

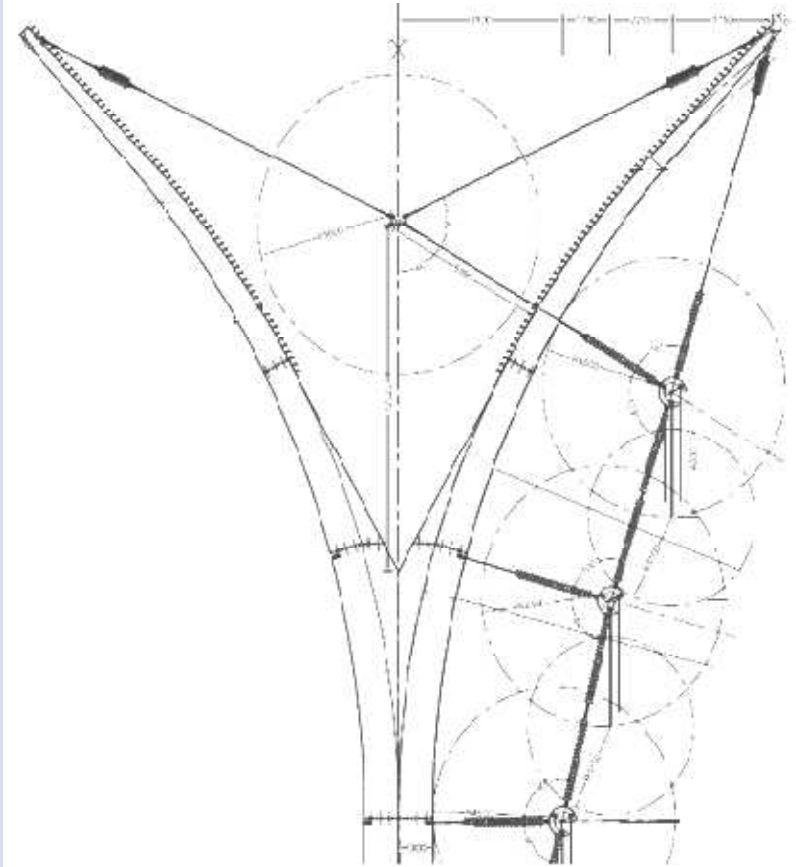


Fourth Regulatory Period 2012-2015

January 9th, 2012

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Highlights

New Regulatory Framework

Framework

- **The Authority for Electricity and Gas has defined the rules for the 2012-2015 period**
 - Transmission Resolution 199/11
 - Dispatching Resolution 204/11
 - Quality of Service Resolution 197/11

Outcome

- **Recent intense discussions with the Regulator improved final outcome**
 - Some improvements from the Second Consultation Document (*Base WACC and regulatory lag*)
 - Some grey areas still to be clarified

Full impacts of the review after the disclosure of the Technical Note by the Regulator

Note: Resolutions available at the following link <http://www.autorita.energia.it/it/docs/11/delibere-11.htm>



Highlights

Grid Fee Structured in:

1

RAB Remuneration

- **RAB**
 - **2012 Tariff RAB** based on re-evaluated historical cost
 - Parametric values prior 2004 + Actual values from 2004 onwards
 - Deflator_{2Q10-1Q11}: 2.36%
 - **RAB annual roll-over**: confirmed adjustment for Deflator and Net Investments
- **WACC**
 - 7.4% but interim review on *Risk free rate* in 2013
- **New Investments**
 - Incentive schemes (+150/200bps on Base WACC) for 12 years
 - Regulatory Lag remuneration (+100bps on Base WACC)

2

Allowed Opex

- **2012 Opex**
 - 2010 reference year
 - CPI_{Jun10-May11}: 2%
 - Profit sharing: 50/50
- **Annual roll-over**:
 - Adjusted for Inflation and X-factor (Transmission x = 3.0%; Dispatching x = 0.6%)

3

Allowed Depreciation

- **2012 Depreciation**
 - Enhancements occurred
- **Annual roll-over**: coherent with RAB annual adjustment



Highlights

Other Elements of the New Framework

Binomial Tariff

In 2012

Unitary tariff applied, based on volumes

From 2013 onwards

Switch to **binomial tariff regime**, based on volumes and available capacity

Exposure to Volumes

In 2012

Mitigation mechanism on volumes confirmed

- Exposure only if volumes are in the [- 0.5%; +0.5%] range
- If volumes are below -0.5%, compensation covered by the Equalization fund

