity destined for the Vatican City State.

In June 2020, areti presented its commitments under the terms of the current regulation that are being assessed by the Authority. The pronouncement on the commitments is linked to the conclusion of the recalculations by CSEA on the consumption data of the years 2009-2019.

The Measurement Integrated Text (TIME) governs tariffs for the metering service, divided into meter installation and maintenance, taking meter readings, confirming and recording readings. The structure of the fees has been confirmed with respect to the previous regulatory period

ARERA confirmed the method of recognising the capital costs for low voltage electronic meters, for firms serving more than 100,000 points of delivery, based on criteria for determining the investments effectively made by the single firms and retaining the criterion of calculating the measurement service tariffs on the basis of

the national costs for the remote management systems and the electromechanical devices still being used (residual cost), also retaining the measurement equalisation for the fifth regulatory cycle. The equalisation mechanism is intended to equalise the revenue from the comparison of the obligatory tariffs billed to end users and the revenue set in the reference tariff.

The tariffs hedging the measurement service are updated, as are those for the distribution service, using the price-cap mechanism for the part hedging the operating costs (with the goal of a 0.7% recovery of productivity) and with the deflator, variation in invested capital and rate of change of the volumes supplied for the part covering the invested capital and depreciation. The rate of remuneration of the measurement capital is the same as that for the distribution service.

Note that with Resolution no. 646/2016/R/eel of 10 November 2016, ARERA illustrated the methods for defining and awarding costs related to second generation (2G) smart metering systems for measuring low voltage electricity. On 8 March 2017, it published a release in which it updated the evaluation of the plan for entry into service of the 2G smart metering system prepared by e-distribuzioneSpA. In order to present ARERA with an illustrative report on the commissioning plan of the 2G smart meter system, the company defined a project for the development of this system with the aim of replacing the current system of electronic meters. Starting in 2017, and only with regard to the investments that come into operation in 2017, ARERA established in the same Resolution that for the annual updating of the return on invested capital and depreciation concerning effective low-voltage metering points, for each distribution firm, the maximum gross investment value recognisable per meter installed is 105% of the corresponding gross investment value per meter for the investments that came into operation in 2015.

On 20 March 2019, with the consultation document 100/2019/R/eel, the Authority introduced an update for the three-year period 2020-2022 of the provisions on the determination and recognition of costs relating to second generation (2G) smart metering systems. In particular, the proposals set out in the consultation document include:

- the possibility of setting obligations on the timing of commissioning of 2G systems together with the modulation of the “conventional plan” in order to reduce the risk of a “two-speed country”; the updating and simplification of the provisions relating to admission to the shortened programme for companies that launch their plan for commissioning 2G smart metering systems in that three-year period;
- the assessment of the provisions of Decree 93/2017 of the Minister for Economic Development concerning the periodic verification of electricity meters and the extra costs that could result from them;
- the possibility of introducing provisions to quantify the penalties to be applied in the event of non-compliance with the expected levels of performance of 2G smart metering systems.

This was followed by Resolution no. 306/2019/R/eel on 16 July, which confirmed the guidelines presented in the previous consultation document. Specifically:

- the Authority set 2022 as the deadline for the start of the plans for the commissioning of 2G systems and established that the mass replacement phase for the meters must be completed by 2026 (with a target of 95% of the meters included in the plan). Furthermore, in order to avoid the “two-speed country” risk, a new method of calculating the “conventional plan” was introduced for companies that have not yet submitted their rollout plan;
- starting from the 4th year of each PMS2, penalties are intro-

duced for failure to meet expected performance levels, with annual and multi-annual ceilings on penalties for greater protection of service users;

- the regulatory useful life of the asset categories relating to the low-voltage electricity metering service to be applied to investments in 2G smart metering systems is 15 years;
- the remuneration and depreciation of the invested capital are determined according to a fixed rate depreciation schedule. Depreciation schedule instalments are calculated as deferred annual instalments, considering a return time horizon consistent with the regulatory useful life.

On 20 September, areti sent the Authority the request for admission to the recognition of investments under the specific regime together with the plan for the commissioning of the 2G smart metering system and the other documents required by Resolution no. 306/2019/R/eel. The documentation was made available on 23 September on the areti website, and on 21 October a public session was held to present the Plan, during which the Company responded to the comments made by participants. On 20 December the Authority requested detailed information on the actual operating capital costs of Measure 1G and 2G set out in PMS2.

The updated PMS2 and Explanatory Report documents were sent to ARERA on 8 April 2020 and are awaiting approval.

Resolution 213/2020/R/eel, which follows 177/2020/R/eel accompanied by CD 178/2020, provides for transitional amendments for the year 2020 to some of the directives for second generation (2G) smart metering systems for measuring low voltage electricity.

In particular, in consideration of the Covid-19 health emergency and its impacts on the replacement of meters, the Authority expressed the orientation to:

- waive – at least for 2020 – the upgrade criterion at the level of the Municipality or other significant territory;
- establish that the next PDFMs, which must have a maximum quarterly frequency, can only have indicative value as long as the emergency persists. Moreover, each PDFM must be published 15 days in advance of the beginning of the month in which mass replacements of meters are planned;
- suspend – at least for 2020 – the provisions on penalties for failure to achieve at least 95% of the progress (cumulative) envisaged by PMS2;
- suspend – for the year 2020 only – the application of the IQI (Information Quality Incentive) matrix, which defines the value of the incentives to be paid to companies for the different combinations of actual expenditures incurred and planned, since the comparison between actual costs and expected costs may be subject to factors that affect the comparison.

ARERA also considers it appropriate to offer distribution companies the option of proposing the updating of their upgrade plan during 2021 to adjust for the effects of the epidemiological emergency.

On 28 July 2020, with Resolution 293/2020/R/eel, the Authority approved the plan of commissioning of the 2G smart metering systems presented by areti and determined the related conventional commissioning plan and the expenses envisaged for the plan for the purposes of recognition of the costs of capital.

The “Integrated Text on provisions of the Authority on the economic conditions for providing connection services (TIC)”, annex C to Resolution 568/2019/R/eel, governs the economic terms for the provision of connection services and specific services (transfers of network equipment requested by end users, contract transfers, disconnections, etc.) to passive users, essentially in line with the previous regulatory period.

The regulatory changes that have taken place since 1 January 2016 allow the distributor to affirm that the right to remuneration for in-

vested capital arises, from an accounting point of view, at the same time as investments are made and the depreciation process is initiated in compliance with the accruals concept and the principle of correlation of costs and revenues. For this purpose, the remuneration of the investments (including of the related depreciation and amortisation) was calculated and recognised in the energy margin at the same time as they were made (so-called “Regulatory Accounting”).

Finally, we can note that with Resolution 461/2020/R/eel of 17 November 2020, the rules were defined for the payment to the electricity distribution companies of the otherwise non-recoverable expenses for failure to collect the tariffs for the network services. The CSEA is to quantify and settle the receivables not recoverable by the distribution companies in relation to the network tariffs. By and no later than 7 December 2020 the distribution companies can request to the CSEA to receive by 31 December 2020 the disbursement of an advance equal to 50% of the full payment amount. On 4 December 2020, by CEM, CSEA was asked for the advance of an amount of approximately € 5.8 million, and this was received on 31 December 2020.

THE ITALIAN WASTE MANAGEMENT MARKET

The current situation of production and treatment capacity for waste in the traditional operational areas of the Acea Group and in the neighbouring areas shows a high “potential demand” for waste management (disposal in landfills, waste-to-energy, composting and biogas production, sludge and liquid waste treatment, recycling of mixed materials and production of secondary raw materials). This is facilitated by a national regulatory framework that provides incentives and by the regulatory support of European directives on the recovery of materials and energy, as well as by the implementation of the European Union’s policy guidelines on the circular economy (closing the loop), which are being implemented in Italy by virtue of a delegated law that has given the government the obligation to update environmental legislation adapting it to the new EU standards.

Opportunities for developing the sector are therefore highlighted, also facilitated by the availability of new technologies (for example in composting) and by possible forms of industrial integration with other operators.

Finally, the expansion of the potential for disposal/recovery of sewerage sludge – in the context of value added environmental services (sludge treatment, compost) – could lead to the completion of the integration with the Water business, in view of a complete management in-house of the entire supply chain.

WATER REGULATION

The year 2020 marks the beginning of the third regulatory period, namely the four-year period 2020-2023; with the approval at the end of 2019 of the relevant tariff methodology by ARERA (Resolution 580/2019/R/idr – MTI-3). Thus were launched the activities of the Area Governing Bodies (hereinafter AGBs) and the operators aimed at defining the tariffs of the IWS for the period in question and presenting the tariff proposal to the Authority.

It should also be noted during the year significant provisions of the Authority issued in previous years were implemented, with particular reference to the regulation of contractual and technical quality and late payments:

1. an incentive mechanism related to the technical quality of the IWS (Resolution 917/2017/R/idr – RQTI) is envisaged, with the quantification and allocation of bonuses and penalties for

the first two years of application (performance of the years 2018 and 2019 with respect to the situations in 2016 and 2018, respectively);

2. the new incentive mechanism for contractual quality introduced with the changes made by Resolution 547/2019/R/idr to the RQS.I.I. enters into force. The quantification is therefore provided for, starting from 2022, of bonuses and penalties on the basis of the performance achieved cumulatively at the end of the year 2021, for each of the macro-indicators MC1 "Initiation and termination of the contractual relationship" and MC2 "Management of the contractual relationship and accessibility of the service";
3. the new regulations on the arrears of the IWS (Resolution 311/2019/R/idr – REMSI) will apply.

Since the second half of February 2020, the regulatory framework on which the Authority established its measures has been profoundly affected by the effects of the Covid-19 epidemic emergency. The regulator has necessarily been focused on the measures to be taken in relation to the current health emergency, with the aim of ensuring the continuity and availability of essential services (in particular to users such as healthcare, assistance and logistical support structures involved in the management of the emergency and those protected by specific regulatory provisions), while ensuring maximum safety and protected conditions for the personnel of the supply companies, in compliance with national provisions. The current – unprecedented – emergency situation has in fact required urgent action also by the Authority with regard to the sectors it regulates.

Within the framework of the measures adopted for this situation, which are currently rapidly developing, the Authority is also addressing the issue of the effects on the application of regulations, as well as the deadlines previously set for regulatory obligations on AGBs and operators.

With regard to regulatory developments related to other issues of interest to the water sector, it should be noted that the Environmental annex to the Budget Law should shortly arrive at the Italian Council of Ministers. According to the industry press, the measure will deal with many issues, from reclamation to environmental damage to perfluoroalkyl substances (PFAS).

With regard to the sewerage and sanitation sector, of interest is the appointment with the Italian Ministerial Decree of 11 May 2020, published in Official Journal no. 146 of 10-06-2020, of the new single commissioner and the two sub-commissioners for the design and implementation of the sewerage and purification works, referred to in article 2 of Italian Law no. 18/2017 (Professor Maurizio Giugni, Mr. Stefano Vaccari and Professor Riccardo Costanza). Lasting three years, the assignment concerns the carrying out of the necessary interventions on the collection, sewerage and treatment systems for the agglomerations subject to the judgements of the Court of Justice of the European Union of 19 July 2012 in case C-565/10 and of 31 May 2018 in case C-251/17 (infringement procedure no. 2004/2034) and of 10 April 2014 in case C-85/13 (infringement procedure no. 2009/2034) not yet declared compliant with the date of entry into force of the appointment decree, as well as for the agglomerations subject to infringement procedures no. 2014/2059 and 2017/2181 and any other agglomerations subject to further infringement procedures. The commissioners are based in and operate through the Ministry of the Environment.

With regard to regulatory developments in the EU, reference is made to the publication in the Official Journal of the European Union L177/32 of 5 June 2020 of "Regulation (EU) 2020/741 of the European Parliament and of the Council of 25 May 2020 laying down minimum requirements for the reuse of water". The reg-

ulation enters into force on 25 June and its application in the Member States is foreseen three years after its entry into force.

Below is an analysis of the measures approved by ARERA during 2020.

TARIFF METHOD – THIRD REGULATORY PERIOD

With the issuance of Resolution 580/2019/R/idr at the end of 2019 "Approval of the water tariff method for the third regulatory period MTI-3", the rules for the calculation of the costs eligible for tariff recognition for the regulatory cycle 2020-2023 were defined, also providing for the procedures and deadlines for the submission of the tariff application, with an initial deadline of 30 April 2020 for submission of the relevant documents by the AGB or other competent entity to ARERA.

Emergency regulations on Tariff Methodology: Resolution 59/2020/R/com of 12 March 2020 "Deferment of the deadlines envisaged by the regulation for environmental and energy services and first quality measures in light of the Covid-19 emergency", Resolution 125/2020/R/idr of 13 April 2020 "Request for information for the adoption of urgent measures in the Integrated Water Service, in light of the Covid-19 emergency", Resolution 235/2020/R/idr of 23 June 2020 "Adoption of urgent measures in the Integrated Water Service, in light of the Covid-19 emergency".

In view of the stringent measures taken at a national level to combat and contain the spread of the Covid-19 virus and in order to ensure an orderly process of transposition of the regulation, the Authority considered it necessary to postpone some of the deadlines set (in particular the closest deadlines) in view of the duration of the 6-month state of emergency relating to the health risk declared by the Resolution of the Italian Council of Ministers of 31 January 2020. Therefore, with **Resolution 59/2020** in March, the Authority extended to 30 June 2020 the deadline by which the AGB is required to submit the relevant regulatory scheme containing the IWS tariff for the third regulatory period 2020-2023 for approval by the Authority, while the subsequent Resolution 235/2020 of June postponed this deadline to 31 July and made some important structural changes to the MTI-3 system. Resolution 235/2020 is the result of a thorough process initiated by the Authority in April with Resolution 125/2020/R/idr, in which operators were asked about the main emerging issues related to the continuation of the health emergency. The purpose of the survey was to update the existing regulation to ensure continuity of service and protection of end-users. Following the acquisition of the information referred to in the aforementioned measure, the Authority arranged a consultation (CD 187/2020/R/idr of 26 May 2020 "Guidelines for the adoption of urgent measures in the Integrated Water Service, in the light of the Covid-19 emergency") followed by Resolution 235/2020 for the adoption of urgent measures – on multiple regulatory fronts – aimed at mitigating the effects of the health emergency on the economic and financial equilibrium of the operators and on the performance of the services, while ensuring the continuity of essential services and the stability of the regulatory framework and creating the conditions for the relaunch of investments in the sector.

Among the significant changes made to the tariff methodology by Resolution 235/20 are the modification of the rate of the financial charges applied to current ordinary works (for which the same treatment of other fixed assets is envisaged for the two-year period 2020-2021 and a rate equal to 2.77% in the following two-year period 2022-2023), the provision for both an additional component of costs related to emergency management (Op_{Covid}) and a component to compensate for the effects of payment delays

granted to users (Codil). It is also envisaged that during the 2022-2023 biennial update, the AGB may recognise a higher cost related to late payment (COMor) based on the actual difficulties encountered by the operators, and AGBs are granted the right to allocate any excess resources to further breaks with respect to those used in 2018 and 2019 for the provision of the supplementary bonus and to postpone the recovery of the portion of the charges eligible for tariff recognition in 2020 to years after 2020 (but no later than 2023). If the latter option creates financial problems for management, the AGB may submit a specific request for a financial advance to the Cassa per i Servizi Energetici e Ambientale (CSEA) drawing from the Covid Emergency Account established by the Authority with Resolution 60/2020/R/Com, in line with the Italian Ministerial Decree of 9 March 2020 containing new measures to contain and combat the spread of the Covid-19 virus throughout the nation, intended to ensure the financing of initiatives in support of end customers.

With **Resolution DSID 1/2020 of 29 June 2020** "Procedure for the COLLECTION OF TARIFF DATA" the Authority defined the procedures for the collection of technical and tariff data as well as the standard forms for the report accompanying the works programme and the tariff provision for the third regulatory period 2020-2023. In order to guarantee the right of users to the precise knowledge and correct application of the tariff fees due for the service rendered, the Authority lays down in this measure both the methods for calculating any portion to be allocated to cover technical and contractual quality bonuses (to be paid like the other equalisation components to the CSEA) and the obligation to illustrate this in the bill.

With the Communication of 30 September 2020 "Tariff arrangements for the Integrated Water Service and connected measurements provided for in the rules at the national level". With this communication the Authority requires all subjects involved (operators and governing bodies in the area, or other competent subjects) the implementation in a short time of the rules on the subject of tariff arrangements for the period 2020-2023, recalling that prompt adoption of the tariff methodology and the provisions subsequently issued in order to mitigate the effects deriving from the Covid-19 emergency situation represent a fundamental passage to safeguard the economic and financial balance of the water sector and the conditions of performing the services, guaranteeing the continuity of the essential services. On this point it communicates that operators that decide to present an application for tariff update provided for to overcome cases of inertia of the said competent subjects can ask the Authority for authorisation for the extraordinary data entry procedure and for the actions required and provides indications on the related procedure, specifying that failure to send the data and information required is relevant also for the purposes of transfer of the resources to the subject that implements any necessary and urgent actions included in the "National plan of projects in the water sector" and for the purposes of assessments on the proposed actions presented to the Authority in the context of the proceeding pursuant to Resolution 284/2020/R/Idr related to the update of the "water pipeline" section of the National Plan.

