Research Update:

Italian Energy Purchaser And Strategic Oil Reserves Manager Acquirente Unico 'BBB' Rating Affirmed; Outlook Negative

July 26, 2019

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Overview

- We believe that Acquirente Unico SpA plays a critical role for the Italian government given its dual mission as centralized purchaser of electricity--although this will gradually decrease--and manager of Italy's strategic oil reserves through its operational unit OCSIT (Organismo Centrale di Stoccaggio Italiano).
- We also believe that Acquirente Unico benefits from a strong legal status that ensures the financial balance of all its operating activities.
- In our view, there is an almost certain likelihood that Acquirente Unico would receive timely and sufficient extraordinary support from the Italian government in the event of financial distress.
- We are affirming our 'BBB' long-term issuer credit rating on Acquirente Unico, and equalizing it with our long-term sovereign rating on Italy.
- The negative outlook on Acquirente Unico reflects that on Italy and our expectation that Acquirente Unico's critical role for Italy and integral link with Italy will not change.

Rating Action

On July 26, 2019, S&P Global Ratings affirmed its 'BBB' long-term issuer credit rating on Acquirente Unico SpA, which operates as a centralized purchaser of electricity and manager of Italy's strategic oil reserves. The outlook is negative.

Rationale

We consider Acquirente Unico to be a government-related entity (GRE), and believe there is an almost certain likelihood that the Italian government would provide timely and sufficient extraordinary support to Acquirente Unico in the event of financial distress. We therefore equalize our long-term rating on Acquirente Unico with that on Italy.

Moreover, we do not see the likelihood of government support as subject to transition risk given that Acquirente Unico executes strategic government policies. As a result, we expect that the rating and outlook on Acquirente Unico will move in line with those on Italy. Our assessment of the company's stand-alone credit profile is not a rating driver. Furthermore, we consider that the Italian government's contingent liabilities do not constrain its capacity and willingness to support Acquirente Unico in a timely manner if the entity is in financial distress. More generally, we do not consider the government's general propensity to support the GRE sector to be in doubt.

Acquirente Unico is a public company established to ensure the supply of electricity to eligible (protected) customers. Following the full liberalization of the energy market, and therefore the possibility that Acquirente Unico's activities associated with the supply of electricity to eligible customers will likely gradually decrease, the government extended Acquirente Unico's role. For instance, Acquirente Unico is responsible for finding a new gas supplier if the current one were to become insolvent. In addition, the government has assigned a number of ancillary activities to Acquirente Unico, including facilitating settlements on disputes between customers and market operators, better managing information flows relating to electricity and gas markets, and monitoring open market operations. If its role of supplier of electricity to eligible customers were to cease or gradually decrease by July 2020, Acquirente Unico's role as intermediary between the market and customers will increase.

In 2012, Acquirente Unico took over the management of the national strategic oil reserves through the Italian strategic reserve manager OCSIT (Organismo Centrale di Stoccaggio Italiano), which was integrated into Acquirente Unico as its operational unit. This differs from OCSIT's European peers, which usually have a stand-alone entity to manage oil stocks. In our view, Acquirente Unico's dual nature, if anything, reinforces the strategic and critical nature of its role for the Italian government. All the activities that Acquirente Unico carries out in the energy sector are under the strict control of the National Authority for Energy, Networks and the Environment (Autorità per l'Energia, le Reti e l'Ambiente [ARERA]). The Ministry of Economic Development (MiSE) supervises all the tasks performed in OCSIT's name.

Our opinion of an almost certain likelihood of support from the Italian government reflects our view of Acquirente Unico's:

- Integral link to the Italian government, which regulates all of its activities. Acquirente Unico is wholly owned by Gestore dei Servizi Energetici SpA (GSE), which, in turn, is wholly owned by the Ministry of Economy and Finance. The national regulator ARERA sets the financial conditions of the services that Acquirente Unico provides in the energy sector, and MiSE sets the strategy for the acquisition and management of strategic oil reserves. GSE appoints the members of the Acquirente Unico board every three years, and the proposed members are subject to the Ministry of Finance's agreement, with the possibility of veto. MiSE establishes annually and by ad-hoc decrees the amount of specific oil stocks that OCSIT should hold and the contribution fees that the market operators should pay, thereby ensuring the balance of OCSIT's accounts.