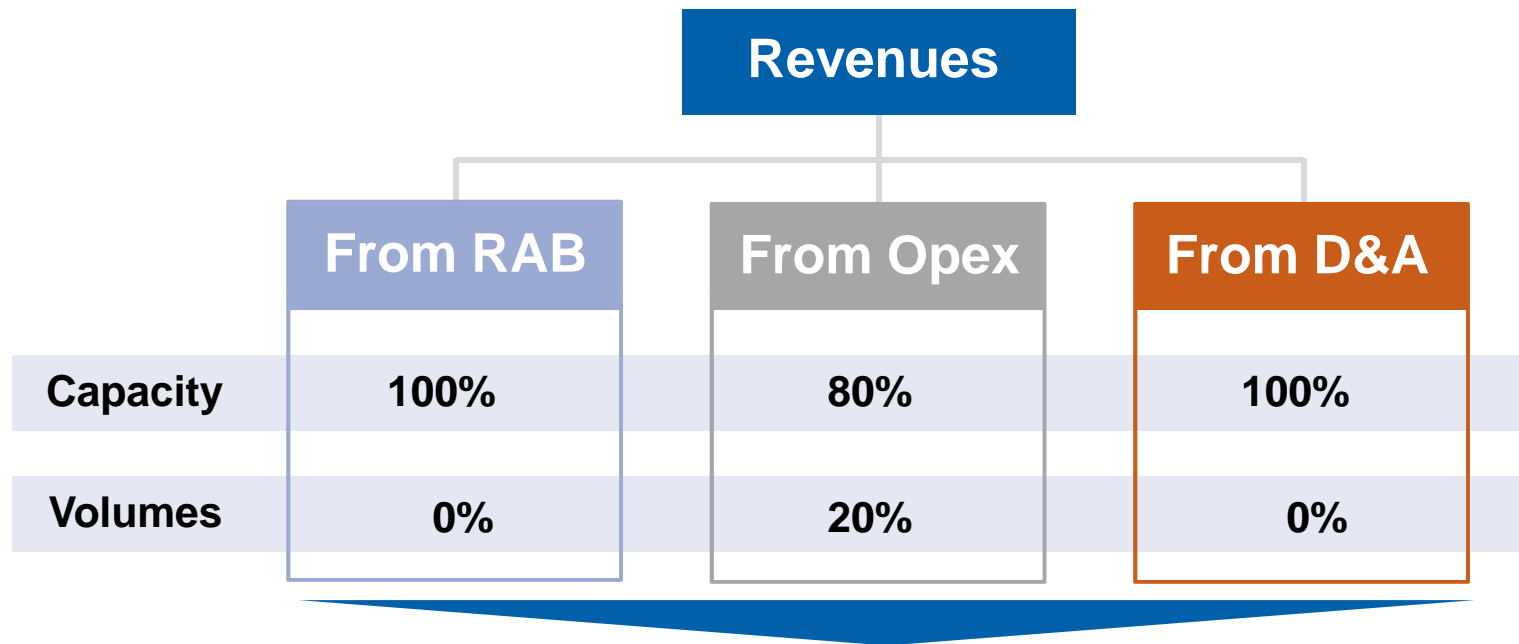
From 2013 onwards

Exposure to Volumes limited only to 20% of the Allowed Opex



Highlights

Exposure to Volumes under the Binomial Tariff Regime



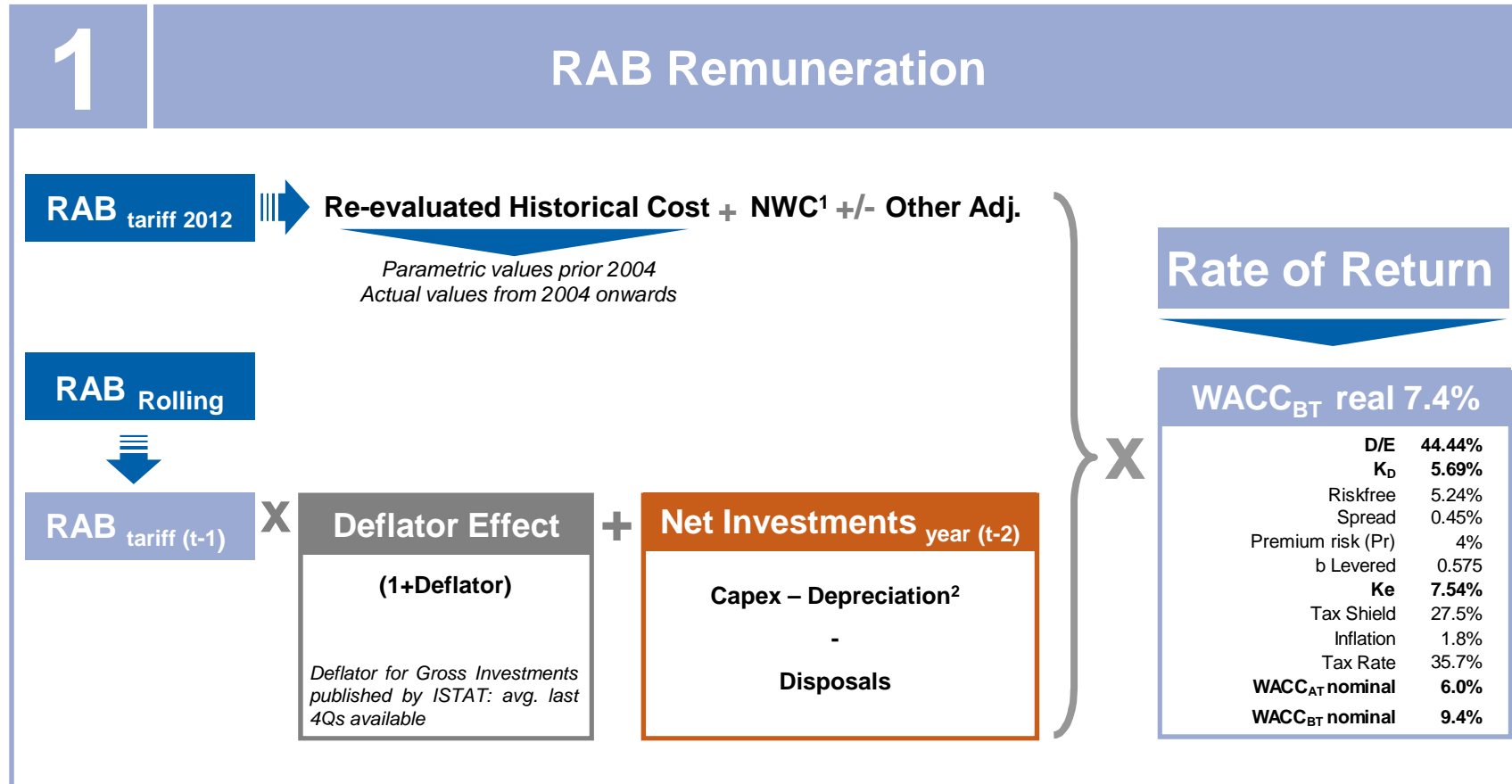
Exposure to Volumes limited to 4% of Total Regulated Revenues

Note: Preliminary, subject to confirmation by Technical Note



Transmission (Resolution 199/11)

Grid Fee General Framework



1) Conventionally calculated as 1% of Recognized Invested Capital

2) In the first year, the recognition of the investment is gross of the first depreciation rate, while before it was net



Transmission (Resolution 199/11)

Incentives on New Investments

	<u>Category</u>	<u>Premium</u>	<u>Length</u>
Capex I₁	Maintenance, investment established by law, work in progress, investments different from I2 and I3	-	-
Capex I₂	Development investments different from I3	150_{bps}	12 yrs
Capex I₃[*]	Development investments to reduce the congestions between Italian market zone, or on the Italian borders (Net transfer Capacity)	200_{bps}	12 yrs