With **Resolution 555/2020/R/Idr** of 15 December 2020 "Launch of proceeding for ex officio determination of the tariffs of the Integrated Water Service, under the terms of the authority's Resolution 580/2019/r/Idr, and for the acquisition of further fact-finding elements related to cases of exclusion from the tariff update" ARERA launches the proceeding for ex officio determination of the tariff multiplier for incomplete, incorrect or non-transmission of the data and of the actions required for the 2020-2023 tariff determination, conferring a mandate on the Director of the Water Systems Department so that he/she proceeds with warning operators that are in

these cases, as well as for the definition of rules on further verification and control in the case of the continuation of these situations. The mandate also includes the possibility of warning Area Governing Bodies (AGBs) in the case of non-observance of the tariff arrangement obligations, requiring the same to send, within 30 days, the necessary information, communicating that otherwise the tariff will be determined ex-officio setting the tariff multiplier at 0.9 as provided for in paragraph 5.8 of Resolution 580/2019/R/Idr. The warning is also envisaged also for subjects that have not fulfilled the tariff arrangement obligations for the 2016-2019 regulatory period.

The measure also provides for the organisation of territorial focus groups with the AGBs, to which the Regions and the District Basin Authorities can also be invited to participate, on the basis of the subjects dealt with each time, for the reconciliation between tariff determinations and assessments aimed at updating the "water pipeline" section of the National Water Projects Plan.

We can note finally that at 31 December 2020 eight tariff Resolutions had been approved by ARERA, in relation to 7 Optimal Territorial Areas (OTAs) and for a total of more than 700 municipalities served and a population of more than three million resident inhabitants.

On the subject of tariffs we can note also the recent judgements of the Council of State (08079/2020, 08354/2020 and 08502/2020), which, pronouncing in the disputes of a number of operators, among which also Acea Ato 2, in relation to judgements of the Milan Regional Administrative Court (RAC) on the Transitional Tariff Method (TTM – ARERA Resolution 585/2012/R/Idr) accept the arguments regarding the methods of calculating Net Working Capital and Coverage of the financial expenses on adjustments.

TECHNICAL QUALITY

Resolution 46/2020/R/Idr of 18 February 2020 "Launch of the procedure for the quantitative assessments envisaged by the incentive mechanism for the technical quality of the Integrated Water Service referred to in Title 7 of annex A to Authority Resolution 917/2017/R/Idr (RQTI)".

With this measure, the Authority initiated the procedure for the allocation of bonuses and penalties envisaged by the incentive mechanism of the Technical Quality Regulation (Resolution 917/2017/R/Idr and its annex "A" – **RQTI**), defining the timing and methods of implementation that, for the operators that have submitted to the Authority a complete set of information for the years 2018 and 2019 for the purpose of defining the rankings would have occurred (in the absence of a health emergency) after the conclusion of the data collection, whose deadline had initially been set at 17/04/2020.

Emergency regulations on Technical Quality: Resolution 59/2020/R/com of 12 March 2020 "Deferment of the deadlines envisaged by the regulation for environmental and energy services and first quality measures in the light of the Covid-19 emergency", Resolution 235/2020/R/Idr of 23 June 2020 "Adoption of urgent measures in the Integrated Water Service, in the light of the Covid-19 emergency".

The aforementioned **Resolution 59/2020** postponed to 17 June 2020 the mandatory deadline for the conclusion of the data collection aimed at assessing the achievement of the technical quality targets for the years 2018 and 2019 and to 31 October 2020 (from 30 September) the deadline for the allocation of the relevant bonuses and penalties.

A Communication on 16 June 2020 announced a further postponement of the deadline from 17 June to 17 July 2020 and a subsequent Communication of 2 July specifically launched the collec-

tion of the required QT 2018-2019 data (as part of the collection called “Tariffs and Technical Quality of Water Services”) by means of online submission by AGBs or other competent entities.

The subsequent Resolution 235/2020, in addition to confirming the postponement the deadline for the closure of QT 2018-2019 data collection to 17 July 2020, introduced elements of flexibility in the mechanisms for assessing contractual and technical quality performance. The measure provides for the technical (and contractual) quality targets for 2020 and 2021 to be assessed cumulatively on a biennial basis. Consequently, for the purposes of applying the bonus (penalty) factors in 2022 with respect to the years 2020 and 2021, the level reached cumulatively for the technical quality macro-indicators from M1 to M6 by the end of 2021 will be an element of assessment.

With a subsequent communication of 2 July 2020 ARERA informed of the opening of the data collection and made available the related User Manual.

CONTRACTUAL QUALITY

Communication of 9 January 2020: in implementation of the provisions of article 77 of the RQS.I.I., the Authority provided for the publication of the IWS contractual quality data communicated by operators for the first two years (2017 and 2018) of full application of the regulation introduced by Resolution 655/2015. The figures refer to 140 operators grouped by size based on the population residing in the municipalities declared in the ATID (Territorial Register of the Integrated Water Service). The operators are divided into Top (14 operators including Acea Ato 2, Acque, Gori and Publiacqua), Large (9 operators including Umbra acque), Medium (30 operators including Acea Ato 5, AdF and Nuove Acque) and Small (87 operators including Geal, Gesesa, S.I.I. and Acea Ato 5 for the Molise OTA and the Terra Lavoro OTA).

With a subsequent communication of 25 November the data related to the year 2019 were also published, together with the figures referred to 2018 of the macro-indicators of contractual quality MC1 – “Initiation and termination of the contractual relationship” and MC2 – “Management of the contractual relationship and accessibility of the service”, starting base for the application of the incentive mechanism pursuant to Title XIII of the Regulation on the Quality of the Integrated Water Service (Regolazione della Qualità del Servizio Idrico Integrato – RQS.I.I.).

Biennial limitation

The 2018 Budget Law (art. 1, paragraphs 4 and 5) had established for contracts for the supply of water services to domestic users, micro-enterprises and professionals that the right to the fee due to the water operator was time-limited to two years, and no longer five, unless the failure or erroneous collection of consumption data resulted from the ascertained responsibility of the user. Based on this legislation, ARERA had approved Resolution 547/2019 which, in its annex B, manages in detail the methods and operating times relating to consumption exceeding two years.

Article 1, paragraph 295 of the 2020 Budget Law (Italian Law no. 160 of 27 December 2019) repeals art. 1, paragraph 5 of the 2018 Budget Law, setting the limitation period to two years even for cases where the user is responsible for failed or erroneous collection of consumption data.

With the Resolution in question, ARERA made changes and additions and adapted the regulatory framework to current legislation. In particular, amendments were made to annex B of Resolution 547/2019/R/idr, updating the text of the communication to be sent to the user in art. 3 and repealing the entire art. 4 relating to the obligations of the operator in the case of a billing delay attrib-

utable to the responsibility of the end user. Moreover, in order to make the current regulatory framework consistent with the limitations of the new legislation, amendments were made to the RQS.I.I. (art. 50.2-ter, written complaints), the REMSI (art. 4 on the information provided in the notice procedure) and annex A of Resolution 586/2012 (art. 6 on the information to be reported on the bill relating to payments, arrears and security deposit). The provisions take effect with regard to bills issued in the first billing cycle following the date of publication of the Resolution.

Communication of 18 February 2020 “Data collection: Contractual quality of the Integrated Water Service”.

With this communication, ARERA informed operators of the opening of the collection with a deadline for operators of 16 March 2020 and 27 April 2020 for validation by AGBs. For the collection, in addition to the data pertaining to the year 2019, operators are required to provide a summary of the services performed in 2018 for the purpose of applying the incentive mechanism for contractual quality introduced in the RQS.I.I. with Resolution 547/2019, to identify the starting level of the macro-indicators of contractual quality MC1 – “Initiation and termination of the contractual relationship” and MC2 – “Management of the contractual relationship and accessibility of the service”, the classes of membership and objectives for the year 2020.

With reference to operators such as Acea Ato 2 that apply improvement standards, the Authority’s indication is to reclassify the number of services performed within/beyond the standard with reference to the minimum level provided for by the RQS.I.I..

Emergency regulations on Contractual Quality: Resolution 59/2020/R/com of 12 March 2020 “Deferment of the deadlines envisaged by the regulation for environmental and energy services and first quality measures in the light of the Covid-19 emergency”, Resolution 235/2020/R/idr of 23 June 2020 “Adoption of urgent measures in the Integrated Water Service, in the light of the Covid-19 emergency”.

Due to the Covid-19 emergency the deadlines communicated in February were subsequently postponed respectively to 15 May 2020 for operators and 26 June 2020 for AGBs by the aforementioned Resolution 59/2020. The measure also clarified that non-compliance with the standards related to the Covid-19 emergency can be attributed to “force majeure” with the exclusion of the operator from the obligation to pay automatic compensation.

As anticipated in the previous paragraph, with Resolution 235/2020 ARERA adopted elements of flexibility in the complex context generated by the Covid-19 emergency, providing for the contractual quality targets for the years 2020 and 2021 to be identified on the basis of the data related to the simple indicators recorded in 2018 and assuming that the contractual (and technical) quality targets for 2020 and 2021 are assessed cumulatively on a biennial basis. Consequently, for the purposes of applying the bonus (penalty) factors in 2022 with respect to the years 2020 and 2021, the level reached cumulatively for each of the MC1 and MC2 contractual quality macro-indicators by the end of 2021 will be an element of assessment.

SOCIAL WATER BONUS

The activities of the Authority during the period under review were aimed at applying the provisions of art. 57-bis of Italian Law Decree no. 124 of 26 October 2019, converted with amendments by Italian Law no. 157 of 19 December 2019 (Italian Tax Law Decree). The measure provides for the extension of the social water bonus to residential domestic users benefiting from guaranteed minimum income and guaranteed minimum pen-

sions, the application of the same also to sewerage and purification services, and from 1 January 2021 automatic recognition to persons with an ISEE within the limits provided by current legislation. Finally, with regard to the health emergency caused by Covid-19, the Authority extended the deadlines for the submission of applications for renewal of bonuses by those entitled. Below are the measures of interest in H1 2020:

Resolution 3/2020/R/idr of 14 January 2020 “Amendments to the Integrated Text on the methods for applying the social water bonus for the supply of water to economically disadvantaged domestic users (TIBSI) in accordance with article 57-bis of Italian Law Decree no. 124 of 26 October 2019, converted with amendments by Italian Law no. 157 of 19 December 2019”.

The measure updates the Integrated Text on the methods for applying the social water bonus for the supply of water to economically disadvantaged domestic users (Resolution 897/2017/R/idr as amended, annex “A” – TIBSI) in accordance with article 57-bis of Italian Law Decree no. 124 of 26 October 2019, converted with amendments by Italian Law no. 157 of 19 December 2019. In particular, the recognition of the social water bonus is regulated for residential domestic users benefiting from guaranteed minimum income or guaranteed minimum pensions, in addition to those suffering economic and social hardship for whom it was already envisaged. The measure also modifies the quantification of the bonus (for which the variable unit portion of the sewerage and purification fee is added to the preferential tariff-variable water quota) and the total charge of the UI3 component, which is also calculated for the sewerage and purification services. The new provisions will apply from 1/1/2020.

Emergency regulations on the Social Bonus: Resolution 76/2020/R/com of 17 March 2020 “Urgent provisions on the electricity bonus, gas bonus and social water bonus with respect to the urgent measures introduced in the country related to the Covid-19 epidemiological emergency”, Resolution 140/2020/R/com of 28 April 2020 “Extension of the urgent provisions referred to in Resolution 76/2020/R/Com of the authority on the electricity bonus, gas bonus and social water bonus introduced following the Covid-19 epidemiological emergency”, the SGATE Communications of 29 May and 8 June.

Resolution 76/20, with a view to protecting economically disadvantaged domestic users, temporarily **suspends from 1 March 2020 to 30 April 2020:**

- a. the effects of the expiry of the deadlines for applications for the renewal of bonuses; The application for renewal that had a deadline for submission in March and April 2020 may be submitted by 29 June 2020;
- b. the **flow of communications to and from SGATE** regarding the eligibility for the bonus, renewal and issuance of direct debit transfers.

The subsequent Resolution 140/20 further extends these terms by providing that consumers whose bonus expires in the period from **1 March to 31 May 2020** are given the right to renew the application for the disbursement of the bonuses beyond the original deadline, extending the time until **31 July 2020**.

Once the application is accepted, following normal checks, the “discount” in the bill will be guaranteed continuously and retroactively from the original expiry.

Subsequent **SGATE Bulletins** remind the users concerned of the terms of renewal of bonuses and announce the reactivation of communication flows related to the management of bonuses.

Consultation Document 204/2020/R/com of 9 June 2020

“Guidelines on automatic recognition of beneficiaries of national social bonuses (Italian Decree Law 124/19)”.

The Authority explains the guidelines regarding the possible methods of operation of the system of automatic recognition of social bonuses for electricity, gas and water, scheduled with effect from 1 January 2021, with the aim of guaranteeing their disbursement without the need for those entitled to submit an application. Such a mechanism would allow for the full enjoyment of the effects of reduced expenditures for the services concerned by some 2.5 million households in economic hardship.

The measure falls within the scope of the procedure initiated by ARERA with Resolution 14/2020/R/com “Start of proceedings for the implementation of the provisions on the automatic recognition of social bonuses by Italian Decree Law no. 124 of 26 October 2019, converted with amendments by Italian Law no. 157 of 19 December 2019” and is included in the lines of action of the 2019-2021 Strategic Framework adopted by ARERA with Resolution 242/2019/A (strategic objective OS3 “Strengthening support mechanisms for vulnerable consumers”).

The proposal to provide for the transition from a system of awarding bonuses “on demand” to a system of automatic attribution to those entitled, based on the electronic exchange of the necessary information contained in the databases of INPS and the IIS (Integrated Information System) was made by the Authority, lastly with the Notification 280/2019/I/Com. In fact, the adoption of the automatic recognition mechanism is intended to bridge the gap between potential beneficiaries and the actual recipients of bonuses which, as highlighted in the aforementioned Report, has always remained, on average, around 30-35% for previous energy bonuses, and with a similar relationship also found for the most recent social water bonus (in force since 1 January 2018).

In particular, the document sets out the Authority’s guidance on:

- the operation of the mechanisms that allow the transition from a system of social bonuses for electricity, gas and water attributed upon the request of those entitled to an automatic recognition mechanism;
- the definition of the information flows between the INPS and the IIS Manager, and more generally the information flows between the various institutional entities and operators in the supply chain necessary for the automatic assignment of bonuses to those entitled, and the roles of the different entities in the automatic system of recognising the discounts;
- the definition of the application procedures for the disbursement of fees;
- the deadline for interested parties to submit their comments was set at 9 July 2020.

Resolution 585/2020/R/com of 29 December 2020 “Provisions on the accrediting of water operators on the Integrated Information System”.

Following on from the aforementioned consultation document 204/2020/R/CPM, it is ordered that, in view of the launch of the automatic recognition of the water social bonus to those that have a right starting from 1 January 2021, all operators of the Integrated Water Service already registered with the Operator Database and the Territorial Database Integrated Water Service (ATID) are required to accredit with the IIS (Integrated Information System managed by Acquirente Unico SpA) according to the methods established in the Regulation on its operation. The accrediting will be possible starting from 1 January 2021 and, for subjects registered in the ATID as of 31 December 2020, must be completed by 30 April 2021.

Acquirente Unico will transmit periodically to ARERA the reporting related to observance of the formalities relating to the accred-

iting process by the water operators, under the terms of paragraph 6.1 of annex A to Resolution ARG/com 201/10.

Determination 11/2020 – DACU of 29 December 2020 “Provisions for the management of the period of transition from the current system to the new system of automatic recognition of social bonuses for economic hardship”.

With this determination ARERA approved the provisions to manage the transition to the new system of automatic recognition of social bonuses for economic hardship, in force from 1 January 2021, superseding the system managed through SGAté.

ARREARS

Emergency regulations on arrears:

Resolution 60/2020/R/Com of 12 March 2020 “First urgent measures and establishment of an extraordinary management account for the Covid-19 epidemiological emergency”, **Resolution 75/2020/R/Com of 17 March 2020** “Urgent provisions on electricity, gas, water and integrated waste cycle management, including differentiated, municipal and similar, for the municipalities of Bertinico, Casalpusterlengo, Castelgerundo, Castiglione d’Adda, Codogno, Fombio, Maleo, San Fiorano, Somaglia, Terranova dei Passerini, Vò”, **Resolution 117/2020/R/Com of 2 April 2020** “Further urgent measures for the Covid-19 epidemiological emergency to protect customers and end users: amendments and additions to the Authority’s Resolution 60/2020/R/Com of 12 March 2020”, **Resolution 124/2020/R/Com of 13 April 2020** “Extension of urgent measures for the Covid-19 epidemiological emergency to protect customers and end users: amendments to the Authority’s Resolution 60/2020/R/Com of 12 March 2020”, **Resolution 148/2020/R/Com of 30 April 2020** “Further extension of urgent measures for the Covid-19 epidemiological emergency to protect customers and end-users: amendments to Authority Resolution 60/2020/R/Com”.

Resolution 60/20, the first urgent measure issued in the matter of arrears in compliance with the Italian Ministerial Decree of 9 March 2020, establishes the following:

Temporary non-application of the rules on credit protection

Between 10 March and 3 April 2020 (period of validity of the Italian Ministerial Decree of 9 March 2020), the credit protection rules for non-performance of payment obligations relating to bills that had expired on 10 March 2020 shall not apply. The non-application is extended to types of domestic use and other uses other than domestic, as defined in the TICS. During this period, the operator cannot therefore suspend service due to late payment (nor limit and/or deactivate the water supply). If the operator has already suspended service, it must promptly reactivate the suspended supply.

