Terna

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TERNA: PRELIMINARY ESTIMATES[1] ON THE EFFECTS OF THE NEW 2012-2015 TARIFF SYSTEM FOR THE TERNA GROUP

- ***Recognized Net Invested Capital for regulatory purposes (RAB): about 9.8 billion euros***
- ***RAB base remuneration rate (WACC) at 7.4%***
- ***Incentives for grid development: additional remuneration between 1.5% and 2%***
- ***Starting from 2012, additional 1% rate on top of base WACC for offsetting the "regulatory lag"***
- ***Total 2012 tariff revenues estimated to be nearly 1.63 billion euros***

Rome, January 9, 2012 – With resolutions no. 199/11, no. 204/11 and no. 197/11, the Authority for electricity and gas (AEEG) established for the fourth regulatory period (2012-2015) the remuneration for supplying electricity transmission, distribution, metering and dispatching services and regulated the transmission service quality.

On the basis of the new rates, TERNA carried out preliminary estimates on the **Recognized Net Invested Capital for regulatory purposes (RAB 2012**) to be **9.8 billion euros** for the TERNA Group (Company), about 9.6 billion euros of which relative to transmission activity and about 0.2 billion euros relative to dispatching activity.

The resolution no. 199/11 also increased **the base remuneration rate of recognized invested capital (WACC) from the previous 6.9% to 7.4%** and established a **WACC review by November 2013,** to become effective for the second two-year period of the regulatory period (2014-2015), considering the current macro scenario characterized by a significant volatility in the markets.

Resolution no.199/11 also established an **additional remuneration incentive, between 1.5% and 2%** for a period of 12 years following the entry into operation of some development projects on the national transmission grid (NTG) belonging respectively to categories I2 and I3. The 2% incentive remuneration (**I3 category**, previously incentivized at 3%) will be granted to projects aiming at reducing congestion among market zones, at increasing the interconnection capacity with foreign countries and, only in limited cases to be specifically approved by the AEEG, at solving congestion within market zones. All other development capex for the NTG (**I2 category**, previously incentivized at 2%) will benefit from a 1.5% incentive.

Resolution no.199/11 also introduced a new incentive category (**I4 category**) for an additional remuneration of **storage systems** equal to 2% for a 12 year period after their entry into operation. These projects will be selected according to a specific procedure defined through a subsequent measure.

For investments made starting from 2012, the AEEG recognized an additional **1% rate on the WACC, aiming at offsetting the so called "regulatory lag" effect,** namely the delay with which tariffs remunerate Terna's investments.

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[1] These are preliminary estimates owing to the complexity of the regulatory framework and to its being incomplete since the Report on the Regulatory Impact Analysis by the AEEG still needs to be published.

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With regard to **allowed opex**, they will be adjusted every year taking into account the inflation rate and the recovery of previously built-up efficiencies (*X- factor*): for the 2012-2015 period this value will increase to 3% for transmission opex (it was 2.3% in the previous period) while it will decrease to 0.6%, from 1.1%, for dispatching opex.

With regard to allowed depreciations, the calculation methodology of the previous regulatory period will be maintained, with the exception of the removal of the price-cap applied on depreciation during the second regulatory period and of the recognition of the full depreciation rate even in the assets' first year of life.

For 2012, the volume mitigation mechanism introduced by Resolution 188/08 has been confirmed. Such mechanism mitigates the impact of energy demand volatility on the Company revenues to a dead band of ±0.5%. Starting from 2013, with the aim of stabilizing revenue flows by reducing their volatility linked to energy volumes, a binomial tariff will be applied by taking into account both the net energy withdrawn from the NTG and on the available capacity at interconnection points.

With **resolution no. 204/11,** the tariff for the electricity **dispatching** service for 2012 has been set to 0.0526 €c/kWh. Considering an energy volume of 318.3 billion kWh, allowed costs are equal to 167 million euros. Expected revenues for dispatching activities amount to 107 million euros including an adjustment of the activities classification among transmission and dispatching. Furthermore it is expected the recognition of about one third of the premium linked to the reduction of volumes achieved in the dispatching services market for year 2010 (for an amount of about 53 million euros) and the recognition of additional items for about 7 million euros (among which the premia for demand forecast and wind production forecast).

With **resolution no. 197/11** that regulates **service quality**, the previous regulatory framework based on an premium/penalty mechanism, has been confirmed. Grid quality will now be monitored only by the Energy Not Supplied indicator (ENSR). With such mechanism, the maximum potential impact on the Group revenues is ranging between -12/+30 million euros per year.

As a result of the three resolutions, TERNA's preliminary estimates indicate that 2012 total Group **tariff revenues** (including revenues from transmission and dispatching activities) will be equal to about 1.63 billion euros.