



Impacts of the health emergency on utilities. First reflections

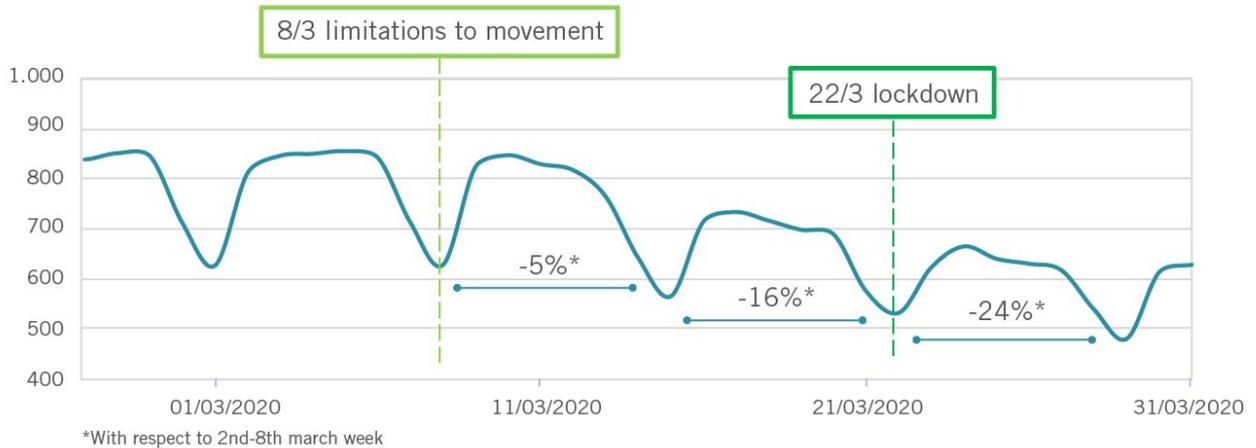
by Giacomo Salvatori and Andrea Gilardoni

What are the impacts of the health emergency on the utilities market in the short and medium term? Are investments continuing? Have operational activities been affected? Which government interventions are considered a priority by operators?

To give preliminary answers to these questions, we submitted a short questionnaire to about 60 Agici partner companies – including several market leaders – obtaining early indications. The 30 respondents have a total turnover of about 35 billion euros and a workforce of about 100,000 employees.

As far as the **market context** is concerned, figures in the first trimester of 2020 indicate progressive declines in electricity consumption (down by -24% in the first weeks after the national lockdown), and gas consumption (-29% for industrial and -26% for thermoelectric, with residential consumption constant)¹. Price dynamics are also critical, with a drop in the average PUN (national price of electricity) to €32/MWh in March, down to €20/MWh in working days in mid-April.

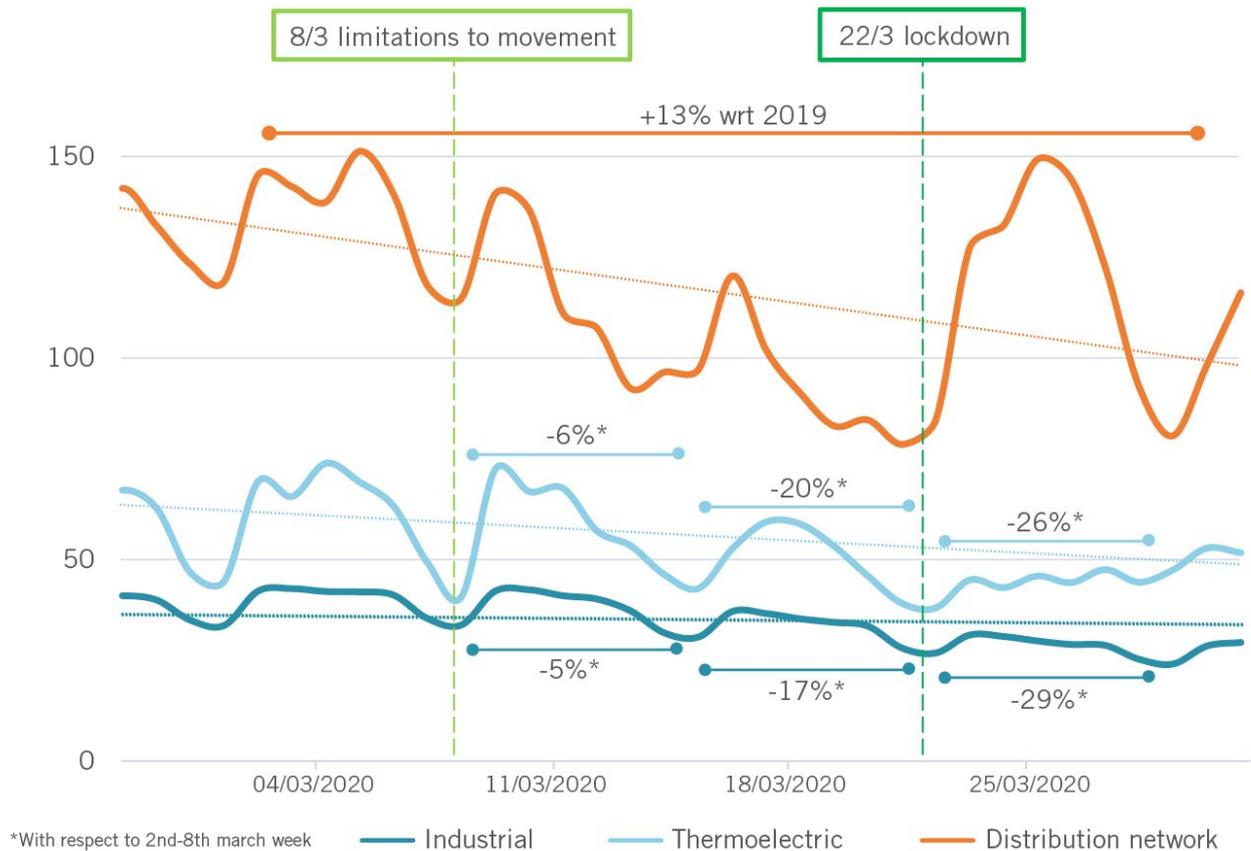
Figure 1 Development of electricity consumption in March 2020 (GWh)