In cases of arrears outstanding as of 10 March, the regulations referred to in the REMSI are again applicable as of 4 April. To this end, operators are required to send again the notice of placing in default referred to in article 4 of the REMSI before carrying out interventions to limit, suspend and/or deactivate the water supply.

Establishment of the Covid-19 emergency account

An extraordinary management account has been established with CSEA to ensure the financing of initiatives in support of electricity, gas and water sector end-users related to the Covid-19 epidemiological emergency. The Fund may use the stocks available in the other management accounts for an amount of up to € 1 billion, without prejudice to the need to ensure the regular management of payments relating to the purposes for which the management accounts were established.

Apart from **Resolution 75/2020**, which provides for special breaks for accounts in the so-called “red zone”, including the suspension

of the payment terms of bills and the non-application of credit protection regulations until 30 April 2020, the subsequent measures on arrears were then extended until 13 April (**Resolution 117/20**), and later to 3 May (**Resolution 124/20**), and finally **17 May** only for domestic users (**Resolution 148/20**) the blocking of procedures for the suspension of water supplies.

Resolution 124/20 introduces **new criteria for the repayment of amounts due** by granting access to an interest-free instalment plan to end users who have not been able to meet the payment of bills and whose ordinary payment terms fall within the period of validity of government containment measures, or that were issued in that period, or who account for their consumption. **Resolution 148/20** also extends to 17 May – for domestic customers only – the blocking of supply suspension procedures, also establishing for non-domestic users the possibility for the operator (after verification by the AGB) to offer payments in instalments (without interest) for bills due or issued by 31 May at the latest.

Resolution 221/2020/R/idr of 16 June 2020 “Amendments to the regulation of arrears in the Integrated Water Service, in implementation of the provision referred to in article 1, paragraph 291 of Italian Law no. 160 of 27 December 2019”.

The measure updates the REMSI in light of the provisions introduced by article 1, paragraph 291 of Italian Law no. 160/2019, with particular reference to the methods and times for notifying the user about the start of the procedures for limiting, suspending or deactivating the supply in the event of failure to pay the amounts due, for which the new legislation envisages a notice of not less than 40 days. In particular, the methods are defined for sending the payment reminder, which can only be sent by registered letter with return receipt or certified email, and specifies that the deadline by which the end user is required to pay the unpaid payments, to be indicated in the notice of formal notice, must be calculated from the receipt by the user of the payment reminder and may not be less than 40 calendar days. The new provisions take effect from the date of publication of the Resolution (17 June 2020).

With the Communication of 2 December 2020 the Authority intended to give effect to the monitoring activity on cases in which the limitation procedure or the promotion of selective disconnection in apartment complex accounts are not technically feasible (article 2 Res. 311/19). The AGBs are therefore required to compile, in collaboration with the operator, the Report annexed to the communication.

In the report (to be sent by 28 February 2021), as well as providing the numerical and arrears data related to user accounts (disconnectable, resident domestic, apartment complex), ARERA requires a first report on the application of the REMSI (including the urgent regulations introduced subsequently), a survey of the cases in which limitation of the supply has not been technically feasible (with a summary of the reasons adopted by the operator) and the activities begun by the operator to promote in apartment complexes the installation of a meter for each individual property unit.

WATER WORKS GUARANTEE FUND

Resolution 8/2020/R/idr of 21 January 2020 “Definition of the arrangements for managing the water works guarantee fund”.

ARERA regulates the management and use of the Guarantee Fund established in article 58 of Italian Law 221/2015, in line with the provisions of the Italian Ministerial Decree of 30 May 2019, and taking into account the provisions of the Decree of the Ministry of Economy and Finance of 19 November 2019, specifying the requirements and conditions for access to the guarantee and de-

fining adequate reporting, communication and monitoring obligations in connection with the issue of the guarantee. The coverage of the costs of managing the Fund (replenished by the UI4 component established by MTI-3) is also regulated, and as provided for in article 9 of the Italian Ministerial Decree of 30 May 2019 a Risk Assessment Committee is established at the CSEA with the tasks of assessing and analysing the risks and operating procedures of the Fund. The priority interventions covered by the guarantee consist of the works included in the National Plan for projects in the water sector, for the portion not financed, the projects (not yet financed and started and if not included in the National Plan) related to the adaptation to technical quality standards that meet a predetermined set of characteristics, and projects concerning small dams. The Resolution also details the eligible financing transactions, such as medium/long-term financing contracts and financial instruments of different types.

NATIONAL WATER PIPELINE PLAN

Resolution 284/2020/R/idr of 21 July 2020 “Launch of the proceeding for identification of the second list of the necessary and urgent actions for the water sector for the purposes of updating the “water pipelines” section of the national plan, pursuant to article 1, paragraph 516 of Italian Law 205/2017”.

The measure launches the proceeding for identification of the second list of the necessary and urgent actions for the water sector for the purposes of updating the “water pipelines” section of the national plan, pursuant to article 1, paragraph 516 of Italian Law 205/17, defining a single plan based on a multi-annual programme for the 2021-2028 period, to which to allocate all the residual resources provided for in paragraph 155 of article 1 of Italian Law 145/18 the “water pipelines” section of the National Plan.

The criteria for selecting the actions adopted on defining the first passage of the “water pipelines” section are confirmed, specifying that the elements for assessment will be identified as regards:

- synergy of the projects proposed with respect to the development of the planning of the “reservoirs” section of the Plan;
- effectiveness of the territorial and institutional context, assessing the consistency with the existing planning instruments;
- effectiveness of the implementer, also in terms of balance between financing sources available and proportion of financing in the form of grants.

After the approval of the second list, it will be necessary to proceed with any additions to the Action Plans and the Strategic Work Plans, explaining, in these latter, all the actions included in the said list, on the basis of the methods that will be indicated by ARERA. Finally, a set of further actions/projects will be identified and communicated to the Prime Minister’s Office and to the ministers involved, for the purpose of assessing inclusion in the Plan to replace the actions that it will not be possible to carry out.

Resolution 520/2020/R/idr of 1 December 2020 “Extraordinary methods of disbursing the portions of financing for the completion of certain projects pursuant to annex 1 of Italian Prime Ministerial Decree dated 1 August 2019 concerning “adoption of the first passage of the National Plan of projects in the water sector – water pipelines section”.

With this measure the Authority authorises the Energy and Environmental Services Fund to disburse the portions of financing pursuant to paragraph 4.1 of Resolution 425/2019/R/idr, for the implementation of seven actions, transmitted by the related Entities of reference and contained in annex 1 of Italian Prime Ministerial Decree dated 1 August 2019 which adopted the first passage of the “water pipelines” section of the National plan of projects in the wa-

ter sector, under the terms of paragraph 516, article 1, of Italian Law no. 205 of 2017, adjusting at the same time – in the light of the difficulties connected in particular with the Covid-19 emergency – the ways of disbursing the resources, up to 31 December 2020, in order to maintain their effectiveness. The projects relate to the Lombardy, Veneto, Marche and Lazio regions.

Emergency regulation of the Guarantee Fund and the National Plan for Projects: Notification 136/2020/I/Com of 23 April 2020 “Reporting to Parliament and the Government on measures to support investments and protect end-users of the integrated waste management service and the Integrated Water Service and end-users of electricity and natural gas as a result of the Covid-19 epidemiological emergency”.

With this notification, the Authority invites the adoption of measures to strengthen instruments already envisaged by the law to stimulate investments in infrastructure:

- strengthening of the “Guarantee Fund for projects aimed at upgrading water infrastructure” by means of a regulatory intervention that, in addition to giving the Authority a mandate for simplified management of the Fund on aspects within its competence, complements the resources available with an allocation of € 100 million (charged to public finances, for the years 2020-2021) in order to increase the range of feasible projects and the leverage effect on investments;
- allocation of additional State resources for the aqueducts section of the National Water Plan compared with the current € 40 million/year planned up until 2028.

METERING

Emergency regulation on metering: Resolution 235/2020/R/idr of 23 June 2020 “Adoption of urgent measures in the Integrated Water Service, in light of the Covid-19 emergency”.

The measure introduces specific waivers limited to the year 2020 with regard to the obligations to acquire metering data pursuant to TIMS.I.I., stating that:

- a. the operator is required to make at least one attempt to collect metering data from end users, regardless of the related annual average consumption, and that for this year the provisions relating to the minimum frequency of collection attempts (paragraph 7.2) and subsequent attempts (paragraph 7.3, lett. 1) do not apply;
- b. a reading communicated via self-reporting and validated by the operator fulfils the obligation of a collection attempt;
- c. for the year 2021, the Ca coefficient (average annual consumption) is conventionally set equal to the value determined in the year 2019.

TARIFF SEGMENTATION – INDUSTRIAL WASTEWATER

Emergency regulations on metering: Resolution 235/2020/R/idr of 23 June 2020 “Adoption of urgent measures in the Integrated Water Service, in light of the Covid-19 emergency”.

With this measure, as an exception to paragraph 27.4 of the TICSII, the Authority established for 2020 only that the operator is required to make at least **one attempt to collect data on the volume discharged** – whether detected with a specific meter at the point of discharge, or determined on the basis of the values taken from the water pipeline – regardless of the annual volumes of wastewater resulting from the billing issued for the most recent calendar year. Moreover, for the year 2020, notwithstanding the provisions of paragraph 28.3 of the TICSII, the operator is required to carry out at least **one analysis of industrial wastewater** in order to iden-

tify the concentrations of the main and specific pollutants to be used in the tariff formula, regardless of the volumes discharged, without prejudice to the provision of a minimum number of analyses of industrial waste with no hazardous substances equal to zero in cases of discharged volume not exceeding 15 m³/day and not exceeding 3,000 m³/year. The use of waivers should take into account the necessary checks to be carried out in accordance with the recommendations of the Istituto Superiore di Sanità for the prevention of the spread of the Covid-19 virus.

UNBUNDLING

Communication dated 11 June 2020 “Collection of the separate Financial Statements for the 2019 financial year pursuant to Resolution 137/2016/r/com of 24 March 2016”.

The communication announces the opening of the 2019 edition of the collection of the separate Financial Statements drawn up in accordance with the rules on unbundled accounting, covering all operators carrying out one or more of the activities referred to in paragraph 4.1 of the Integrated Accounting Unbundling Text (TIUC), including all operators of the Integrated Water Service and multiutilities. The deadlines for submission of the separate Financial Statements from the date of opening of the collection if later than the date of approval of the Financial Statements or, in the absence thereof, of the closing of the financial year: if the Financial Statements are approved at a later date, the deadlines start from the date of approval. Collection will be suspended in the period from 8 to 16 August, during which the deadlines set by the TIUC for submitting the information are considered suspended.

SEISMIC EVENTS

Resolution 54/2020/R/com of 3 March 2020 “Amendments and additions to Authority Resolutions 810/2016/R/Com, 252/2017/R/Com and 587/2018/R/Com on electricity, gas and Integrated Water Services in support of the populations affected by the earthquakes of 24 August 2016 and subsequent events in implementation of Italian Law Decree 123/2019”.

The measure implements the provisions of Italian Law Decree 123/2019, as converted by Italian Law 156/2019, extending until 31 December 2020 the deadline for the suspension of payments for the supply of electricity, gas and Integrated Water Services for users of unusable buildings in Central Italy and the Municipalities of Casamicciola Terme, Lacco Ameno and Forio and postponing to a subsequent measure the definition of the operating procedures for the recognition of the discounts.

Regarding the adjustment of the advances to CSEA, the new article 32.4 of Resolution 252/17 provides that the operators of the IWS that have made use of advances from CSEA for the amounts relating to bills whose payment deadlines have been suspended shall by March 2024 (previously March 2022) adjust and return to CSEA any amounts accrued even if not collected from the end users.

CONSUMER PROTECTION

With regard to consumer protection, in the first half of 2020 ARERA's intense focus on studying and presenting data relating to both the activities of consumer branches and the Conciliation Service was noted. In addition, following the Covid-19 emergency, the deadlines established by the Integrated Conciliation Text (TICO) were postponed.

Emergency regulations on Consumer Protection: Resolution 59/2020/R/com of 12 March 2020 “Deferment of the deadlines envisaged by the regulation for environmental and energy services and first quality measures in light of the Covid-19 emergency”, Resolution 74/2020/S/com of 17 March 2020 “Urgent provisions regarding the deadlines of the sanctioning procedures before the Regulatory Authority for Energy Networks and Environment”.

Article 5 of the aforementioned Resolution 59/20 concerning the deferment of the TICO deadlines establishes that the maximum deadline for **concluding conciliation proceedings** before the ARERA Conciliation Service is set at **180 calendar days** (instead of the 90 envisaged in art. 3.3 TICO) from the date of submission of the full conciliation request. This deadline applies to all proceedings initiated before the Conciliation Service in accordance with the state of emergency declared throughout the country, as well as to proceedings pending before the Service on the date of publication of the Resolution itself.

Resolution 74/20 postpones to 31 May 2020 the deadlines of the **investigation phase and the decision-making phase** of proceedings that have already been initiated or will be initiated after the publication of the Resolution. 5 June 2020 is established as the new deadline for the fulfilment of the decision-making phase that expired in the period between 23 February and 18 March (date of publication of the Resolution).

Resolution 366/2020/E/Com of 6 October 2020 “Notice to fulfil the obligation of providing a response to requests for information of the Office for energy consumers and the environment in the context of management of the special Resolution procedures for the energy sectors and second-level complaints for the water sector”.

With this measure the Authority gives notice to the 31 operators to fulfil the obligation of responding to requests for information sent to the Office within 30 days of receiving the measure. The requests refer to the management of second-level complaints with response deadlines that expired in the period 1 March 2019-28 July 2020 and not sent.

Failure to respond to the requests constitutes a breach of a regulatory obligation and prevents final customers or users from activating their protection measures in order to solve problems that have arisen with the operator or manager with the support of the Office. Non-compliance with the notice constitutes a condition for possible exercise of the power to sanction and prescribe.

Resolution 186/2020/R/ldr of 26 May 2020 “Additions and amendments to Authority Resolution 547/2019/R/ldr, in implementation of the provision referred to in article 1, paragraph 295 of Italian Law no. 160 of 27 December 2019 on billing of amounts relating to consumption dating back more than two years”.

The 2018 Budget Law (art. 1, paragraphs 4 and 5) had established for contracts for the supply of water services to domestic users, micro-enterprises and professionals that the right to the fee due to the water operator was time-limited to two years (and no longer to five) unless the failure or erroneous collection of consumption data resulted from the ascertained responsibility of the user. Based on this legislation, ARERA had approved Resolution 547/2019 which, in its annex B, manages in detail the methods and operating times relating to the billing of consumption for periods exceeding two years.

Article 1, paragraph 295 of the 2020 Budget Law (Italian Law no. 160 of 27 December 2019) repealed art. 1, paragraph 5 of the 2018 Budget Law, setting the limitation period to two years even for cases where the user is responsible for failed or erroneous collection of consumption data.

With the Resolution in question, ARERA made changes and addi-

tions by adapting the regulatory framework to current legislation. In particular, amendments were made to annex B of Resolution 547/2019/R/idr, updating the text of the communication to be sent to the user in art. 3 and repealing the entire art. 4 relating to the obligations of the operator in the case of a billing delay attributable to the responsibility of the end user. Moreover, in order to make the current regulatory framework consistent with the limitations of the new legislation, amendments were made to the RQS.I.I. (art. 50.2-ter, written complaints), the REMSI (art. 4 on the information provided in the notice procedure) and annex A of Resolution 586/2012 (art. 6 on the information to be reported on the bill relating to payments, arrears and security deposit). The provisions take effect with regard to bills issued in the first billing cycle following the date of publication of the Resolution (i.e. after 28 May 2020).

AUTHORITY CONTRIBUTION 2020

With Resolution 358/2020/A and Determination 73/DAGR/20120 of 17 November 2020 the Authority ordered payment, by 15 December 2020, of the contribution for the operation of ARERA which for the water sector is 0.27 per thousand of the revenue resulting from the approved Financial Statements for financial year 2019. The declaration related to the payment must be sent to the Authority by 28 February 2021.

TARIFF DETERMINATION OTA2 CENTRAL LAZIO – ROME AND OTA 5 FROSINONE AND OTHER SIGNIFICANT EVENTS AT THE OTA LEVEL

While awaiting definition of the tariff related to the third regulatory period (four years 2020-2023) under the terms of ARERA Resolution 580/2019/R/idr (MTI-3), Acea Ato 2 as provided for applied, starting from 1 January 2020, the tariff of the previous year adjusted as per paragraph 7.2 lett. a) of the said Resolution on the basis of the tariff multiplier resulting from the Economic-Financial Plan already approved at the moment of the 2018-2019 tariff update.

As of March 2020, the application of the new tariff structure approved by Resolution no. 4/2019 by the Mayors' Conference at its meeting of 11 November 2019 pursuant to ARERA Resolution no. 665/2017/R/idr (TICSI – Integrated Text for Water Services Charges) was initiated with effect from 1 January 2019. The application of the new tariff structure began in March 2020 to enable the activity of counting the number of components of each resident domestic user account of the OTA 2.

