Water Services in Italy

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• The legal framework
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In Italy, water services are a municipal matter.

The reform Law n. 36/1994 (Law Galli): the basic principles

- **introduces** the definition of *Ambiti Territoriali Ottimali* (ATO) – Optimum Territorial Entities -, intended to eliminate the extreme fragmentation of water services: **horizontal integration**, i.e. only one operator for each ATO (scale economies);

- **provides for the vertical integration** of the different water services (potable water, sanitation and WWTP) into the Integrated Water Service (scope economies);

- **Foresees a unified tariff system** for each ATO. Tariffs have to ensure **full cost recovery** (capex and opex), thus anticipating the provision of the European Water Framework Directive, thus underlying the industrial character of the water services.
Law n. 36/1994 (Law Galli) : the actors

- Regions decide how to cluster municipalities into ATOs;
- Once gathered, municipalities decide how to manage the water services:
  - public enterprise
  - mixed company
  - private operator

In any case, the operator acts as a concessionaire.

Private partners are selected by means of a tender.

Tariffs are fixed and reviewed periodically throughout negotiations between the ATO and the operator following a standard methodology;
The initial tariff is established either as the result of a competitive bid or as the result of a complex procedure including the following steps:

- analysis of present and forecasted demand;
- assessment of existing infrastructures;
- definition of service levels at given time horizons;
- definition of the investment plan;
- drafting of the business plan;
- calculation of the tariff;
- comparison of the resulting tariff with the existing one and with the reference tariff resulting from benchmarking;
- possible adjustment of the investment plan so to comply with the reference tariff.
Before the reform law, water services were managed by more than 10,000 different operators. Most of them were municipal departments; a minority were organized as enterprises.

60% of «structured» operators were in Northern Italy; 11% in Central Italy and 29% in Southern Italy and Islands.

<table>
<thead>
<tr>
<th>Service Type</th>
<th>Population Served</th>
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</thead>
<tbody>
<tr>
<td>Public entreprises</td>
<td>43% of the population</td>
</tr>
<tr>
<td>Private operators</td>
<td>8% of the population</td>
</tr>
<tr>
<td>Municipal depts</td>
<td>49% of the population</td>
</tr>
</tbody>
</table>
Some figures about Italy

- 60.0 million inhabitants
- 301,336 sqkm
- 20 regions
- 100 provinces
- 8500 municipalities

More than 10,000 entities managed the water services before the reform law.

91 ATO have been defined according to the reform.
Italy’s regions
The situation of the water industry

The annual turnover of the water industry in Italy in 2008 is estimated in about 6,5 billion Euro, for about 5,5 billion mc of water distributed, as follows:

- production and distribution of potable water 61%
- waste water treatment 28%
- sewerage 11%
The situation of the water industry

- Coverage of water distribution: 96%
  - Water losses: 39%
    - (Abruzzo 57%, Puglia and Calabria 56%)
  - Age of water networks: 30 years

- Coverage of sewage networks: 85%
  - (min. 33% in rural areas, max 98% in Rome)
  - Age of sewage networks: 27 years
    - (min. 5 ans en Puglia, max. 51 ans à Raguse)

- Coverage of waste water treatment: 75%
  - Age of WWTP: 16 years
    - (min. 12 years in Umbria, max 23 years en Puglia)
The investments needed in the water services in order to comply with the Water Directive, at an average planning horizon of 12 years, is estimated in approximately 28 billion Euro, namely:

- 11.2 billion € for potable water;
- 12.2 billion € for sanitation;
- 4.6 billion € for waste water treatment.

Source: Comitato di vigilanza sull’uso delle risorse idriche, juin 2002.
Recent trends

• In the last few years the process of appointing new operators in the ATOs has slowed down;
• Several tenders registered one or two tenderers or no participants at all;
• Many ATO have opted for in house (public enterprise) solutions, in the attempt of (artificially) establishing low tariffs.
The implementation of the reform law

<table>
<thead>
<tr>
<th>No.</th>
<th>Pop.</th>
<th>%</th>
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<tr>
<td></td>
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<tr>
<td>▪ ATO foreseen:</td>
<td>91</td>
<td>57.500.000</td>
</tr>
<tr>
<td>▪ ATO with a selected operator:</td>
<td>68</td>
<td>45.140.000</td>
</tr>
</tbody>
</table>

Type of management chosen by the 68 active ATO:

- concession to a private operator: 6
- « in house »: 31
- other: 6
- mixed company: 25
  out of which quoted in the SE: 13
The 91 ATOs
WHY ARE TENDERS SO UNAPPETIZING?

• unduly selective requirements for participants in the bidding,

• limited correspondence of the plans underlying the call for tenders to the real situation,

• return on investment of the management distant from the investor’s legitimate expectations.

• high conflictuality (company, local authorities, …)
The first wave came to a halt

- The water services reform launched in the mid 1990s was important in enhancing the efficiency and functionality of the water services in Italy and in fostering the implementation of Dir. 2000/60/EC

- The opening up of the water services market begun at the end of the 1990s was found to have numerous limitations; low bidding participation, while no new market subjects have emerged.
CONCLUSIONS

A new wave is coming?

A new law on public utilities, including water, has just been approved by the Parliament, providing:

- The “in house providing” system, i.e the public enterprise, is practically forbidden; existing ones have to be sent on tender by 20013;
- In mixed companies, the participation of local authorities has to be lower than 40% ;
- In those mixed companies that are quoted in the Stock Exchange, the participation of local authorities must lower below 30%.