

Third Regulatory Period

Tariffs for 2008-2011

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Agenda

Highlights

Transmission: Resolution 348/07

Dispatching: Resolution 351/07

Closing Remarks

Annexes

Third Regulatory Period

New tariff schemes consistent with Terna's scope of activities post TSO integration

- Transmission: Resolution 348/07
- Dispatching: Resolution 351/07
- Quality of service: Resolution 341/07



Good remuneration and appropriate incentives

Third Regulatory Period

Highlights

Stability and Continuity

- 2008-2011: 4-year visibility
- Clear rules

Convergence and Focus on Quality

- Progressive realignment of electricity and gas regulations
- Package including quality regulations

Positive Outlook

- Visibility on length of incentive schemes
- Retention of efficiencies beyond the regulatory period

Third Regulatory Period

Third vs Second Period

2004-2007

2008-2011

RAB *Italian Operations*

- < €5bn ⁽¹⁾

- ca. 6.3bn ⁽²⁾
 - Transmission: €6.1bn
 - Dispatching: €0.18bn

WACC *Real pre-tax*

- 6.7%

- 6.9%

**Development
Capex Incentives**

- Premium: +200bps
- Length: assumed useful life of assets

- Differentiation of premiums/lengths
 - 2004-2007 capex: +200bps up to 2019
 - Future capex: +200/300bps for 12yr

X-Factor

- 2.5% on (Opex + D&A)

- Applied only on Opex
 - Transmission: 2.3%
 - Dispatching: 1.1%

Volume Effect

- On Opex + Depreciation

- Only on Opex

**Measure and
Dispatching**

- MIS: nm
- DIS: RAB of TSO fully remunerated

(1) Only Terna S.p.A. excluding T.S.O and grid portions

(2) First computation based on TERNA assumptions

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Transmission: Resolution 348/07

Key Elements

Regulatory Asset Base

- Rolling RAB based on re-evaluated historical cost

Allowed Return

- $WACC_{\text{Real pre-tax}}: 6.9\%$
- Better than the consultation documents

Development Capex Incentives

- Differentiated additional remuneration according to capex categories
- More appealing new incentives mix (confirmation of a minimum 2% incentive)

Efficiency Targets

- X-factor: 2.3% vs previous 2.5%, applied only to opex

Depreciation

- Annual update coherent with RAB annual adjustment
- No X-factor applied

Transmission: Resolution 348/07

RAB for Tariff Purpose

- RAB for 2008 tariff purpose = $RAB_{31/12/2005} + \text{Net Investments}_{2006} + \text{Deflator}_{\text{Average 2Q06-1Q07 available}}$
- RAB for (year t+1) tariff purpose = $RAB \text{ for (year t) tariff purpose} + \text{Net Investments (year t-1)} + \text{Deflator}_{\text{Average last 4Q available}}$
 - Net Investments(year t-1) = $\text{Gross Inv}(\text{year t-1}) - (\text{net of disposals and assets fully depreciated}) - \text{Depreciation}(\text{year t-1})$
 - Deflator for Gross Investments: the annual investment deflator published by ISTAT
- 18 months time lag for all investments
- Calendar RAB for year t equals approximately RAB for tariff purpose of year t+2

Starting RAB increases value despite a longer time lag

Transmission: Resolution 348/07

Incentives on New Investments

- Return applied on projects entered into operations

	Category	Premium	Length
	Capex from 01/01/2004 to 31/12/2007		
	Development investments	2%	Up to 31/12/2019
	New Capex from 01/01/2008		
I1	Renewal investment, investments established by law, increase of assets under construction, investments different from I2 and I3	-	-
I2	Development investments different from I3 , Defence Plan Investments	2%	12 years
I3	Development investments to reduce the congestions between/inside each Italian market zone or on the Italian borders	3%	12 years

Encouraging mix of incentives

Transmission: Resolution 348/07

Allowed Opex and Depreciation (only CTR)

Opex

- Reference Year: 2006
- Opex₂₀₀₈: (Opex₂₀₀₆ * V₀₇/V₀₆ + 50% of Extra Efficiency) adjusted with Price cap
- Roll over based on Price cap mechanism
- X-factor (2.3%) determined in order to transfer in 8 years to end consumer the already gained extra-efficiencies
- Volume effect

**Intra-period
efficiency efforts
will be retained**

Depreciation

- D₂₀₀₈: D₂₀₀₄ rolled over with the price-cap formula and adjusted on the base of 2002-2006 net investments
- Roll over:
 - Annual update coherent with RAB annual adjustment
 - No x-factor applied and no sensitivity to volumes

**....Allowed
depreciation as an
important driver for
future revenue growth**

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Highlights

Transmission: Resolution 348/07

Dispatching: Resolution 351/07

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Dispatching: Resolution 351/07

Main Elements

- Remuneration for dispatching activities aligned to Transmission
- Dispatching revenues = RAB Remuneration + Opex + D&A
 - RAB = ca. €0.18bn (annual roll over excluding deflator adjustment)
 - WACC = 6.9%
 - X-factor: 1.1% only on opex
- Introduction of bonus/penalties schemes
 - Additional opportunities coming from incentives schemes based on Terna's ability to predict Daily Energy Consumption and Wind Power Plant Production



Annual Tariff (“DIS”) > €40mn + Incentives

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Closing Remarks

The regulatory framework:

- provides clear rules for the future years
- supports developments in the Grid

Financials effects of the new Regulation:

- Substantially neutral impact on 2008 Revenues
- Guidance of further impacts of the new Regulations in the Strategic Plan Presentation, scheduled for the end of January

2008 Regulated Revenues: ca. €1,085mn⁽¹⁾

(1) Based on 2007E volumes

Annexes

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Unitary Tariffs

	2008	2007	Impact
• Grid Fee (“CTR”)			
- from producers	0.0256 c€/kWh	0.0267 c€/kWh	~ -1%
- from distributors	0.326 c€/kWh ⁽¹⁾	0.330 c€/kWh	
• Dispatching (“DIS”)	0.013 c€/kWh	0.010 c€/kWh	~ 0%
• Measure (“MIS”)	nm ⁽²⁾	14.231 €/point	

(1) Of which 0.008c€/kWh related to Defence Plan, the ongoing programme in charge of the enhancement of the safety and reliability of the system

(2) Annual revenue now negligible because the revenues previously covered by the MIS component are mostly embedded in the Grid Fee

Quality of Service: Resolution 341/07

Main Elements

- A premium/penalty mechanism linked to the quality of the service on Transmission will be implemented as of 2010
- Quality Targets will be measured in terms of availability of the Grid, using technical KPIs (*Energy not Supplied* and *Numbers of Disruptions for Grid Users*), based on historical values
- Impact of the Incentive Schemes:
 - Incentives up to 2% of Annual Transmission Fee
 - Penalties up to 1.5% of Annual Transmission Fee

Potential maximum impact: -15/+20mn



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