The most significant changes in the TICSI concern residential households, for which the number of residents in the household is introduced as a key factor in the calculation of expenditures. The service fee (fixed and variable portions) is calculated on the basis of the number of residents who make up the household as communicated by the customer. The application of the tariff based on the effective number of components is backdated to 1 January 2019 for users that made this information available by the end of February 2020, while the data acquired later will take effect from the communication date and up to that date, in accordance with the provisions of the regulation at the national level, the standard per-capita criterion is applied, that is considering a standard resident domestic user of three components.

In relation to the tariff update for the four years 2020-2023, the Mayors' Conference of the OTA 2 Central Lazio – Rome after a first adjournment resolved at the session on 4 November, on 27 November approved the tariff proposal prepared by its Operation-

al Technical Secretariat (OTS) in agreement with Acea Ato 2, supplemented with the amendment voted unanimously during the same session. This amendment provides for an increase in the Supplementary Water Bonus, which will be maintained alongside the national bonus, increasing it from the € 8 million already provided for to € 17 million over the four years, also in consideration of the emergency situation determined by the pandemic; the amount may be increased further if it is found to be insufficient, while in the case of excess this can be allocated to reduce the future tariff adjustments in order to contain the tariff increases. Again in consideration of the emergency situation, up to 31/12/2021 unless extended, users admissible at the moment of the request for the contribution with ISEE (Equivalent Economic Situation Indicator) within the limits set by ARERA will be able to access, exclusively to covers earlier arrears, a further one-off amount up to three times the ordinary value.

The amendment provides also for an expansion of activities connected with network reclamations, in order to protect water resources and limit losses,

The documents accompanying the tariff application (among the main ones action programme with evidence of the Strategic Work Plan, Economic and Financial Plan, economic and technical data required by the Authority, Resolutions on tariff arrangement) are currently being assessed by the Authority. As well as what is mentioned above, below is a summary of the main points of Resolution 6/20 of 27 November 2020, issued by the OTA 2 Conference of Mayors:

- placing of the management in the regulatory scheme related to the 5th quadrant pursuant to paragraph 5.1 of annex A (MTI-3) of Resolution 580/2019/R/idr (high investments with respect to the value of the existing infrastructures and average per-capita Guaranteed Revenue Constraint (GRC) higher than the national average figure determined by ARERA);
- Action Programme for the four years 2020-2023 which provides altogether for more than € 1,300 million, and for the subsequent period 2024-2032 a further more than € 3,200 million; in particular, for the four years 2020-2023, new investments are provided for on average of approximately € 90 per year per-capita;
- tariff multiplier theta (to be applied to the tariff in force at 31/12/2015) of 1.020 for 2020 (that is a percentage tariff increase of 2.03% compared to 2019, a figure besides coinciding with what is already applied transitionally by operators starting from 1 January 2020, in line with the national regulation). For subsequent years the value of theta is respectively 1,078, 1,139 and 1,202;
- use of what is not spent of the solidarity contribution collected in the whole of 2019 (more than € 5.6 mln) to reduce the tariff adjustments due for 2020 and 2021;
- adoption of the value of the psi parameter of 0.45 (the maximum value provided for in Resolution 580/2019/R/idr is 0.8) for the purposes of determining the component for the financing in advance of new investments (FNI_{new}).

In relation to the aforementioned water bonus, we can note also the update pursuant to ARERA Resolution 499/2019/R/com of the related Implementation Regulation for the OTA 2 Central Lazio Rome, approved by Resolution no. 2-19 of the Mayors' Conference of 15/04/2019. The new provisions are valid for the year 2020.

Those entitled are direct users (holders of a residential household account) and indirect users (household users in an apartment complex) with the following requisites:

- ISEE indicator up to € 13,939.11 and household of up to 3 members;
- ISEE indicator up to € 15,989.46 and household with 4 members;
- ISEE indicator up to € 18,120.63 and household with 5 or more members.

Under their own responsibility and based on specific certification by the relevant offices, the Municipal Administrations also have the power to authorise the supply for individual users in situations of proven particular economic/social hardship, increasing the ISEE threshold for admission for this specific case. The amount of the “local” bonus, consisting of the payment of a one-off annual contribution recognised in the bill (in the case of indirect users in the apartment building utility bill), is calculated as the expenditure corresponding to the fixed and variable fees for water, sewerage and purification for a consumption of up to 40 cubic metres per year for each member of the household, for direct and indirect users with ISEE up to € 8,265 and 20 cubic metres per year for each member of the household for other eligible users. The bonus is valid for one year and is paid in a single payment, normally within 6 months from the date of submission of the application (which must have been submitted by 31 December 2019).

We can note finally that in the context of the Mayors’ Conference held on 7 October 2020, with Resolution 4/20 the updated edition of the I.I.S. Charter was approved. The update became necessary to give coherency to the document which, approved initially in 2002, had over time undergone repeated additions aimed at adopting measures of ARERA and of the Mayors’ Conference issued subsequently. The new Charter confirms the improved contractual quality standards compared to those issued at the national level by ARERA with Resolution 655/2015/R/idr.

Regarding Acea Ato 5, despite the Covid-19 emergency, meetings were held on a weekly basis between the Operator and the Operational Technical Secretariat of the AGB aimed at defining the requirements necessary to arrive at the preparation of an agreed Rate Proposal that contains the recognition of the various extra costs incurred by the Company. On 10 March 2021, the Conference of Mayors for Optimal Territorial Area Authority no. 5 – Southern Lazio, approved the Tariff Structure for the regulatory period 2020-2023 with Resolution 1/2021. This could be in contrast with the tariff adjustment request, prepared pursuant to art. 5, para. 5.5 of Resolution ARERA 580/2019/R/idr, containing the regulatory framework for the 2020-2023 third regulatory period, sent by Acea Ato 5 to ARERA on 15 December 2020, given the continuing inertia coming from OTAA 5.

In fact, note that:

- the deadline for tariff approval by the competent entities, based on the provisions of Resolution ARERA 580/2019/R/idr and subsequent additions made by Resolution ARERA 235/2020/R/idr was set for 31 July 2020;
- the OTAA Operational Technical Secretariat called the Conference of Mayors to approve the 2020-2023 structure by 15 December 2020; for more details, please see the Report on Operations, in the section on the water sector, as well as the Notes, in the Information on Services Under Concession;

UPDATE ON APPEALS AGAINST THE ARERA TARIFF REGULATION

In 2013 Acea Ato 2 filed an appeal against Resolution 585/2012 (MTT) and subsequent Resolutions that amended and supplemented the contents (Resolutions 88/2013, 73/2013 and 459/2013). The appeal was partially upheld by the regional administrative court of Lombardy 2528/2014, against which both Acea Ato 2 and ARERA have appealed.

At the public hearing held on 29 September 2015, the suspension of the pending judgement and the postponement of the decision to a later date were ordered. This followed the outcome of the technical office consultancy arranged for the appeals proposed in 2014

by Codacons and the associations Acqua Bene Comune and Federconsumatori, considering the existence of a relationship of dependence-consequentiality between the decision of the appeal by ARERA and the decision on appeals promoted by the Consumer Associations, focusing in particular on the tariff component relating to the financial charges of the IWS manager, i.e. on the formulas and parameters implemented in art. 18 of annex A of Resolution ARERA no. 585/2012 of 28 December 2012 (TTM), considered as a reintroduction of the criterion of “adequacy of invested capital” that had been eliminated by the outcome of the 2011 referendum.

The expert committee, appointed in October 2015, filed the report on 15 June 2016, concluding that the formulas and parameters aimed at calculating the interest rate of reference are considered reliable and reasonable in terms of national and international regulations and the component of risk coverage considered in the Resolution.

On 15 December 2016 the final hearing of the proceedings was held and on 26 May 2017 sentence no. 2481/2017 was published with which the Council of State, accepting the conclusions of the panel of experts, reaffirmed the full legitimacy of the tariff methodology adopted by ARERA. As a result, it rejected the Codacons and Acqua Bene Comune/Federconsumatori appeals mentioned above, with consequent confirmation of the contested sentences. The subsequent hearing before the Council of State was set for 20 September 2018.

Following the hearing, held as planned on the scheduled date, the Council postponed the discussion of the judgement, inviting the parties to file some briefs (to be presented by 19 December 2018) to make sure that there were no delays in resuming the appeal proceedings. At the hearing in question, however, the judge had not set the date of referral, which was instead established only in the early days of 2019. At the hearing held on 13 June 2019, part of the grounds for appeal were waived and the Council of State ordered the acquisition of the expert’s report submitted by the aforementioned parties (Codacons, Acqua Bene Comune, Federconsumatori) in order to submit it to the parties for oral arguments. Owing to the Covid-19 emergency the new public hearing was set for 10 December 2020 inviting the parties to: 1) file documents by 19 November 2020; 2) file briefs by 24 November 2020; 3) file replies by 28 November 2020. The hearing at the Council of State was brought forward to 22 October 2020 inviting the parties to: 1) file documents by 1 October 2020; 2) file briefs by 6 October 2020; 3) file replies by 10 October 2020. A partially favourable judgement, no. 8079/2020 16 December 2020:

- accepted Acea Ato 2’s appeal related to non-recognition of the CCN in relation to other water activities, the only ground for the appeal that the Company had decided not to waive;
- rejected the Authority’s appeal related to financial expenses on adjustments, with reference to which already the Lombardy Regional Administrative Court (RAC) had found in favour of Acea Ato 2;
- accepted the said Authority’s appeal concerning the ground on non-enforceable receivables.

As of the date of this report, in addition to the appeal to the Council of State mentioned above, the other appeals filed by Acea Ato 2 before the Lombardy Regional Administrative Court against Resolution no. 643/2013/R/idr (MTI), Resolution no. 664/2015/R/idr (MTI-2) and Resolution no. 580/2019/R/idr are still pending.

With regard to Resolution 643/2013, it should be noted that on 8 May 2014 additional grounds were presented for the cancellation of ARERA decisions no. 2 and no. 3. On 9 December 2014 additional grounds were presented for the cancellation of Resolution 463/2014/R/idr. Pending the scheduling of the hearing, in April 2019 the notice of the hearing was received (the administrative

process was cancelled due to the inactivity of the party). Following this communication, on 20 June 2019 Acea Ato 2 presented the request for the scheduling of the hearing together with the new power of attorney signed by the Chairperson.

As of today we are waiting for the hearing on the merits to be scheduled.

With regard to Resolution no. 664/2015, it should be noted that in February 2018 Acea Ato 2 extended the appeal originally proposed, submitting additional grounds of appeal against ARERA Resolution no. 918/2017/R/idr (biennial update of the tariff arrangements for the Integrated Water Service) and against annex A of Resolution no. 664/2015, as amended by the aforementioned Resolution no. 918/2017. As of today we are waiting for the hearing on the merits to be scheduled.

In February 2020, Acea Ato 2 also challenged Resolution 580/2019/R/idr which approved the Tariff Method of the Integrated Water Service for the third regulatory period (MTI-3), reiterating many of the reasons for previous appeals in tariff matters and introducing new ones related to specific aspects introduced for the first time with the new tariff methodology. Other subsidiaries and/or investees of the Acea Group that have challenged MTI-3 are Acea Ato 5, Acea Molise and Gesesa (which did not previously challenge the Resolutions relating to the TTM, MTI and MTI-2). Resolution 235/2020/R/idr for the adoption of urgent measures in the Integrated Water Service, in the light of the Covid-19 emergency was also appealed. Today we are awaiting the scheduling of the hearing.

THE REGULATORY ACTIVITY OF THE LAZIO REGION IN TERMS OF TERRITORIAL PLANNING AND GOVERNANCE OF THE INTEGRATED WATER SERVICE

In relation to the developments on the subject of redefinition of the Hydrographic Basin Optimal Territorial Areas (Ambiti Territoriali Ottimali di Bacino Idrografico – ATOBI), provided for by Lazio Regional Decree 218/18, the only element to be noted is the presentation of a question for an immediate answer (no. 470 of 16 November 2020) in the Regional Council, asking for information on the status of the activities for this purpose. The answer of the Councillor for Public Works and Territorial Protection and Mobility noted the establishment of an internal work Group for the preparation of an outline draft of a Regional Law reordering the Integrated Water Services and, secondly, the Scientific Consultation Committee. As of today, this Scientific Committee has completed the analysis of the draft law and the procedure of legislative initiative actions of the Regional Executive has been launched. At the moment the establishment of the Institutional Consultation Committee is being completed. The delegates of the Mayors' Assemblies of all the OTAs were to be members of this committee, as the list of representatives of the OTA 2 had not yet been received.

We can note also, again in a regional context, that a collaboration between ARPA, ISPRA and ISS has been resolved for monitoring drinking, irrigation and domestic water, in the context of the programme agreement between the M.A.T.T.M. and the Lazio Region for the performance of the actions to make safe and reclaim the Sacco River Basin Site of National Interest (DD 51 of 10 April 2019), published in Lazio Regional Official Journal (BURL) 150 of 10 December 2020.

We present finally the identification at the regional level of new Zones Vulnerable to Nitrates from agricultural sources (ZVNs) under the terms of art. 92, Italian Legislative Decree 152/2006 and of the EU Directive 91/676/EEC. The identification of the areas in which to limit or exclude the use, even temporary, of plant protec-

tion products aims to protect water resources and other sectors relevant for health and environmental protection from possible contamination. The addition of the new vulnerable areas approved with Regional Council Decree 25/2020 (published in LAZIO ROJ – no. 14 of 18/02/2020) adds three new ZVNs to those approved with Regional Council Decree 767/2004, of which one, Tre Denari, falls within the territory managed by Acea Ato 2.

The Regional Council postponed the definition of the action programmes to be implemented in the new vulnerable areas to a later measure.

ELECTRICAL REGULATION

2020 Budget Law

With regard to the energy market, the **2020 Budget Law no. 160 of 27 December 2019** introduced the following changes as from 1 January 2020:

- art. 1, paragraph 5 of the 2018 Budget Law was repealed; this stated that the provisions on the two-year limitation period should not apply in the event of failure or erroneous collection of consumption data resulting from the ascertained liability of the user. With Resolution 184/2020/R/com, the Authority adapted the sector regulations to the provisions established by art. 1, paragraph 295 of the 2020 Budget Law, providing for the modification of the sentence to be included in the annex to the bill containing amounts subject to limitations;
- in case of non-payment of bills, utilities operators have an obligation to send customers notice of non-payment and notice of suspension of supply with advance notice of not less than 40 days, to be sent by registered letter. In order to comply with this obligation, Resolution **219/2020/R/com** was published with which the Authority amended the Integrated Texts on electricity and gas arrears (TIMG and TIMOE) regarding the method of sending the formal notice and the timing to suspend the supply due to arrears. More specifically, on the issue of the formal notice of customers to be disconnected, the Authority introduced the necessary amendments to guarantee the final customer the protection of the 40 days notice envisaged, this period starting from the date of service of the formal notice sent by registered letter with recorded delivery or certified email. This same Resolution therefore eliminated the shortened notice procedure in the case of a customer already in default as it no longer complies with the provisions of the Budget Law 2020. Furthermore, in order to protect sellers from the increased exposure due to the extension of the deadlines for the notice, the Authority modified the compensation system, establishing that starting from the claims sent from 1 October 2020 the Cmor compensation is also recognised at medium voltage points and calculated considering one extra month of possible credit exposure;
- in case of improper conduct by the seller in terms of billing (violations relating to the methods of measuring consumption, execution of adjustments or billing, charges of unjustified expenses or costs for consumption, services, goods not due) that has been ascertained by the competent authority or “duly documented by means of a special declaration, presented autonomously by the customer, even electronically”, the seller is required to:
 - reimburse any amounts already paid by the customer;
 - pay a penalty equal to 10% of the amount in dispute and not due, and in any case not less than €100, within 15 days from the ascertainment/positive response to the customer's declaration “through, at the user's choice, offsets in subsequent billings or a specific payment”.

Biennial limitation

The Authority published Resolution **184/2020/R/com**, with which it

adapted the sector regulations to the provisions established by art. 1, paragraph 295 of the 2020 Budget Law, providing for the modification of the sentence to be included in the annex to the invoice containing amounts subject to limitations, eliminating the case of customer liability. On 27 July 2020 Acea Energia presented an appeal to the Lombardy Regional Administrative Court against this Resolution alleging its illegitimacy because, linking the application of limitation to the mere passing of time, without considering any obstructive behaviour of the final customers, would lead to a not-constitutionally-oriented interpretation of the 2020 Budget Law.

With reference to the settlement of the electricity and natural gas sectors, the Authority published Consultation Document **330/2020/R/com**, with fixed expiry on 9 October 2020, in order to define the mechanisms aimed at settling the economic items connected with biennial limitation. In particular the Authority provided for a mechanism of offsets aimed at keeping vendors unharmed by non-collections due to the application of the biennial limitation not connected to liability of the same (invoicing delays) with specific reference to amounts referred to the raw material, and to dispatching, as well as to the prices of the transport services and the general expenses. The Acea Group presented its observations expressing a general agreement on the solutions proposed in consultation, repeating however 1) the necessary non-retroactivity of the penalties that are intended to be introduced, with consequent socialisation of the offsetting, and 2) the importance of the principle according to which everyone, including customers, is obliged to accept their responsibilities in the context of limitation. The consultation has not yet been followed by any measures.