Source: Agici elaborations on GME data 2020

¹ Source: Agici elaborations on GME and Snam data. Reductions for the week 23-29 March compared to the week 2-8 March.

Figure 2 Development of gas consumption in March 2020 (million nm³)



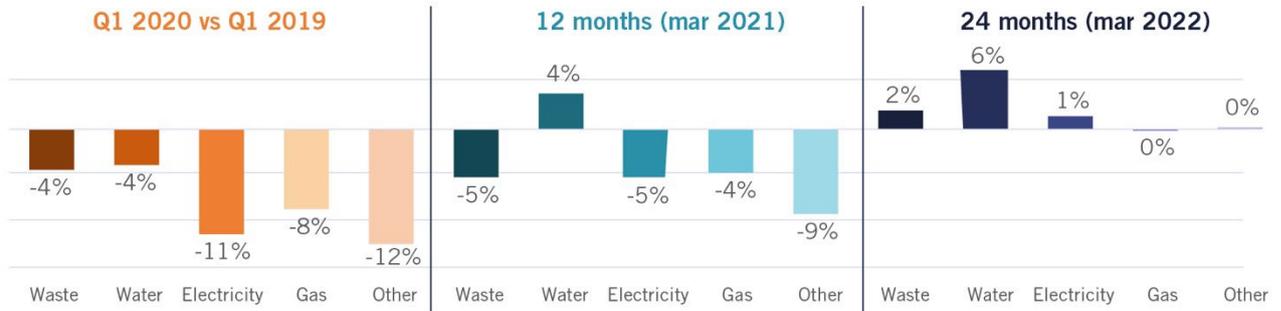
Source: Agici elaborations on Snam data 2020

For waste, there are critical issues regarding the slowdown in demand for secondary raw materials and the following accumulation of stockpiles, difficulties in exporting waste, and operational difficulties deriving from the special management of potentially infected waste. As far as water is concerned, possible increases in domestic consumption are expected, with a considerable drop in industrial consumption. Given the availability of data, it is not possible to quantify the extent of the phenomena for both waste and water at present.

Based on these objective data, we asked the companies in the sample what were the **impacts on production** in waste, water, electricity and gas in Q1 2020, at one year (March 2021) and 24 months (March 2022). The values summarized in figure 3 are broadly indicative but representative of operators' expectations.



Figure 3 Estimated change in production activity by sector²



Source: survey to Agici partners, April 2020

Declines in electricity and gas in Q1 2020 concern both consumption and prices and depend to a large extent on the considerable reduction in industrial activity. With regard to electricity generation, the reduction in consumption has mainly impacted thermoelectric power from fossil fuels. In waste and water, the reduction is minor, as these are less impacted by the closure of industrial plants. With regard to waste, the sector was negatively impacted by the reduction in the production of industrial waste, and by the difficulty of finding markets for secondary raw materials due to the closure of many plants and the blockage of exports. With regard to water, the expectation is that moderate increases in domestic consumption will not be sufficient to compensate for the large reduction in industrial uses.

