

ITALIAN PRIVATE WATER

Italian water operators face €15bn headache over remunicipalisation

Third-party estimates of the costs that would be incurred if Italy's water operators were to be returned to public ownership have raised eyebrows across the sector. With the country's credit rating on the lowest rung of the investment-grade ladder, can it afford it?

Draft legislation currently being examined in the Italian parliament which proposes that all water operators in Italy be publicly owned and managed could cost the public purse an estimated €15 billion at the outset plus €6-7 billion a year going forward, according to recent studies by think tanks REF Ricerche and Oxera.

The REF Ricerche study estimates a one-off payment of more than €10 billion to cover existing liabilities, plus €4-5 billion in up-front compensation to current operators if concessions are rescinded by 31 December 2020 – in some cases a whole decade before they were due to expire.

Funding the network upgrades promised in the new law – named Daga after its proponent, MP Federica Daga – is calculated to cost around €5 billion annually, and a pledge to supply 50 litres of water per person for free is priced at nearly €2 billion a year.

“Whatever the final outcome of this process, the uncertainty it is generating will damage the sector, and ultimately damage ordinary people by slowing down investment,” Alessandro Marangoni of think tank Althesys told GWI.

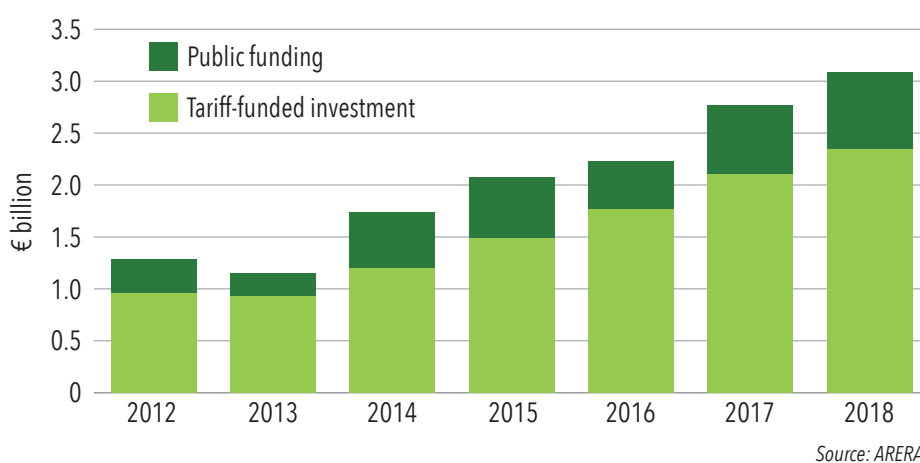
Water operators' association Utilitatis has also flagged up the risk that the Daga law poses to investment in water and wastewater infrastructure. “The state does not have the resources to invest in the sector unless new taxes are introduced or Italian public debt is raised further,” it said in a statement.

Multi-utility operator Iren, which serves more than 2.6 million people in the north of Italy, said the Daga proposal ignores the fact that listed multi-utilities have been able to raise funds at a lower cost – and thus invest in water and wastewater services more effectively and efficiently – than many publicly owned water operators.

According to a recent report by water regulator ARERA, investment in the Italian

WATER & WASTEWATER INVESTMENT TRENDS IN ITALY

Investments have picked up pace in the Italian water sector in recent years, spurred on by higher tariff income. Legislation which would return water utilities to public ownership threatens to disrupt the trend.



water and wastewater sector is estimated to have grown from just over €1 billion in 2013 to more than €3 billion in 2018 (see chart above).

During hearings with the environment committee of the lower chamber of parliament in December, Italian MPs heard the views of stakeholders on both sides of the argument. But there is little appetite for compromise, according to Paolo Carsetti of Forum Italiano dei Movimenti per l'Acqua, the movement behind the Daga text. “We fully support these proposals,” he reiterated to GWI this month.

Marangoni is a staunch opponent. In a country where the system overhaul envisaged by the Galli Law in the 1990s is still struggling to bed in, the Daga proposal would “drag the sector back, increasing fragmentation and losing the economies of scale and greater efficiency that were so hard to achieve,” he said.

“Removing ARERA from its regula-

tory role would be a further, incredible, retrograde move, given that investment has grown and performance has improved since its inception,” he added.

Althesys' annual report on the performance of Italy's top utility companies – the next edition is due for publication in late February – has consistently shown that operators' legal entity status has no impact on their effectiveness. Investments and good management are the main determinants of good performance, Marangoni claims.

The draft law is expected to be discussed in Italy's lower chamber of parliament in early March. Of the two government coalition partners, the MS5, of which Federica Daga is a member, is fully behind the proposed law. The Lega has not yet made its views known, while opposition parties are likely to be split. This suggests the text may be amended in parliament.

If the Daga draft law makes it onto the statute book in its current form, “it will be a lose-lose situation for citizens, the environment and companies,” Marangoni told GWI. “[It is] the exact opposite of what is needed in the Italian water sector, which is hungry for investment and growth.” ■

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Alessandro Marangoni, Althesys