Covid-19 health emergency

Following the state of emergency relating to the health risk declared by Resolution of the Council of Ministers of 31 January 2020, with Resolution **60/2020/R/com** the Authority ordered:

- for all low voltage electricity customers and for all gas customers with consumption below 200,000 Sm, the suspension until 3 April 2020 of the credit protection regulations for non-performance in payment for bills that had expired on 10 March 2020;
- the establishment of a Covid-19 emergency account with CSEA to ensure the financing of initiatives in support of end customers. For the purpose of replenishing the account, the CSEA may use the stocks available in the other management accounts for an amount of up to € 1 billion, subsequently increased to € 1.5 billion by Resolution **95/2020/R/com**.

With subsequent Resolution **75/2020/R/com**, in implementation of Italian Law Decree 9/2020, in the annex to the same decree the Authority ordered in favour of users located in the 11 municipalities identified as “red zones”:

- the suspension of the payment terms of bills issued or to be issued until 30 April 2020 and of any invoice related to consumption for the period between the entry into force of Italian Law Decree 9/20 (2 March 2020) and 30 April 2020;
- the suspension of credit protection until 30 April for non-performance of payment obligations relating to bills or payment notices that had expired on the date of entry into force of Italian Law Decree 9/20;
- the automatic payment by instalments of the amounts subject to suspension.

Furthermore, in order to ensure the continuity of the disbursement of the social bonus to the citizens who are entitled to it, with Resolution **76/2020/R/com** the Authority ordered the postponement of the deadline by which customers can request its renewal, providing that for the period from 1 March to 30 April those that renew the request for bonus after the original deadline envisaged by the regulation, but in any case within 60 days after the end of

the aforementioned suspension period, the continuity of the bonuses is guaranteed with retroactive validity from the original expiry date and for a period of 12 months.

In parallel with the actions taken on behalf of final customers, the Authority also adapted regulations to the emergency situation, specifically:

- Resolution **59/2020/R/com** provides for the extension of a series of information obligations for sales companies, and clarified the application of regulations in the event of non-compliance with specific and general quality standards due to force majeure;
- Resolution **74/2020/R/com** suspended until 31 May 2020 the deadlines of the investigation phase and the decision-making phase of proceedings that had already been initiated or would be initiated after the publication of said Resolution, and granted the new deadline of 5 June 2020 with respect to the fulfilment of the decision-making phase that expired in the period between 23 February 2020 and the date of publication of the Resolution itself;
- moreover, with Determination **2/2020 – DACU DMRT**, the Authority postponed the deadlines envisaged by the regulation for the communication of data referred to in articles 30, 32, 36 of the TIQV and 19 of the TIRV. Specifically, it deferred to 30 June 2020 the communication of the information requirements regarding the commercial quality of sales and telephone services for the year 2019.

With Resolution **116/2020/R/com**, the Authority took action on the provision of electricity transport and natural gas distribution services, establishing that:

- if at least 70% of the total turnover has been paid with reference to low voltage withdrawal points, the regulation of defaults related to payment for transport bills due in April 2020 is suspended and the terms of the reminder or warning are extended by an additional 15 working days for transport bills due between 10 and 31 March 2020;
- the suspension of the enforcement of the guarantees provided, or, in the absence of a guarantee provided, warnings to comply, if at least 80% of the amount of the distribution invoices due in April 2020 have been paid;
- the phase of the default procedure in place on the date of entry into force of the Resolution and relating to payments due from 10 March 2020 is extended by 15 working days;
- in the electricity sector, in order to meet the requirement of regular payments, with regard to the guarantees provided, the distributor shall not take into account delays for transport invoices due in April 2020 (if at least 70% of turnover is paid with regard to low voltage withdrawal points). Furthermore, the user is required to renew the guarantees at the latest by the end of the third month prior to the expiry of the guarantee. In cases of request for an increase/presentation of a guarantee, the terms are extended by an additional 15 working days;
- in the gas sector, the deadline for adjusting the financial guarantee for loss of rating requirements or due to an increase in redelivery points is extended by an additional 15 working days;
- in the event of a decision to downgrade ratings as a result of the current emergency, the minimum BB+ level of Standard&Poor's Corporation or Ba1 of Moody's Investor Service will be provisionally recognised, and for the electricity sector the BB+ level of Fitch Rating will be assumed, or in any case equivalent levels;
- distribution companies have the right to pay only a portion of the general system charges actually collected: 80% of the turnover relating to low voltage withdrawal points for the electricity sector and 90% of the total turnover for gas.

With subsequent Resolution **117/2020/R/com**, the Authority amended and supplemented Resolution 60/2020/R/com, ordering:

- the extension until 13 April 2020 of the blocking of all possible procedures for the suspension of electricity and gas supplies due to late payment initiated by the previous Resolution;
- the obligation to offer the payment by instalments of the amounts subject to formal notice for those using standard services, those with PLACET contracts as well as facilitations for sending the bill in electronic format;
- that operators have the right to send bills even in electronic format to those customers/users who have made their email or mobile phone number available, indicating the payment methods and communicating the obligation to offer them if they choose to activate both an automatic debit mode and the method of issuing bills in electronic format.

Finally, with Resolution **121/2020/R/eel**, the Authority amended – at least temporarily and until 30 June 2020 – the current regulation of imbalances with the intention of mitigating the increased negative effects on operators of imbalances that occurred during this emergency, an emergency that caused both a drastic fall in electricity consumption and a lasting increase in scheduling difficulties for dispatching users due to a discontinuous resumption of operations not manageable through normal forecasting. The Authority established that operators can submit their comments by 15 May 2020. The Acea Group presented its observations noting that the methods of measuring the imbalances envisaged by the Resolution (cap and floor) could create distortions in the market due to the different method of calculating the two range values, proposing a deductible mechanism instead. With Resolution **207/2020/R/com**, the Authority confirmed the transitional valuation of the current imbalances during the Covid-19 epidemiological emergency envisaged by Resolution **121/2020/R/eel** for the period from 10 March 2020 to 30 June 2020, considering these forecasts sufficient for the relevant purposes and therefore rejecting all comments on Resolution **121/2020** received from operators.

With Resolution **3/2020 DMRT**, the Authority postponed the deadlines envisaged by the regulation for the communication of data referred to in the TIMR, the TIF and Resolutions **100/2016/R/com** and **555/2017/R/com** for the purpose of combating and containing the spread of the Covid-19 virus. Subsequently, with Resolution **124/2020/R/com** the Authority further amended Resolution **60/2020/R/com**, again extending the procedures for the suspension of electricity, gas and water supplies until 3 May 2020, in line with the Italian Ministerial Decree of 10 April 2020. The deadlines for the identification of invoices that will be compulsorily subject to instalments pursuant to previous Resolution **117** were also adjusted in order to take into account the extension.

With Resolution **140/2020/R/com** the Authority extended the urgent provisions referred to in Resolution **76/2020/R/com** of the Authority on the electricity bonus, gas bonus and social water bonus: for consumers whose bonus expires in the period from 1 March to 31 May 2020, the option is given to renew the application for the bonus beyond the original deadline, extending it until 31 July 2020. Once the application is accepted, the bonus will be guaranteed continuously and retroactively from the original expiry. The renewal has the usual total duration of 12 months.

With Resolution **148/2020/R/com**, the Authority amended Resolution **60/2020/R/com**, extending until 17 May – for domestic electricity customers only and for domestic gas customers with consumption not exceeding 200,000 cubic metres/year – the measures with which it had established the blocking of the suspension of electricity, gas and water supplies.

On the same date, with Resolution **149/2020/R/com** the Authority took action by amending Resolution **116/2020/R/com**, extending until 1 June the period of suspension of protection against user de-

faults with regard to transport invoices, if at least 70% of total turnover has been paid for low voltage withdrawal points. The same suspension period was established for gas users as long as they have paid at least 80% of the invoiced amount. Moreover, the measure states that interest shall not apply in the case of late payment for the period subject to suspension.

With Resolution **177/2020/R/eel**, the Authority:

- deferred to 15 June the deadline for the publication of the detailed plans of the mass phase of H2 2020 and to 15 December 2020 for H1 2021;
- set 15 September 2020 as the deadline for the request for admission to the recognition of investments for 2G smart metering installation plans to be launched in 2021.

Resolution **213/2020/R/com** also provides for a series of temporary exceptions for the year 2020 with respect to the installation plans for 2G smart metering systems in view of the epidemiological emergency and its impact on the replacement of meters.

On 19 May 2020 the **Relaunch Decree Law (Italian Law Decree no. 34 of 19 May 2020)** was published and came into force on that same day. The law included measures affecting the following areas:

- charges for electricity bills for non-domestic low voltage customers with power greater than 3 Kw, providing for the reduction of the expenditure related to the electricity portion by applying only a reduced fixed amount for the months of May, June and July 2020;
- electricity distribution tariffs and metering and general system charges, providing for the transitional redetermination of those tariffs to be applied between 1 May and 31 July 2020.

In implementation of the Relaunch Law Decree, Resolution **190/20/R/eel** was published on the reduction of tariffs for low voltage non-domestic users. With this document, the Authority established that:

- for the months of May, June and July only, the reduction of the metered distribution tariffs and general charges (asos and arim) for other LV users;
- if bills have already been issued for May, any adjustments due pursuant to the Resolution must be made within the second subsequent bill;
- for each month of the period of reference, BTA6 users are granted a refund if the maximum power withdrawn in the month does not exceed 2.0 kW. This refund is granted by the distribution companies to the sales companies by 30 September 2020 and by the latter to customers by 30 November 2020.

Subsequently, with Resolution **192/2020/R/com** the Authority further extended the urgent measures on the provision of electricity transport and natural gas distribution services by amending and updating Resolution **116/2020/R/com**, in turn extended and updated with **149/2020/R/com**. Specifically:

- with regard to electricity transmission bills due in June 2020 and gas distribution bills due after 1 June and until 30 June, the payment threshold for which the suspension of default procedures by distributors is envisaged was raised: for the electricity sector, (from 70%) to at least 90% of the LV points billed, and for the gas sector (from 80%) to at least 90% of the amount billed for gas;
- adjusted the amounts that the distribution companies in turn pay to the system to the new thresholds;
- the provisions on ratings and regularity of payments were extended until 30 June.

With subsequent Resolution **248/2020/R/com** which followed DCO **193/2020/R/com**, the Authority made provisions for the final payment of any amounts only partially paid as a result of Reso-

lution 116/2020/R/com as amended. In particular, the Authority ordered the seller to settle the payments partially made for the transport invoices due in April, May and June in a single payment by September 2020, or in three monthly interest-free instalments due from September. In that same Resolution, the Authority did not confirm the proposal to anticipate the previous General System Charges Mechanism in favour of the sellers because the positions of the various operators were too divergent during consultations and therefore it decided to resume the work of the Operational Forum established at the beginning of 2020 in a more expeditious manner. Finally, with regard to the guarantees of the credit rating, the Authority ordered that the rating of the user (or the Parent Company) continue for a further 12 months from the downgrade if the rating – downgraded as a result of the health emergency – is at least BB+ or equivalent.

Social bonus

As desired by the Authority, with Italian Law Decree 124/19 automatic recognition of the social bonus was established for those entitled from 2021, and with subsequent Resolution 14/2020/R/com and CD 204/2020/R/com the Authority initiated the procedure for defining the implementation of the provisions of the Law Decree. In October 2020 the Authority launched a Focus Group during which it illustrated three possible cases as regards the timing and methods for awarding and disbursing the national bonuses in the automatic mechanism. In particular, as well as a first case (preferred by the operators) that provides for the subsidy period being the same for each year (case in continuity with the current bonus disbursement system) in which, in addition, the disbursement accrues in relation to the period of possession of the point by each vendor, the Authority presented a second case that provides for the disbursement period covering the entire calendar year and for the disbursement being made only and for the entire period of the said vendor in possession of the point at the moment of acceptance of the application by INPS and IIS; finally, in the third case the Authority provided for the subsidy period having start and end date on the basis of the date of transmission and acceptance of the application by INPS and IIS, with the possibility of simultaneous disbursements of several subsidies with different annual accrual.

Economic offsetting of arrears owing to fraudulent withdrawals

With Resolution **568/2018/R/eel** the Authority initiated a process to modify the mechanism in question in order to better incentivise the collection of receivables and to better manage some timing, and therefore suspended the regulation governing the collections mechanism for all arrears deriving from fraudulent withdrawals (16-bis of the TIV).

Following DCO 49/2019, with subsequent Resolution **119/2019/R/eel** the Authority reinstated the rule governing the mechanism, introducing new provisions.

Among the primary developments, with regard to sales:

- the introduction of a reduction in the amounts compensated through the mechanism if bills containing fraudulent withdrawals are issued more than 45 days (90 days for applications submitted in 2019 on issued in 2016 and in 2020 on issued in 2017) from the date of receipt of the measurement data reconstructed by the distributing company (-10% for each month of delay, up to a maximum of -50%);
- the obligation to issue a separate bill in almost full compliance with the provisions of Bill 2.0 regarding the availability of details and methods of issue.

With the same measure, the Authority therefore specified the timing related to the application to be submitted in 2019 (by September 30, 2019) and regulated the case of fraudulent withdrawals in the absence of a contract, stating that:

- within 3 working days prior to the provision of fraudulent consumption data, the distributor transmits to the IIS (Integrated Information System) the update flow of the OCR for activation following fraudulent withdrawals that contains the identification data of the person to whom fraudulent withdrawals are billed (for this flow, which will come into force from 1 October 2019, the IIS operator has adapted the technical specifications of the OCR update “on condition”);
- within one working day from the transmission referred to in the previous point, the IIS will provide the main utility provider with this flow.

Finally, the Authority postponed to a subsequent provision the adoption of measures to improve the efficiency of the management of fraudulent withdrawals by distribution companies and the regulation relating to the disconnection of withdrawal points subject to fraudulent withdrawals.

Acea Energia filed an appeal requesting the annulment of Resolution 119/2019/R/eel contesting the retroactive application of the mechanism linking the amount to be offset to the date of issuing the bill containing the reconstruction for fraudulent withdrawals also for the periods prior to the entry into force of the Resolution itself (April 2019), i.e. from 2016 to March 2019 in which there were no specific billing timeframes that would affect the amount subsequently granted to the higher protection provider.

Acea Energia filed an application for participation in the compensation mechanism with regard to bills issued in 2016.

With sentence no. 565, the Lombardy regional administrative court, accepting the appeal filed by Enel, annulled Resolution 119/2019/R/eel in so far as it provided for the retroactive application of the new mechanism for calculating late payment compensation for fraudulent withdrawals.

With Resolution **240/2020/R/eel**, in implementation of the provisions of the regional administrative court, the Authority amended the mechanism to include only bills issued from April 2019.

Cessation of price protection schemes (Annual Market and Competition Law for 2017. Italian Law no. 124 of 4 August 2017)

The “Annual Market and Competition Law”, no. **124 of 2017**, which entered into force on 29 August 2017, provided for the termination of price protection schemes both in the electricity and gas sectors starting from 1 July 2019. The implementing decree of the MED, expected by April 2018 and not yet issued, should define the measures to ensure the termination of the transitory price regulation and the conscious entry into the market of final customers, according to mechanisms that should ensure competition and the plurality of suppliers and offers in a Free Market.

Italian Law 108, which converted Italian Law Decree no. 91 of 25 July 2018, postponed the termination of the price protection schemes until 1 July 2020.

As envisaged by the same law, with Resolution **59/2019/R/com** the Authority prepared Guidelines (LGA) with voluntary participation for the promotion of commercial offers of electricity and gas benefiting purchasing groups and the creation of IT platforms that can facilitate the aggregation of small consumers. Purchasing Groups will then be able to search the market for commercial offers, acting as a bridge between sellers and end customers. These guidelines, effective from 1 May 2019, establish rules of conduct that purchasing groups are required to observe for a period of at least two years after voluntarily adhering to them.

From the analysis of the results – considered unsatisfactory – of a demoscopic survey conducted between December 2018 and January 2019 on 3,000 household end customers, with Resolution **197/2019/R/com**, the Authority considered it appropriate to initiate a procedure to identify and put in place further actions complemen-

tary to the notice in the bill, actions that make a stronger impact from a communications point of view and aimed at making customers in the protected market more involved in the evolution of energy markets and the instruments prepared for them, assessing the opportunity to also involve end customers already in the Free Market.

Italian Law Decree no. **162/2019** (the so-called “**Thousand Extensions**”) was approved, establishing a further postponement of the cessation of the price protection regimens to 1 January 2022.

Following the conversion into law of Italian Legislative Decree 162/2019 (the so-called “Thousand Extension”) with Italian Law **no. 8 of 28 February 2020** (in force since 1 March 2020), with regard to the end of the protected market it was established that:

- the protected market for small businesses (an enterprise employing less than 50 people and having an annual turnover or annual balance sheet total not exceeding € 10 million) will end in January 2021;
- the protected market for households and micro-enterprises (an enterprise employing less than 10 people and having an annual turnover or annual balance sheet total not exceeding € 2 million) and the gas standard market will end in January 2022. ARERA must establish the contractually committed power level as the criterion for identifying micro-enterprises, in addition to those already identified by the directive;
- from the aforementioned dates, the Authority shall take measures to ensure service for final customers without an electricity supplier, as well as specific measures to prevent unjustified price increases and alterations in the conditions of supply to protect such customers;
- after consulting the Authority, the AGCM and the parliamentary committees, the MED must adopt a ministerial decree defining criteria and methods for the informed entry of final customers into the market, taking into account the need to ensure competition and the plurality of suppliers and offers in a Free Market.

