

From regulated tariff to competition for the market: The Italian approach to liberalising electricity retailing.

FSR debate on: Promoting competition in the retail energy market

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Competition and consumer protection in the Italian electricity retail sector

2007 to 2021

- Full liberalisation of electricity retailing: all consumers can choose their supplier
- Further protection for small consumers: ≈19 million in 2019, ≈8 million in 2023
- ... in the form of a regulated tariff option, with pass-through of wholesale market prices and regulated transportation and retailing components – the *Maggior Tutela (MT)*
- No evidence of *Maggior Tutela* acting as a barrier to retail market development

From 2021

- Former *Maggior Tutela* consumers assigned via tenders to competitive retailers: 6,7 million by the end of 2023
- Regulated tariff option for vulnerable customers: 3,6 million

The auctions

	2021	2022	2023
Consumers	0,25 mil Small non-residential	1,7 mil Very small non-residential	4,8 mil Residential
Rights & obligations of the new supplier (<i>Tutela graduale</i>)	<ul style="list-style-type: none"> Supply the awarded customers at a discount over the MT tariff for 3 years, unless customer switches supplier No restrictions on marketing activities targeting own <i>Tutela graduale</i> consumers (unlike MT) 		
End-of-period arrangements	Consumers that have not switched to a market-based offer for 3 years are re-assigned via tenders		Consumers that have not switched for 3 years remain with Tutela graduale supplier at market-based commercial terms
Auction format	<ul style="list-style-type: none"> Tendering in two stages: <ol style="list-style-type: none"> sets price reference and selects the participants to second stage awards. Independent allocation of multiple sets of clients 	Multi-product simultaneous ascending clock auction	Combinatorial auction
Competitive variable	Level of discount over MT tariff (€/consumer per year)		
Main design driver (*)	Common value / winner's course	Common value / winner's course	Competition

The 2023 auction: design

26 lots, each one with
≈185k consumers

Credit risk is the
main difference
among lots

Sealed offer by each bidder:

- Array of offer prices (discounts) for any number of lots; and
- Maximum number of lots he is available to buy

Auction clearing
algorithm selects
winning offers
maximising total
discount
(Combinatorial auction)

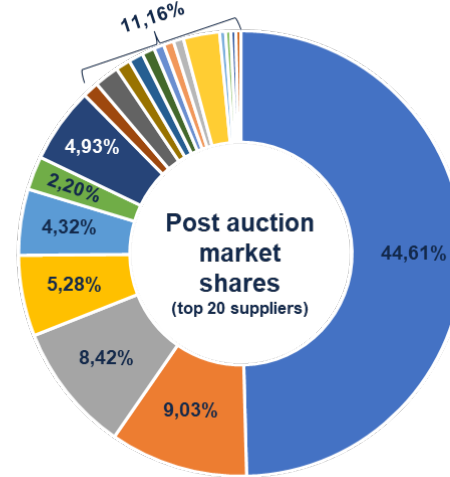
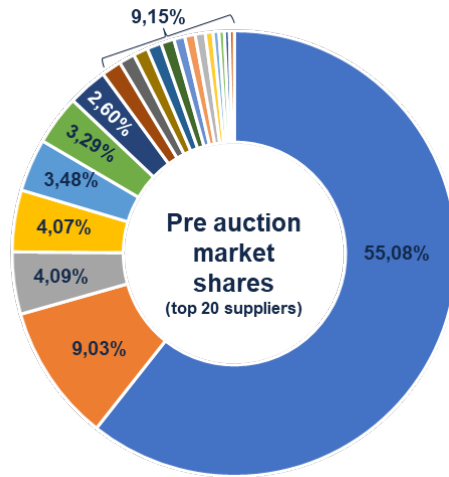
Additional provisions

- Discount floor - auctioneer reservation price
- Antitrust constraint on the maximum number of lots to a bidder
- Eligibility constraint on the maximum number of lots to bidder based on bidder's size
- Ex-post discount averaging. All Tutela Graduale consumers pay the same price

Winner rights and obligations:

- Provide the Tutela Graduale service for up to 3 years
- Market any of his other tariff options to his Tutela Graduale consumers
- After 3 years, apply his «most favourable» tariff option to his former Tutela Graduale customers unless they choose a different one, or change supplier.

The 2023 auction: results



Pre auction ranking	Top 20 suppliers	Post auction ranking
1	ENEL	1
2	ENI	2
3	HERA	3
4	A2A	4
5	IREN	6
6	Acea	8
7	EDISON	5
8	Dolomiti Energia	10
9	E.On	9
10	Sorgenia	11
11	ENGIE	12
12	AGSM AIM	13
13	Alperia	16
14	Estra	14
15	Posta Italiane	15
16	TREMAGI	7
17	EG Holding	17
18	Acinque	18
19	Axpo Group	19
20	Gruppo Canarmino	20

- If all consumers that were moved to the *Tutela Graduale* remain in the regime for its 3y duration → total savings will be ≈ 1,8 billion compared to previous regulated tariffs
 - The average discount for a residential customer resulting from the auction is 130 €/year
 - Based on a reasonable cost assessment, the providers will lose on average 100+ € per year on each *Tutela Graduale* customer

What we learn from the 2023 auction

Competition *for* the market does work

The case on competition *in* the market is still open

- Despite taking place during the energy crises caused by Russia's invasion of Ukraine and despite the relative small number of participants, the auction extracted significant surplus, to the benefit of consumers
- The high prices paid by suppliers to acquire Tutela Graduale customers signals their expectations to be able to extract much value from them in the coming years. This may result from:
 - Offering services that are far more valuable to customers than the current electricity supply arrangements
 - Exercising market power

Thanks for your attention

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