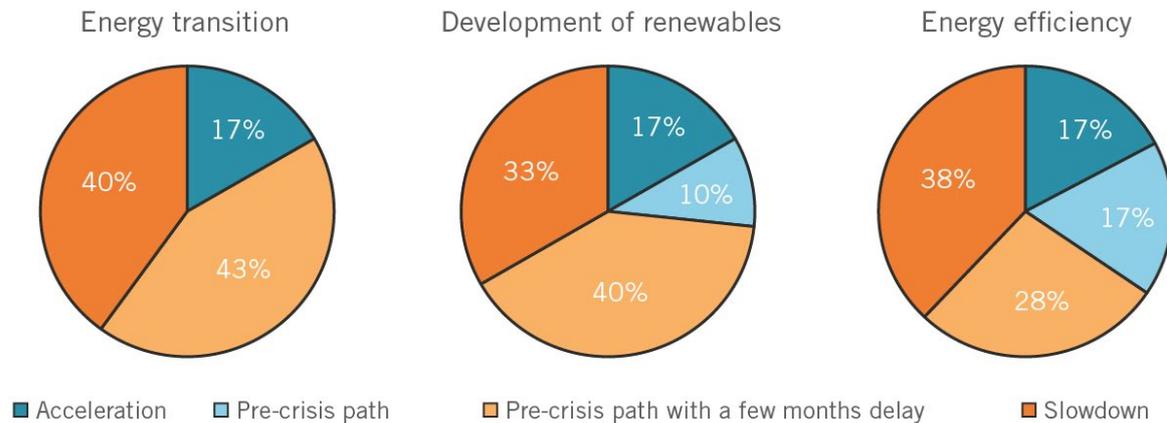
Still looking at figure 3, the 12-month forecasts show positive signs for water, and a smaller reduction for electricity, gas and other sectors. Waste is the only one not benefiting from improvements but rather worsening its position, probably due to uncertainties about the recovery of secondary markets during the year. At 24 months, respondents expect an end to the slowdown, with a return to growth for waste and electricity, and a stationary situation for gas and other activities.

There are heterogeneous expectations from companies on **energy transition, renewables and energy efficiency developments** (Figure 4).

² Responses are weighted by the total turnover of each respondent. The simple average percentages are on comparable values, with the exception of water and electricity at 12 months showing respectively -2% and -10%.



Figure 4 Expectations on the development of three key trends



Source: survey to Agici partners, April 2020

A majority believe that the trends will continue, albeit delayed by a few months, as they are on a path of economic sustainability independent from public support. About a third believe that developments will slow down, due to the focus of resources on core activities and a possible decline in public investment. Finally, one in five companies bet on an acceleration of these trends as a possible driver of economic recovery. In the immediate future, while projects under construction continue – even if slowed down by the closure of construction sites and difficulties in the supply chain – uncertainties lay ahead for investments not supported by incentives, under pressure because of reduced energy prices.

What **factors** will determine the course of the recovery? Public support choices will be of great importance. One third of respondents indicated a risk of liquidity crisis and difficulties in accessing credit. Also relevant are issues coming from the blockage of international goods transit and protectionist tendencies.

Finally, among others, we would like to point out two answers that show concerns about social stability and public confidence in institutions.

What **immediate responses have** been put in place by companies? Most respondents indicated security measures for employees, operational adjustments for remote work, and reorganisation of processes in the field. This was followed by the need to rethink investments and personnel organisation, and by considerations related to liquidity shortage. In this context, immediate initiatives have been undertaken to enhance IT and activate new digital services. In two cases, companies started the production of personal protection devices and disinfectants.

Concerning **investments**, while most companies indicate a slowdown of less than 20% or between 20 and 40% of their investments, three companies reported that there will be no reduction, and four indicated a reduction of more than 80%. The main reasons for this are operational and logistical difficulties related to security protocols, and compliance with government regulations. With



construction sites closed and activities limited to the bare essentials, there is expected to be a delay in the execution of a relevant share of ongoing investment. More worrying is the possible cutback in new investments due to the numerous uncertainties, in particular on demand dynamics and on the availability of supply chains.

Lastly we investigated the **priorities for government intervention** to address the emergency and, above all, to facilitate recovery. The responses are illustrated in figure 5.

Figure 5 Priorities for action at government level



Source: survey to Agici partners, April 2020

Respondents made very articulate suggestions regarding the initiatives that they hope will be implemented by the public sector, a sign of the great importance that European, national and regional government activity has at this juncture. Without going into detail, the main points that have emerged are set out below:

- a) The role of national and European institutions is considered to be essential to support businesses and consumers, in particular as regards demand support, liquidity, access to credit and employment support with social safety nets;
- b) It is requested to relaunch the already accepted policies on energy transition, circular economy, energy efficiency. These developments, with adequate public support, for example by maintaining or increasing the resources of the green new deal, can be a driving force for recovery;
- c) These initiatives can be effectively implemented if they form part of a well-defined strategic framework with allocation of adequate resources, including increased public spending and prioritisation of infrastructure interventions;
- d) Simplification interventions are also fundamental. The subject is certainly not new, but in this crisis situation it is vital to speed up the processes of investment to unlock an overall economic recovery;
- e) The sectors under consideration have already developed a number of initiatives in energy, water infrastructure and waste that could be activated quickly if the right conditions, including authorisation conditions, were in place.