On 31 December 2020 the MED signed the decree “Free electricity market. Scheme for informed entry of final customers” for small enterprises from 1 January 2021, completing what had already been laid down by the Authority with Resolution 491/2020/R/eel which confirmed what was provided for by ARERA with the exception of the limit threshold, brought to 35% and then updated by Arera with Resolution 28/2021/R/eel. The main subjects dealt with in the decree regard:

- the launch of information campaigns for all types of final customers, which will involve many different institutional bodies in collaboration with the industrial organisations and consumers’ associations;
- the provision for six-monthly ARERA monitoring, for the period 2021-2022, on the evolution of customer behaviour, the trend in prices offered, the transparency and advertising of offers and the associated services, assessing the introduction regulatory measures aimed at strengthening the effectiveness of instruments for the comparability of offers. This monitoring will take place starting from 1 July 2021 and up to 31 December 2022;
- the simplification of conciliation procedures and the treatment of complaints by ARERA and AU;
- the confirmation of operations of the Gradual Protections Service for small enterprises starting from 2021, to be assigned through competitive procedures starting from July 2021, specifying that:
 - the identification of territorial areas must be characterised by a balanced level of risk connected with arrears or by dimensional uniformity in terms of volumes;
 - the maximum volume assignable in a tender procedure to a single operator of the whole country is 35%, contrary to what was provided for by ARERA in Resolution 491/2020/R/eel;
 - the provision for specific incentive mechanisms to recover

arrears on the basis of the specific nature of the customers;

- it confirms the three-year duration of services assigned in a tender procedure;
- it confirms the transitional regimen up to June 2021;
- ARERA must prepare a periodic report on the implementation of the gradual protections service and on the results of the competitive procedures.

Finally, note that on 20 February 2021, the date set for the protected market for domestic customers and micro-businesses was extended from 1 January 2022 to 1 January 2023. In fact, the Chamber’s Constitutional Affairs and Budget commissions approved amendment 12.110 to the “Thousand Extensions” Decree Law, transformed into law on 2 March 2021. This was the fourth extension to the start date for the free electricity market.

Mechanism for recognising general system charges not collected in the electricity sector in favour of operators

With Resolution 32/2021, ARERA defined the mechanism for recognising general system charges not collected in the electricity sector, both for the previous period (from March 2016) and for coming years.

The mechanism is structured into annual sessions and at the time of each session an operator can choose between:

- the ordinary mechanism with 100% reimbursement (90% for especially inefficient operators), after specific quantification of amounts not collected;
- the simplified mechanism with 75% reimbursement, with quantification on the basis of accounting documents and company estimates of amounts not collected.

The first session, which will allow for recovery of uncollected amounts for invoices issued after 1 March 2016, provided they are overdue for at least 12 months, will begin in May 2021.

The Company has begun various actions in order to obtain recognition of these items, the economic effects of which will be seen starting in financial year 2021.

Transitional service for non-domestic customers

The Authority, with Resolution 491/2020/R/eel (following Consultation 220/2020/R/eel), adopted provisions to ensure from January 2021 the provision of the Gradual Protections Service to small enterprises of the electricity sector pursuant to Italian Law no. 124 of 4 August 2017, providing for a provisional period, from 1 January 2021 and up to 30 June 2021, in which the service will be operated by greater protection providers in the territorial area of respective competence, while, starting from 1 July 2021, the service will instead be provided by providers selected through competitive procedures and for the duration of three years.

The Authority identified the contractually committed power level of more than 15 kW as first discriminant for transition to gradual protections. Therefore from 1 January 2021 micro-enterprises with power of more than 15 kW, as well as small enterprises, are served in the gradual protection service.

The structure of the economic conditions of the provisional assignment period is similar to that of the current Greater Protection Service and established by ARERA, but different from the one that will be applied in the assignment period fully in place after the tender procedures have been held, in which the price will be defined on the basis of the outcome of the auctions. The tender procedures will be held with two rounds, with a offer discount mechanism; a maximum ceiling on the economic offer in €/MWh is provided for; this is differentiated for territorial areas, and will be made known at the same time as the outcomes of the procedures, and a minimum limit, expressed in €/MWh made know before the procedures. In addition the Authority provided for a maximum limit to the areas

that can be awarded of 50% (to be adjusted in the light of the MED decree) of the total electricity volumes withdrawn in the 9 territorial areas identified; Lazio constitutes a single area. The greater protection provider will be required to take charge of the service in the event of default of the operator selected in the tender or in the event of a tender without participants.

The tender procedure and the related timing will be defined in the regulation that the Single Buyer (Acquirente Unico) must adopt by 29 January 2021 (pursuant to Resolution 14/21).

The regulation of the gradual protection service intended, from 1 January 2022 for micro-enterprises and household customers will be the subject of a subsequent consultation document.

Under the term of Determination no. **7/2020 – DMRT** the greater protection providers, in relation to the application perimeter, provided Arera with the information necessary for formulation of the economic offer in view of the performance of the competitive procedures for assignment of the gradual protection service.

With Resolution **584/2020/R/eel** the Authority defined the first provisions on the subject of information initiatives for customers of the gradual protection service to be included in invoices – starting from 1 January 2021 – for the entire provisional assignment period and to be notified to final customers at the moment of phoned requests for information.

Modification of the process for termination of dispatching and transport contracts

Confirming what was proposed in consultation 412/2019/R/eel, with Resolution **37/2020/R/eel** the Authority established that starting from 1 January 2021, in the event of a termination of a dispatching contract and/or a distribution contract with respect to a sales company in default with respect to the operator, the activation of the service of last resort will take place from the day following the communication of the Resolution to the Integrated Information System (IIS) by Terna or the distribution companies, zeroing the termination time that was previously 17 working days.

In case of recourse to the service of last resort, it established specific financial conditions (“Omega” parameter equal to zero) such as not to penalise the end customer, for a transitional period that does not go beyond the end of the last day of the month following the month in which the service was activated. The protection providers would be reimbursed for the application of these “discounted” conditions.

Moreover, the Authority established that the end customer will still be able to access the fast switching procedure (i.e. exit from the service of last resort) following the signing of a new supply contract, and will only be able to use it until the last day of the sixth month following the service’s date of activation. In the event of a request for switching by the new transport user, a specific clause is foreseen that will inform that the activation of the supplier of last resort occurred following the termination of the dispatching and transport contract, in order to distinguish this case from the ordinary cases of activation of the service of last resort.

The Authority postponed to a subsequent order the definition of the mechanism to compensate the main utility providers for the difference in pricing envisaged by the Resolution compared to the normal situation. This mechanism will also take into account the charges related to imbalances in the initial period of activation of the service and the reimbursement of non-recoverable charges accrued towards final customers that cannot be disconnected.

Provisions for strengthening of the information obligations of the commercial conduct code and to the advantage of final customers in the retail market

As pre-announced with Consultation Document 564/2020/R/com, the Authority with Resolution 426/2020/R/com provided for the strengthening of the information obligations of electricity

and natural gas suppliers to the advantage of final customers in LV and/or with total natural gas consumption of not more than 200,000 Sm³, in both the pre-contractual stage and the contractual stage, through the revision of the commercial conduct code. These changes will take effect starting from 1 July 2021. Among the main changes the Authority provided for the introduction of a data sheet that summarises the contents of the contract and the new summary price indicators, provided for in order to facilitate the comparison between commercial offers; in addition the Authority provided for the sending of a specific communication in the case of changes in the automatic economic conditions.

Launch of a proceeding for amendment of the Bill 2.0 rules

With Resolution 549/2020/R/com the Authority provided for the launch of a proceeding for amendment of the Bill 2.0 rules in order to pursue the objectives of transparency and understandability for final customers in the light of the important legislative, regulatory and technological innovations that have occurred after its adoption, including the scenario of superseding the price protection service. We are awaiting the subsequent consultation documents on the subject.

Network code

The Authority with Resolution **261/2020/R/eel** amended the standard Network Code of the transport service starting from January 2021. In particular it provided for:

- the reduction of the contractual termination times providing for the elimination of sending of the payment reminder by the distributor; a reduction in the times for sending the notice from 7 to 4 working days; a reduction of the guarantees from the estimate of 3 to 2 months of providing the service; a reduction of the maximum amount covered by the guarantees (from the estimate of 5 to 4 months of providing the service);
- actions on the adjustment of the guarantees. For example in the context of the quarterly checks, the checking threshold for the periodic adjustment of the GAR amount is diversified on the basis of the GAR amount already released; in the case of significant upward adjustment of the exposure, the User that has given a guarantee through the rating must issue a guarantee of a traditional type to cover the portion related the new PODs;
- insurance sureties are permitted only if issued by an insurance institution accredited to operate in Italy that holds a certain credit rating judgement.

The Authority with the same Resolution clarified also that regularity in payments must be checked with exclusive reference to the cycle and rectification invoices, that is only invoices with an already standardised trace. In addition it clarified that distributor companies for checking the regularity must not take into account payment of invoices for which the average days of delay in the payment is less than 4.5 days.

The Authority published Resolution **490/2020/R/eel** following the requests for clarifications that it received in relation to the methods of applying Resolution **261/2020/R/eel**. In particular with Resolution 490/2020/R/eel the Authority intervened in relation to the case of non-payment of invoices by a User that gives as guarantee the rating judgement and at the same time also a so-called “traditional” guarantee for the GARnewPOD amount. In this case, after the notice to perform has been sent by the distributor company, if the user does not make the said payment within the deadlines established by the Code, the distributor proceeds to enforcement of the guarantee and to the request at the same time of reintegration with a so-called “traditional” guarantee for the entire amount to be guaranteed, that is, in practice, the rating guarantee expires and a reintegration corresponding to a maximum of 4 months (GAR + GARmag) is made. If the traditional guarantee is insufficient with respect to the user’s debt exposure, the distributor company, as well as en-

forcing the guarantee, terminates the transport contract. With Resolution **583/2020/R/eel** the Authority intervened to amend the previous Resolution 490/2020/R/eel. In particular if the traditional guarantee is insufficient with respect to the users debt exposure, the distributor company proceeds, at the same time as the enforcement, no longer to the immediate termination of the transport contract, but to a request for reintegration of the guarantee, to be made within the next 7 working days, and to a new notice to pay the amounts of the invoice due within the next 7 working days, after which, if the guarantee is not restored and at the same time the amounts due are not paid in full, the transport contract must be understood as terminated.

Approval of the settlement scheme of the Register of Sellers

The “Annual Market and Competition Law”, no. 124 of 2017 that entered into force on 29 August 2017 provided that sellers of electricity, in analogy with what is already done for the sale of natural gas, must be included in the Register of sellers of electricity, to be established by decree of the Minister of Economic Development on a proposal from the Authority. With Resolution 762/2017//eel, the Authority made a first proposal to the Ministry, which, however, accepting most of the comments raised by the sellers, extensively simplified the text, also obtaining the approval of the Council of State. To be included in the register, sellers must meet certain technical and financial requirements (e.g. regularity of payments, minimum share capital of 100k, and corporate forms) and be of good repute. The draft ministerial decree is currently under consideration by the ministry, which is gathering further comments from the various stakeholders.

In January 2019, with a Resolution approved by the Production Activities Committee of the Chamber of Deputies, the government undertook to approve the register of sellers of electricity as soon as possible. Italian Law Decree no. 162/2019 (the so-called “Thousand Extensions”) was approved, stating that the MED will have the right to exclude a seller from the Register if it finds serious breaches or inconsistencies with the requirements or situations considered critical to the proper operation of the markets and consumer protection. In fact, in agreement with the Authority, the Ministry has been mandated to adopt a decree to establish the criteria, methods and requirements (technical, financial and good repute) for registration and permanence in the Register.

Following the conversion into law of Italian Legislative Decree 162/2019 the so-called “Thousand Extensions” with Italian Law no. 8 of 28 February 2020 (in force since 1 March 2020), it was ordered that by the end of May the MED should adopt a ministerial decree proposed by ARERA and after consulting with AGCM establishing the Register of Electricity Sellers, providing for the procedure for exclusion also to take into account violations and irregular conduct carried out in the sale of electricity, ascertained and sanctioned by the Authorities (ARERA, AGCM, Privacy Authority, Revenue Agency), thus making the application of a sanction grounds for exclusion from the register. Other grounds for removal include situations of serious breaches of or inconsistencies with the requirements, or situations considered critical also in light of the general principles governing the proper operation of the markets and consumer protection.

In November 2020, a parliamentary question was presented in order to solicit the adoption of the Register as it is a necessary consumer protection element in view of the end of the price protection regimens.

Remuneration of electricity marketing and sale activity (RCVsm)

With Resolution **576/2019/R/eel**, the Authority updated the RCV and DISPBT components and the PCV fee with effect from 1 January 2020. Specifically, with regard to the RCVsm component

(specific for operators other than the incumbent) for the Central South territorial area there was an increase in the value of the component to 44.10 €/wp compared to the value of the year 2019 (equal to 42.53) for domestic customers and a decrease in the value to 10.18 €/wp compared to the value of the year 2019 (equal to 11.63) for other uses customers.

With Resolution **100/2020/R/eel**, the Authority updated the provisions for the mechanisms of the TIV, reducing the value of the recognised amounts of the late payment compensation mechanism (art. 16-ter of the TIV), which was reduced from 3.83 €/wp to 1.80 €/wp for domestic customers and from 42.82 €/wp to 19.17 €/wp for other customers. The Authority has also reduced the minimum level of unpaid ratio for other uses beyond which the aforementioned mechanism can be accessed by changing it from the previous 3.56% to 2.98%. With regard to the customer exit compensation mechanism (article 16-*quater* of the TIV), the Authority revised the values of the benchmark that determines both access to the mechanism and the value of the compensation itself. In particular, it revised these values upwards, making access to the mechanism more difficult and reducing the value of compensation.

ARERA unbundling checks

With Resolution 561/2018/E/eel, the Authority approved a programme of controls on the separation of the brand and communications policies for companies operating in the sale of electricity to free customers and protected customers.

Acea Energia was also included in the sample of companies involved in the verification programme envisaged by the Authority and received a request for information regarding compliance with the requirements of article 17 of the TIUF. The company provided the information and documentation requested by the Authority on compliance with the obligations of unbundling of the brand and communication policies between the sale of electricity to standard and Free Market customers. The information provided mainly concerned:

- the obligations to separate the brand between the sale of electricity to the standard market and the Free Market;
- internet websites;
- the organisational structures and staff dedicated to the activity of selling on the open market or to the standard market;
- the forms and letterhead used in communications for customers in the open market and those in the protected market.

As already envisaged in Resolution 561/2018/E/eel, with the subsequent Resolution **96/2019/E/eel** the Authority started the second phase of the controls and carried out an inspection at the branches of piazzale Ostiense and Ostia and at the Company’s headquarters. Acea Energia also provided the additional information requested regarding the separation of the brand and communication policies.

The Authority sent a letter indicating some corrective actions to be implemented by December 2019 with respect to the separation of physical spaces (provide for removable, but not mobile structures and provide for separate access) and the information in the interactive voice responder regarding the end of the protected market, inviting the Company to its offices to present the methods for implementing these actions.

Following the meeting of 16 October, the Authority considered the corrective actions illustrated to be appropriate, which were then formalised with a note dated 4 November 2019. With its subsequent note of 20 December 2019, the Authority definitively approved the proposed actions, which are scheduled to be completed by 31 March 2020. After communicating the changes to the interactive voice responder with the addition of a button dedicated to providing information regarding the end of price protections, Acea Energia informed the Authority that it had also completed the corrective actions relating to the separation of physical spaces ahead of time.

Sanctioning procedure for charging the postal costs for the paper bill

With determination **66/2018/com** dated 15 November 2018, the Authority ordered the initiation of a sanctioning and prescriptive procedure against Acea Energia for charging final domestic customers for the receipt of the paper bill for Free Market offers called “Acea Viva” and “Acea Rapida” in violation of the provisions of Italian Legislative Decree 102/14 and annex A to Resolution 555/2017/R/com.

Acea Energia notified the Authority of the termination of the conduct, updating the economic conditions of the offers in question and presenting the following commitments:

- reimbursement of the amounts already paid by customers;
- making available to electricity customers who were still active and who had paid the disputed surcharge a free consumption analysis service in order to promote greater efficiency in the use of energy;
- strengthening – even through parties external to the Company – the verification of electricity and gas supply contracts that can be selected by domestic customers in terms of compliance with applicable industry regulations.

Following the additions and modifications requested by the Authority, the Company presented a new proposal for commitments that include:

- the return of the amount charged to customers;
- a bonus of € 15 to customers who switch to a web bill;
- a bonus of € 12 spread over a year to damaged customers.

With Resolution **418/2019/S/com**, the Authority declared the new proposal admissible, thus submitting it to the next market test phase. As no comments were received, Resolution **533/2019/S/com** closed the procedure with the approval of the commitments submitted and an indication to comply with them by 17 April 2020 for commitment 1 and also to implement the provisions of commitments 2 and 3 – which will have a duration of 12 months – by 17 April 2020. From the end of February, Acea Energia:

- reimbursed the amount charged to the customers to whom it had applied the surcharge for the receipt of the paper invoice (the reimbursement was completed by 17 April 2020);
- launched the campaign promoting the activation of the web bill by mass market customers active on 19/12/2019 with the recognition of a one-off bonus of € 15 for customers who request it (activity started by 17 April 2020 with a duration of up to 12 months);
- granted active customers within the scope of commitment 1 a discount in the bill of € 1/point of supply/month for a period of 12 months (activity started by 17 April 2020).