- Critical role for the government as manager of Italy's strategic oil reserves. Acquirente Unico supports the functioning of the Italian energy market. Since 2007, Acquirente Unico has, by law, undertaken all activities relating to energy supply in favor of households and small businesses that have not switched to the electricity open market. Additionally, in the energy sector, Acquirente Unico provides support to public entities, manages the integrated IT system for the management of information relating to the electricity and gas markets, and acts as the supplier of last resort in the gas segment. Through OCSIT, Acquirente Unico has been legally assigned the strategically important responsibility of fulfilling the government's oil stockholding obligations under EU and International Energy Agency regulations.

All the activities that Acquirente Unico carries out (those linked to the electricity and gas sectors and OCSIT) are ones that the Italian government must undertake, not only by law but also because they are necessary for the ordinary functioning of the Italian markets. The Italian government could have opted to entrust private oil operators with the task of fulfilling Italy's commitments in terms of its strategic oil reserves. However, in that case, it would have been the Italian government's responsibility to monitor compliance with such requirements, an onerous and difficult task. Most European countries have opted for a mixed model, in which a dedicated body (OCSIT, in this case) centrally manages a significant part of the required reserves. While this is not the only possible solution, it does provide cost savings for oil operators (through lower costs of funding) and makes compliance with Italy's obligations easier.

Acquirente Unico does not receive funds from the government, nor does it benefit from any explicit guarantee on its liabilities. However, the government provides Acquirente Unico with what we see as strong ongoing support in the form of a regulatory framework, as all Acquirente Unico's activities fall under the full cost recovery principle. Oil reserve companies, by law, must pay whatever fees are necessary to fully cover all of OCSIT's costs--including operational and financial costs. Moreover, in case of need, MiSE has the legal right to issue an extraordinary fee to the oil and gas operators at any time. Ultimately, the central government can request that Acquirente Unico sells its stock to repay its financial debt and cannot use it to pay its other debtors or to cover its other operating costs.

All Acquirente Unico's long-term debt relates to OCSIT's stocks and is included in the Italian general government's public debt because it was contracted for a strategic public objective. Acquirente Unico's future financial requirements to acquire specific stocks are shared with the government, which may authorize debt issuance for this goal. In fact, in 2019 Acquirente Unico issued its inaugural bond, for €500 million and a seven-year maturity.

All Acquirente Unico's activities are carried out under the full cost recovery principle. The company does not make a profit, and therefore acts mostly as a pass-through entity in electricity markets. However, there are some differences in the cash flow of the two core businesses. OCSIT factors in all of its expenses, including financial costs, when determining the annual fees applicable to market operators, and fees are cashed in monthly or semiannually, ensuring regular access to liquidity inflows. Typically, fees are set with very conservative assumptions on expenditures and, as a result, OCSIT normally generates excess fees that are offset the following year.

Regarding Acquirente Unico's activity in the electricity sector, it saw a large drop in working capital from 2016. This was mainly due to a change in the payment conditions in the market ("Mercato del Giorno Prima"), whereby Acquirente Unico only receives payment for daily purchases at the end of each two-month billing cycle. To cover this liquidity mismatch, the national regulator of the energy sector, in accordance with MiSE, provided Acquirente Unico with a €350 million credit line from December 2016. Acquirente Unico also has several credit lines available both for its energy-related activities and for OCSIT's tasks.

Acquirente Unico covered its €297 million in debt maturities in 2019 through the issuance of a €500 million bond in February. In the coming years (to 2023), Acquirente Unico expects to continue enlarging its strategic reserves, with a view to reach 30 days' worth of consumption by the year 2023. We understand Acquirente Unico will resort to a combination of bank funding and new debt issues to cover its needs, including a €364 million maturity coming due in 2022.

If necessary, OCSIT may also sell oil reserves, for which there is an active market, to meet all or part of its financing needs. In any case, the sale of the OCSIT stocks can only take place following authorization by the government.

Outlook

The negative outlook reflects that on Italy and our opinion that, in the next two years, Acquirente Unico will continue to have an integral link with and play a critical role for the Italian government in fulfilling its role as guarantor of the supply of electricity in the national market and manager of Italy's international oil stockholding obligations.

Downside scenario

We could take a negative rating action on Acquirente Unico over the next two years if we were to take a negative rating action on the sovereign. We could also take a negative rating action if Acquirente Unico's critical role for and integral link with the Italian government were to weaken, for example, if we believed that the framework supporting Acquirente Unico would not allow for timely support, or if the entity's financial situation worsened. However, we see this scenario as unlikely

Upside scenario

We would revise Acquirente Unico's outlook to stable if we were to take a similar rating action on Italy, and our assessment of the likelihood of government support remained unchanged.

Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed	
Acquirente Unico SpA	
Issuer Credit Rating	BBB/Negative/--
Senior Unsecured	BBB