Examination of the financial items relating to electricity destined for the states included in the Italian State

Pursuant to Resolution **58/2019/E/eel**, the Authority initiated a fact-finding investigation against Acea Energia with the aim of acquiring information and useful data concerning the management of the financial items relating to electricity destined for the Vatican State. The Company responded to the request for information.

In accordance with this Resolution and pending the conclusion of the aforementioned investigation, the Authority has specified to the Italian Energy and Environmental Services Fund that it should proceed on a transitional basis and subject to adjustment with the equalisation of the costs incurred by Acea Energia for 2017 for the purchase and dispatching of electricity intended for protected customers.

With Resolution **180/2019/C/eel**, the Authority decided to challenge the extraordinary appeal brought by the Azienda Autonoma di

Stato per i Servizi Pubblici della Repubblica di San Marino for the annulment of Resolution 670/2018/R/eel (which updated the transmission tariffs for the year 2019) and Resolution 58/2019/R/eel.

Pending the conclusion of the investigation, the Authority asked the Cassa per i servizi energetici e ambiente – on a temporary basis and subject to adjustment – to suspend any disbursements relating to the equalisation of the costs incurred by Acea Energia for 2018 for the purchase and dispatching of electricity intended for standard market customers.

With Resolution **491/2019/E/eel** the Authority closed the preliminary investigation by instructing Acea Energia and areti on the actions to be taken by the end of 2019. Acea Energia informed the Authority that it had complied with the requirements. Resolution 491/2019/E/eel, moreover, gave a mandate 1) to Terna, the relevant distribution companies and CSEA to recalculate the charges for withdrawals by Vatican City State by applying the criteria highlighted in the preliminary findings attached to the same Resolution 2) to the Director of the Sanctions and Commitments Department of the Authority for the documents resulting from the evidence found. Following this the Authority, with Determination **5/2020/eel**, launched two sanctioning proceedings against Acea Energia and areti. On 12 June 2020, Acea Energia sent to ARERA its proposal for commitments containing the waiver of the receivable accrued to the system, the payment of an indemnity to ARERA and the obligation to send bimonthly reporting for 10 years. Acea Energia is awaiting approval of the commitments by ARERA and completion of the recalculation activities by Terna/CSEA.

Capacity market

On 28 June 2019, the decree on the electricity production capacity market was signed at the MiSE, designed to remunerate power plants kept on standby and otherwise operating below capacity so they can ramp up if required by the system, ensuring both adequacy of the system and security of the supply. In June 2019 the European Commission approved the introduction of stringent CO₂ emission limits for the Italian regulatory system related to the capacity mechanism. The limits for CO₂ emissions will prevent high-emission electricity generating plants such as coal-fired plants from participating in the Italian capacity regulation mechanism.

Resolution **343/2019/R/eel** approved the Regulation prepared by Terna on the methods for enabling and participating in the dispatch service market of contracted consumption units in the capacity market (Ucmc), as well as provisions on tenders to be carried out by 2019.

With Resolution **363/2019/R/eel**, the Authority approved and published the financial parameters of the auctions for the 2022 and 2023 delivery years that Acea Energia participated in, respectively winning 63 and 58 MW of Likely Available Capacity (LAC), i.e. the capacity of each resource considered available for the Capacity Market. The Regulator also approved Resolution **364/2019/R/eel** relating to the verification of compliance with the technical provisions for the operation of the market already consulted by Terna in July, and finally Resolution **365/2019/R/eel** which contains determinations on the consideration to cover the net charges for supplying capacity through the mechanism.

Regulatory measures adopted to deal with the Covid-19 health emergency.

During 2020 the main provisions of the Regulatory Authority for Energy Networks and Environment (hereinafter: the Authority or ARERA) introduced a series of extraordinary measures to counter the Coronavirus (so-called “Covid-19”) epidemic, in keeping with the emergency management measures adopted by the Government all over the country.

As regards electricity distributors, the main measures issued were the following:

- Resolution 116/2020/R/com and subsequent amendments and additions introduced a series of exceptions to the rules on non-fulfilment of contractual obligations pursuant to the Network Code providing for the option for electricity vendors and distributors to pay, for the months April-July 2020, amounts less than those invoiced. Consequently, Resolution 248/2020/R/com defined the methods of reintegrating the network expenses not paid by the traders, and the general system expenses not paid by the DSOs to the CSEA and the GSE;
- Resolution 190/2020/R/eel provided for urgent actions to implement the Italian Relaunch Decree Law on the reduction of expenditures incurred by low-voltage electricity user accounts other than domestic users for the months of May, June and July 2020. The action regarded a reduction in the fixed components of the network tariffs and the general system expenses for customers with committed power of more than 3 kW. The provision had an exclusively financial impact for distributors given that the constraint on revenue was guaranteed by the offsetting mechanism activated with Resolution 311/2020/R/eel;
- Resolution 213/2020/R/ee introduced a series of amendments to the current regulation on the installation of 2G smart metering systems for the year 2020 aimed at avoiding penalties for distribution companies for events arising from Covid-19. The main changes for 2020 concern the preparation of indicative detailed plans for the mass phase, the suspension of penalties envisaged in case of progress below the forecast set out in the Plan, and the suspension of application of the “Information Quality Incentive” matrix. These changes apply also to areti’s Plan, approved by the Authority with Resolution 293/2020/R/eel.

In relation to the impacts of the Covid-19 health emergency ARE-RA, in addition, introduced, with Measure 432/2020/R/com, a whole series of extraordinary changes on the subject of technical quality, resilience, testing of riser cables and automatic indemnities not disbursed by the distribution companies on commercial quality performance not achieved owing to force majeure. More in detail the Authority:

- with reference to the bonus-penalty regulation of the service quality for the semi-period 2020-2023, redetermined, to the advantage of the companies, the annual levels of the number of interruptions without notice and reduced the penalising parameters of the duration indicator for the two years 2020-2021;
- postponed by 6 months the actions of the 2019-2021 Resilience Plan with completion date envisaged between the first half of 2019 and the second half of 2021;
- extended by 6 months also the completion of the census of old riser cables and, more generally, of the three-year testing;
- confirmed the applicability of force majeure for non-observance of the commercial quality standards for reasons directly attributable to Covid-19.

Network losses

With Resolution **449/2020/R/eel** the Authority amended the regulation on network losses for the three years 2019-2021:

- reducing the commercial loss factor recognised in LV which for areti goes down from 2% to 1.83% valid from the equalisation accruing to 2019 and, as a consequence, the percentage of standard loss to be applied to withdrawals of LV final customers which, from 1 January 2021, goes down from 10.4% to 10.2%;
- awarding to the DSOs, for the three years 2019-2021, an equalisation amount equal to the lower between the value obtained counting the energy lost with the selling price to higher

protection providers (PAU) differentiated by month and by band and that obtained from the annual average PAU;

- it does not introduce for DSOs the process of ensuring greater efficiency of commercial losses, unlike what was anticipated in the consultation;
- introduces a mechanism for recognising non-recoverable fraudulent withdrawals on an application by the companies – to be presented in 2022 with reference to the three years 2019-2021 – after checking the existence of the following requisites:
 - the total result of the equalisation in the three years 2019-2021 must be to the debit of the company;
 - the condition pursuant to point 1. must be aggravated by non-recoverable fraudulent withdrawals attributable to the following cases:
 - cases for which interruption of the supply can cause public order problems or put at risk people present in the place and the operating personnel tasked with carrying out the disconnection and for which there is a formal report to the competent authorities;
 - cases of buildings occupied abusively for which there are measures of public authorities that prevent interruption of the supply;
- if the fraudulent withdrawals are in part estimated, it is necessary to specify the estimation criteria adopted, justify their validity and the results through measurements – for a period of at least 6 months – on a representative sample of 10% of the estimated withdrawals;
- fixes a cap on the amount payable to the company equal to the reduction to zero of the total penalty over the three years 2019-2021.

Continuity of the service

With the Integrated Text on output-based regulation in force from 1 January 2020, the Authority introduced the possibility for the DSOs to present regulatory experiments to improve the service quality in particularly critical contexts. A specific feature of these experiments is the suspension of the penalties for the experimental period and their non-retroactive application if the target levels for the indicators of number and duration of interruptions without notice, set by the current regulations, are achieved.

In this context, areti presented its proposal, outlining a process for improving the technical quality indicators different from that defined by the ordinary regulation. This proposal was approved by the Authority with Determination 20/2020 of this past 20 November.

Very briefly, the measure postpones to 2024 the calculation of the bonuses and penalties for the entire four-year period 2020-2023 and provides for the activation of an additional bonus mechanism if the target proposed at 2023 is achieved and the effective annual levels achieved are better than those proposed in the experimentation. Two specifications:

- the total bonus obtained cannot be more than that achievable in the ordinary regulation;
- in the event of non-achievement of the improvement commitment indicated, areti must pay any penalties that it would have incurred in the four-year period, in the absence of an extension.

As regards the 2019 accrual, the national service continuity results were made known with Resolution 462/2020/R/eel; these confirmed for areti a penalty of € 5.4 Mln.

Resilience Plan

With Resolution 500/2020/R/eel the 2020-2022 Resilience Plan sent by areti on 30 June 2020, including the final results of the actions completed in 2019, was approved: for actions already previously included in the 2019-2021 plan and not yet completed the completion dates were confirmed, without taking into consid-

eration the delaying effects associated with the emergency situation in progress.

In addition, Resolution 563/2020/R/eel awarded to the Company the bonus of approximately € 3.1 Mln with reference to the actions completed in 2019.

Energy efficiency certificates and tariff contribution awarded to distributors

On 14 July 2020, Resolution **270/2020/R/efr** was published; this contained the new rules for defining the tariff contribution to cover the costs incurred by DSOs with regard to obligations arising from the mechanism of energy efficiency certificates. The measure confirms the value of the cap on the tariff contribution of € 250/EEC and introduces, starting from the current obligation year, a consideration additional to this contribution, to be awarded to each distributor for each EEC used to comply with its obligations. On the one hand, ARERA repeats that it considers the cap an instrument necessary to limit the changes in market prices, on the other, it considers opportune to provide for an additional consideration in support of distributors in the light of the economic losses that they are forced to incur owing to the scarcity of EECs available. On 13 October 2020 the Company presented an appeal for cancellation of the Resolution.

The Resolution, in addition, introduced the possibility of requesting from CSEA the extraordinary consideration in advance of 18% of the specific target for the 2019 obligation year, in order to finance distributors which having already acquired EECs at the beginning of the period, then suffered the negative effects of the extensions of the end date of the obligation year laid down in the Italian Relaunch Decree Law (30 November 2020). Areti presented an application on 31 August 2020.

In December 2020, Resolution **550/2020/R/efr** confirmed the value of 250 €/EEC for the tariff contribution awarded for the 2019 obligation year and fixed at 4.49 €/EEC the value of the additional consideration.

Tariff regulation

On 13 October 2020, with Resolution 380/2020/R/com, the Authority launched the proceeding to update the criteria for determining and updating the WACC for the second regulatory period (so-called “2nd PWACC”) which will start on 1 January 2022. In the context of the measure, as usual, consultation documents will be made available and, if considered opportune, hearings will be convened for the purpose of acquiring of items of information useful for the formation and the adoption of the regulatory measures. With Resolution 461/2020/R/eel of 17 November 2020 the Authority introduced the mechanism of reintegration of the receivables related to network services, otherwise non-recoverable by the DSOs. The application for admission must be sent to CSEA by 30 June 2021, and the amounts will be disbursed to the companies by 31 August of the same year. The measure gave to companies the possibility of requesting the disbursement of an advance of 50% of the reintegration amount, to be awarded by the end of the year. Areti presented an application to CSEA this past 7 December

In December, in addition, the updates of the obligatory transmission, distribution and measurement tariffs for the year 2021 were made known, as well as the economic condition for providing the connection service.

Standard network code of the electricity transport service

With Resolution **261/2020/R/eel** changes were introduced to the rules on the network code with application starting from January 2021. The main provisions introduced regard the reduction to 4 months of the DSOs’ exposure through reduction of the contractual forms

termination times and, consequently, the amount of the guarantees chargeable to the vendors.

Following the requests for clarification sent by operators to the Authority’s offices on the correct methods of applying the new rules, a subsequent measure **490/2020/R/eel** was published. This introduced, for traders with credit ratings, the obligation to present a supplementary guarantee in the traditional form in cases of a significant increase in withdrawal points served, limited to the new PODs (so-called “GARnewPOD”). With the subsequent further measure **583/2020/R/eel**, ARERA also established that in cases of non-fulfilment by traders, if the traditional guarantee GARnewPOD is not sufficient with respect to the debt exposure of the trader, the DSO is required to proceed, at time of enforcement, to a request for reintegration of the guarantee to be done within the following 7 working days, and to a new notice to perform with regard to payment of the amounts due within the following 7 working days, only after which, in the absence of reintegration and at the same time complete payment of the amounts due, the transport contract can be understood as terminated.

Electric mobility

With Resolution **541/2020/R/eel** the Authority launched national experimentation destined for LV customers, aimed at facilitating the installation of e-car rechargers in private areas.

Acceptance is voluntary and free and access is subordinated to observance of a number of conditions:

- the customer must be at LV with contractually committed power of not more than 4.5 kW and not less than 2 kW;
- the POD must be fitted with a 1G or 2G remotely-managed meter. In this second case, any multi-hour bands set by the vendor must enable identification of the withdrawals made in night, weekend and holiday bands;
- a recharging device must be electrically connected to the meter; this device must at least be capable of:
 - measuring and recording the active recharging power and transmitting this figure to an external subject (e.g. an aggregator);
 - reducing/increasing or reinstating the maximum recharging power;
- customers must give their consent to checks and controls also in their homes and are required to communicate promptly any change to the system or contract that occurs during the experimentation.

The application of the experimentation runs from 1 July 2020 and lasts until 31 December 2023.

Finally, in the context of public electric mobility, we can note the consultation document 201/2020/R/eel with which the Authority first implemented the decree of the Ministry of Economic Development of 30 January 2020, illustrating its first orientations on the subject of participation of electric vehicles in the Dispatching Services Market (DSM), through the recharging infrastructures equipped with vehicle-to-grid technology.

ENVIRONMENTAL REGULATION

Following consultation document 351/2019, on 31 October 2019 ARERA approved Resolution 443/19 containing the first integrated waste management service tariff method 2018-2021.

With reference to the WTR – Waste Tariff Method, the new rules define TARI fees to be applied to users in 2020-2021, the criteria for the costs recognised in the current two-year period 2018-2019 and the reporting obligations.

As in other sectors subject to regulation, the new waste tariff

method refers to ex-post data referring to certain accounting sources (Financial Statements) for the year Y-2 and applied to year Y (including indications of adjustments that permeate the entire algebraic structure of the method) and no longer to forecast data. The new ARERA method applies a hybrid approach, borrowed from other service regulations like electricity and gas, with a different treatment of capital costs and operating costs. Namely:

- capital costs recognised according to a scheme like rate of return;
- operating costs with the application of incentive regulation schemes and the definition of efficiency targets on a multi-annual basis.

Furthermore, as already anticipated in the consultations, the method calls for tariff limits to revenue growth in addition to the introduction of four different schemes that can be adopted by local authorities and operators with respect to the objectives of improving service. More specifically, the method regulates the phases of the integrated waste service as identified: street sweeping and washing, collection and transport, treatment and recovery, treatment and disposal of municipal waste, tariff management and user relations.

With regard to the treatment and recovery and treatment and disposal phases, ARERA specifically established that the criteria for determining the fees to be applied to treatment and disposal plants will be evaluated in subsequent measures, indicating that pending such assessment (to be performed on the basis of the criteria referred to in article 1, paragraph 527, letter g) of Italian Law no. 205/17) for the 2020 TARI the fees for such activities will be applied as follows: a) in the presence of administered tariffs, the tariff approved and/or justified by the competent territorial authority; and b) in all other cases, the tariff charged by the operator of the plant determined as a result of negotiations.

In this first definition of the tariff method, ARERA maintained the algebraic structure of the method established by Italian Presidential Decree 158/1999, including tariff factors corresponding to additional components for the determination of the fees, some of which are as follows:

- limit to the overall growth of tariff revenues, with the introduction of a limit factor for annual variation that also takes into account efficiency gains and productivity recovery;
- an asymmetric approach that takes into account in the measurement and in the calculations of the single cost components: 1. service improvement objectives established at a local level and 2. the possible extension of the operational perimeter; these parameters determine the positioning of the individual operation within a tariff matrix, as follows;
- sharing factor in relation to revenues from the sale of material and energy from waste (between 0.3 and 0.6), and relative to CONAI revenues (between 0.1 and 0.4);
- introduction of an adjustment component for both variable and fixed costs, defined as the difference between the revenues relating to the variable and/or fixed cost components for the year Y-2 – as redefined by the Authority – compared to the tariff revenues calculated for the year Y-2. In the recognition of 2018-2019 efficient costs, this component is modulated through a coefficient of gradation and provides for the payment for the recovery of any deviations through a number of instalments, up to 4;
- introduction of two different rates of return on net invested capital (WACC) for the service of the integrated waste cycle and a differentiated rate of return for the enhancement of current assets. Regarding the WACC of the integrated waste cycle for the period 2020-2021, it is defined as 6.3%. To this value is added a 1% increase to cover the costs arising from the

time lag between the year of recognition of investments (Y-2) and the year of tariff recognition (Y), known as the time lag.

In order to take account of the different initial territorial conditions, as previously with the water sector, the Regulator has introduced a methodology that defines the criteria for the quantification of tariffs within an asymmetrical regulation, where there are four different types of tariff schemes under which each competent entity can identify the most effective solution depending on its objectives of quality improvement and management development currently applicable to operators in the first part of the integrated waste service chain, in particular to the phases of sweeping and washing roads and collection and transport.

The EFP (Economic and Financial Plan) remains the tool of reference for the development of the integrated cycle and for the calculation of TARI tariffs and is prepared by the “integrated waste system operator”, where it is also the Municipality, while “the operators who manage parts of the supply chain make their data available to those who prepare the EFP for the correct elaboration of the entire Plan”. With regard to the Integrated Text TITR – 444/2019/R/rif – Provisions on transparency in the management of urban and similar waste, it is specified that this text defines the provisions on transparency of the management of urban and similar waste for the regulatory period 1 April 2020-31 December 2023. The scope of the intervention includes the minimum information to be made available by the integrated cycle manager through websites, the minimum information to be included in collection documents (payment notice or bill) and individual communications to users concerning significant changes in operations.

As far as the publication of the four European directives is concerned, they provide for amendments to six European directives on waste, namely:

- Directive 2018/851/EU, amending the so-called mother directive on waste 2008/98/EC;
- Directive 2018/850/EU, amending the landfill directive 1999/31/EC;
- Directive 2018/852/EU, amending packaging directive 94/62/EC;
- Directive 2018/849/EU, amending the directive on end-of-life vehicles 2000/53/EC, the directive on batteries and storage 2006/66/EC and the directive on waste electrical and electronic equipment, the so-called “WEEE 2012/19/EU”.

In short, the primary new development that these measures bring to environmental legislation concerns the percentages of separate collection to be achieved in the coming years, in particular up to 2035 (though establishing intermediate steps from 2020 to 2030 and from 2030 to 2035). In particular:

- urban solid waste: the target is to recycle at least 65% by 2035, with intermediate stages of 55% by 2025 and 60% by 2030;
- packaging: the goal is to recycle at least 65% by 2025 and 70% by 2030;
- landfills: the objective is to limit the entry of waste into landfills to a maximum of 10% by 2035. To this end, Member States must endeavour to ensure that by 2030 all waste suitable for recovery or recycling – in particular municipal waste – is not landfilled, with the exception of waste for which landfilling is the best environmental option.

On the subject of landfills, the introduction of article 15-ter to the 1999 directive established that the Commission shall adopt implementing acts to determine the method to be used to determine the permeability coefficient of landfills locally and throughout the area. And the introduction of article 15-quater confers on the Commission

the task of adopting implementing acts to develop a criterion for waste sampling (until the concrete enactment of this new method, Member States use the national systems currently in place):

- separate collection of household waste: important changes are foreseen for the separate collection of household waste, such as textile waste, organic waste and hazardous household waste, not always collected separately at this time;
- waste prevention measures: the directives explicitly provide that Member States must take a series of measures to prevent the production of waste upstream, such as domestic composting and the use of materials obtained from organic waste, to encourage the production and marketing of goods and components suitable for multiple use, and to provide financial incentives to encourage such virtuous behaviour.

These targets may be revised in 2024 (especially in view of the fact that they are considered excessively ambitious for some States that, for example, currently frequently use landfills). In this sense, the legislature has therefore provided that, recognising the significant differences in treatment between different States, it will be possible to grant an extension up to a maximum of 5 years for States that in 2013 prepared for reuse and recycled less than 20% of urban waste or landfilled more than 60% of urban waste).

Finally, the rewording of article 6 of Directive 98/2008/EC on the cessation of the qualification of waste (End of Waste) deserves a brief comment. In particular, with the new amending Resolution, the European Law requires Member States to take appropriate measures to ensure that where a substance or article meets the requirements for End of Waste it cannot be classified as waste.

More specifically, having regard to the competence of the European Commission to define the general criteria for the uniform application of End of Waste conditions, it is established that if the latter does not do so for certain types of waste, Member States may establish detailed EoW criteria for certain types of waste that must take into account all the substance's or object's possible adverse effects on the environment and human health and meet the EoW requirements of the directive. Such decisions must be notified to the Commission by the Member State.

Moreover, the same Resolution also provides that Member States may decide on a case-by-case basis or take appropriate measures to verify that certain wastes have ceased to be such under the conditions set out in the directive, where necessary reflecting the EU EoW criteria and taking into account limit values for pollutants and all possible adverse effects on the environment and human health. Such decisions taken on a case-by-case basis need not be notified to the Commission.

Finally on the subject of EoW we can note the amendment approved on 06/06/2019 and included in the decree known as the Re-Open Building Sites Decree (Italian Law Decree 32/2019, converted with Italian Law no. 1248). In particular, the rule establishes that pending the adoption of one or more decrees containing the EoW criteria for specific types of waste, ordinary permits for waste recovery plants must be granted on the basis of the criteria indicated in the measures governing simplified waste recovery (Ministerial Decree 5 February 1998, Ministerial Decree 161/2002 and Ministerial Decree 269/2005) "for the parameters indicated therein, for the parameters relating to the type, origin and characteristics of waste, recovery activity and characteristics of what is obtained from these activities". Ordinary permits must, on the other hand, identify the necessary conditions and requirements "regarding the quantities of waste admissible to the facility and to be subjected to recovery operations". The Ministry of the Environment is authorised to issue specific guidelines "by decree not of a regulatory nature" for the uniform application of the regulations throughout the country.

SCENARIO OF REFERENCE FOR ESG ASPECTS (ENVIRONMENTAL, SOCIAL, GOVERNANCE)

Sustainable development

The European scenario was characterised by the direction taken by the Commission chaired by Ursula von der Leyen with preparation of the Green Deal, as an integral part of the strategy for implementation of Agenda 2030 and pursuance of the UN sustainable development goals and, at the same time, the whole world had to handle the pandemic caused by Covid-19.

The response adopted by the Commission and transfused into the national systems confirmed the orientation towards the objective of making the European Union the first carbon-neutral area of the planet, socially and economically inclusive and with advanced technological and innovative development, seizing from the planetary health emergency the opportunity and urgency of revising the development and coexistence models.

The evidence and the repercussions generated by the serious situation, in fact, highlighted the risks deriving from the correlations between pollution and environmental degradation and the spread of the virus or the fragile resistance of the welfare systems, and also the effectiveness of certain solutions introduced all over the world to manage the crisis in a resilient way. For example, the generalised lockdowns of economic activities balanced by an unprecedented use of technologies to guarantee the continuity and safety of civil life, at school or at work, or the ability activated by clinical research aimed at creating a vaccine and the cohesion and solidarity shown by all player in civil society – institutions, businesses, local communities, voluntary workers – faced with a common problem. The new awareness and urgency of sustainable growth were confirmed by the main players in the global scenario: Europe, with NextGeneration EU and the important objectives connected with it, strengthened by more stringent limits in countering climate change, but also China, with the commitment assumed on decarbonisation, and the USA, with the relaunch of the Paris Accords confirmed by the new President elected.

Italy is part of this global scenario, and is intent on balancing the relationship between nature and people and on creating inclusive and sustainable development conditions, with important appointments fixed for 2021, in which our country will have a guiding role: co-chairing with the United Kingdom the UN Conference on Climate (COP26), chairing the G20 which will be organised around the three points People, Planet, Prosperity.

Finally, we must mention the role that the segment of water, energy and environmental service industries is called upon to perform to tackle the challenges of environmental protection, social inclusion, economic and civil development of the territories and populations that these involve. Taking into account these developments, Acea continues its development by integrating sustainability in its strategies and organisation, as seen in the approval of the Business Plan and the Sustainability Plan for the period 2020-2024, with an increase in investments related to sustainability targets for a total of € 2.1 billion.

Environmental and energy impacts

The natural environment is the scenario where the activities of the Group are performed and is to be preserved with a responsible and efficient use of resources, protecting sources, safeguarding the natural areas where the plants and service networks encroach, mitigating the physical and the external impacts generated in the ecological context of the operating processes.

Today, recovery from the pandemic is the central issue that shapes the lives and decisions of all members of society: families and individuals, workers and businesses, public and private institutions. In this context, to limit the spread of the virus, the countries affected

shut down economic activities for a continuous and prolonged period of time during 2020.

This initiative, adopted at the global level, entailed a decrease in carbon dioxide emissions into the atmosphere, enabling the planet to delay the overshoot day, the day on which the earth exhausts the renewable resources available for the year in progress.

In view of these environmental benefits and in line with the European decarbonisation policy, the President of the European Commission, Ursula von der Leyen, on 28 April 2020 said that it was important to use the European Green Deal as the motor of the post Covid-19 recovery.

The Green Recovery is the opportunity to leave the pandemic crisis behind rebuilding the economic system to make it resilient and sustainable.

To this end, on 15 June 2020 the TEG (Technical Expert Group set up by the European Commission to implement the Action Plan for financing sustainable growth) published the five principles on which the post Covid-19 recovery should be based, constructing at the same time an economic system resilient to future threats.

The idea at the base of these recommendations is that the crisis caused by the pandemic is the first of a series of threats to which the population will be exposed owing to the degradation of ecosystems caused by human activities. One of the instruments indicated by the TEG for implementation of the Green Recovery is the EU taxonomy, to identify the areas that need investments to be environmentally sustainable.

Alongside the work done by the European Commission, the Financial Stability Board (an international organisation that controls the global financial system) set up the Taskforce on Climate-related Financial Disclosure (hereinafter TCFD) with the objective of defining a series of recommendations that companies have to follow for reporting the risks and opportunities associated with climate change and for describing the impacts that they generate on the business, in order to respond to the expectations and needs of investors.

Of particular importance in this context are the scenario analyses that companies are called upon to perform and report, in order to assess the future impacts that the climate-related risks/opportunities generate on the company's business.

Governing this phase in a resilient manner and containing the risks of aggravating inequalities among people and a lack of sustainability in development models is essential to finding solutions that truly allow the transformational change that can put us on a development path that is balanced, lasting and widespread.

The focus of national and international institutions has been to put in place initiatives to protect people, both in terms of health protection and prevention and support for income capacity, designed precisely to build an overall sustainable system.

These include European programming and financing instruments being defined that, contrary to what some observers feared, have asserted a preference for investments capable of ensuring a transition that is ecological, socially and territorially inclusive, digital and innovative.

In this context, Acea is continuing to carefully monitor its sustainability plan, and given the strategic nature of the issue it has begun reflecting on how to define the opportunities deriving from the current scenario and its contribution to the creation of shared value.

Development and technological innovation

In Acea, the Innovation, Technology & Solutions Function reports directly to the CEO and has the task of ensuring a model of innovation for the Group through the adoption of processes and approaches typical of open innovation, with the involvement of internal and external stakeholders as defined by the Industrial Plan. In this direction, activities were developed in the electrical area, with further progress on the automation and efficiency of processes and on applications in the field of smart metering and smart grids with a

view to smart cities, such as the launch of installation of new digital meters or the PlatOne project on energy flexibility, and in the water sector, with customer-oriented technological innovations, capable of optimising and accelerating the processes of contractualisation, invoicing, payments and communication between operator and customer, improving also the security of remote interactions.

Digital innovation also played a fundamental role for the continuity of the business activity, enabling, thanks to prompt implementation of adequate digital infrastructures, fully effective performance of the remote work of thousands of colleagues. Technology made it possible to perform also the activities of selecting, training, developing, communicating and involving personnel completely remotely, accelerating the process of digitalising the corporate processes and the transfer of new skills over the entire population.

The ecosystem of innovation is constantly overseen by Acea also in the networks of external collaboration and partnerships. Among these, involvement in Startup Europe Partnership, an Open Innovation programme that puts into contact the European Scaleups with businesses, and Open Italy, the co-innovation programme promoted by Elis to combine the innovation needs of Companies in the consortium with the offer of startups, innovative SMEs, university spin-offs and research centres. In 2020 Acea joined InnovUp, a non-profit Association that represents the ecosystem of Italian start-ups, widened to all private and public bodies, which facilitates the enhancement, visibility and growth, to favour the creation of a new Italian entrepreneurial fabric, and ANFOV, an association that promotes discussions between all the entrepreneurial and institutional bodies involved on the telecommunications sector and monitors, analyse and promotes the development of the contiguous ICT scenarios.

Development of human capital

In Acea people are the most important resource. For this reason, they are constantly provided with the tools and skills necessary to respond effectively to the challenges of the business during the main stages of corporate life: selection, welcoming, training, rewarding and development.

Entrepreneurship, teamwork and action are the three driving values of our Leadership Model upon which the Group's initiatives are built to achieve the goals of the 2019-2022 strategic plan and the sustainability plan.

The Leadership Model, values and behaviours guide and contribute to defining an organisational setting that seeks to promote a constant development of human capital, recognised as a strategic asset for remaining competitive in a changing economic and social context.

It was in fact precisely people, in this difficult period in which the pandemic represented the most complex challenge, who were the driver that enabled the company to continue to provide its services giving continuity to the business with no interruptions. In a few days in fact, thousands of colleagues managed with full effectiveness to work remotely, rethinking processes and activities in a totally digital way, managing to be a team in an enterprising manner and continuing to achieve all the objectives foreseen.

The activities of selecting, training, rewarding, developing, communicating and involving personnel, carried out digitally, contributed to the enhancement of the human capital, accelerating along the pathway of digitalising the corporate processes and the transfer of new skills over the entire population.

To respond better to the challenges that the evolution of the economic and social context is putting before us, Acea is continuing to work on the skills, on new ways of organising the work and on improving the management and development processes in order to support the entire organisation in achieving the corporate objectives defined maintaining a high level of personal satisfaction and well-being. The goal of enhancing people for the growth of the Group is broken down and carried out through three areas of activity:

- professional development, management growth, training and development of skills through a process that, starting from hiring, uses onboarding, training and a performance assessment system to align behaviour with the Leadership Model and the values of the Acea Group in a constant development of human capital;
- involvement of people in the Group's identity through specific initiatives designed to promote employer branding, making Acea increasingly attractive for new talent;
- inclusion and organisational well-being, with the launch of initiatives aimed at making work increasingly "smart" and boosting motivation, potential and satisfaction of personnel, as well as the well-being of employees, recognising the strategic value of diversity, health and the safety of workers.

Sustainable management of the supply chain

Aware of the positive contribution that sustainable supply chain management can offer to protecting the environment, Acea is committed to defining purchasing methods that include intrinsic characteristics of the products and aspects of the process that limit environmental impact and foster initiatives aimed at minimising waste, reusing resources and protecting the social aspects involved in the procurement of goods, services and works defined and used to meet its needs.

Indeed, for several years Acea has been using the Minimum Environmental Criteria, in its calls for tenders including even rewarding aspects that are not mandatory but often decisive in ensuring the maximum achievement of the objectives set.

Furthermore, it engages in the education of its own resources so that the purchasing choices tend toward goods or services with sustainable characteristics, thus stimulating the development of a specific sensitivity towards these aspects, with the aim of having them always present in supplier selection processes.

Acea has always been at the service of the community and the public and therefore puts a high priority on open exchanges with stakeholders and the supply chain to be increasingly efficient in responding to local demands.

Health and safety in the workplace

Acea carries out constant awareness campaigns on the subject, with the aim of profoundly affecting the widespread dissemination

of a culture of safety involving all its employees. It has implemented an advanced risk assessment model, not to mention control and mitigation measures. Acea has also launched a number of initiatives to raise awareness of and involvement in the issues discussed above with its contractors and sub-contractors, key business partners throughout the entire value chain.

Safety seen as strategy, and not only as compliance, is based on the possibility of measuring and monitoring the results in a managerial approach. In the context of the process of continuous improvement that it has undertaken, oriented to the prevention and reduction of injuries, Acea intends to make available to its employees a valid and effective instrument for the purposes of active participation in analysing the trend of indicators; this aspect is often considered a measure of the level of maturity of the culture of safety and the culture of improvement in an organisation. Improvement actions based on the realisation that there are margins to pursue (for example actions to reduce the proportion of some types of injury) and consolidation actions (for example maintaining positive results, growing organisational resilience), represent the natural process of continual improvement in the field of workplace health and safety. A Group RSPP Coordination Committee is active, with the aim of sharing the results of safety performance, experiences, good practices and sustainable solutions for the prevention of accidents in the company. It is also an opportunity to share the corrective actions implemented following safety performance analyses that have found deviations from the objectives set (e.g. worsening of the IFR/IG indices, repeated lack of compliance in the field, etc.). A special H&S Dashboard was also prepared and has become a shared tool for the reporting of occupational health and safety performance. The key performance indicators on the subject of safety in the workplace constitute an important part of the information necessary to determine and explain how an organisation progresses towards its objectives of preventing and reducing injuries.

Safety is at the centre of numerous innovative experiments. Also during 2020 several innovation projects were launched to make the Acea operators increasingly safe. An example of these was the development and use of personal protective equipment fitted with sensors capable of signalling the correct devices (Smart PPE).