Capex I₄	Energy Storage Systems	200_{bps}	12 yrs

* In specific limited cases, the Regulator will also include in category I3 investments to reduce congestions inside each Italian market zone



Transmission (Resolution 199/11)

Capex Remuneration Schemes

Capex prior 2012				Capex from 2012 onwards				
	Incentive	3 rd Period	4 th Period	Base WACC ¹ (A)	Incentive (B)	Time Lag (C)	Total (A+B+C)	
		Base WACC 6.9%	Base WACC 7.4%					
I ₁	-	6.9%	7.4%	7.4%	-	1.0%	8.4%	
I ₂	2.0%	8.9%	9.4%	7.4%	1.5%	1.0%	9.9%	
I ₃	3.0%	9.9%	10.4%	7.4%	2.0%	1.0%	10.4%	
I ₄				7.4%	2.0%	1.0%	10.4%	

Note: preliminary understanding of Terna, subject to Regulator's confirmation

1) Subject to review on Risk free rate in 2013



Transmission (Resolution 199/11)

Allowed Opex

2

Allowed Opex

Opex₂₀₁₂

2010 adjusted opex + profit sharing

No binomial tariff application

Opex_{Rolling}



Opex_{year before}

X

Inflation Effect

(1 + Inflation* - X Factor)**

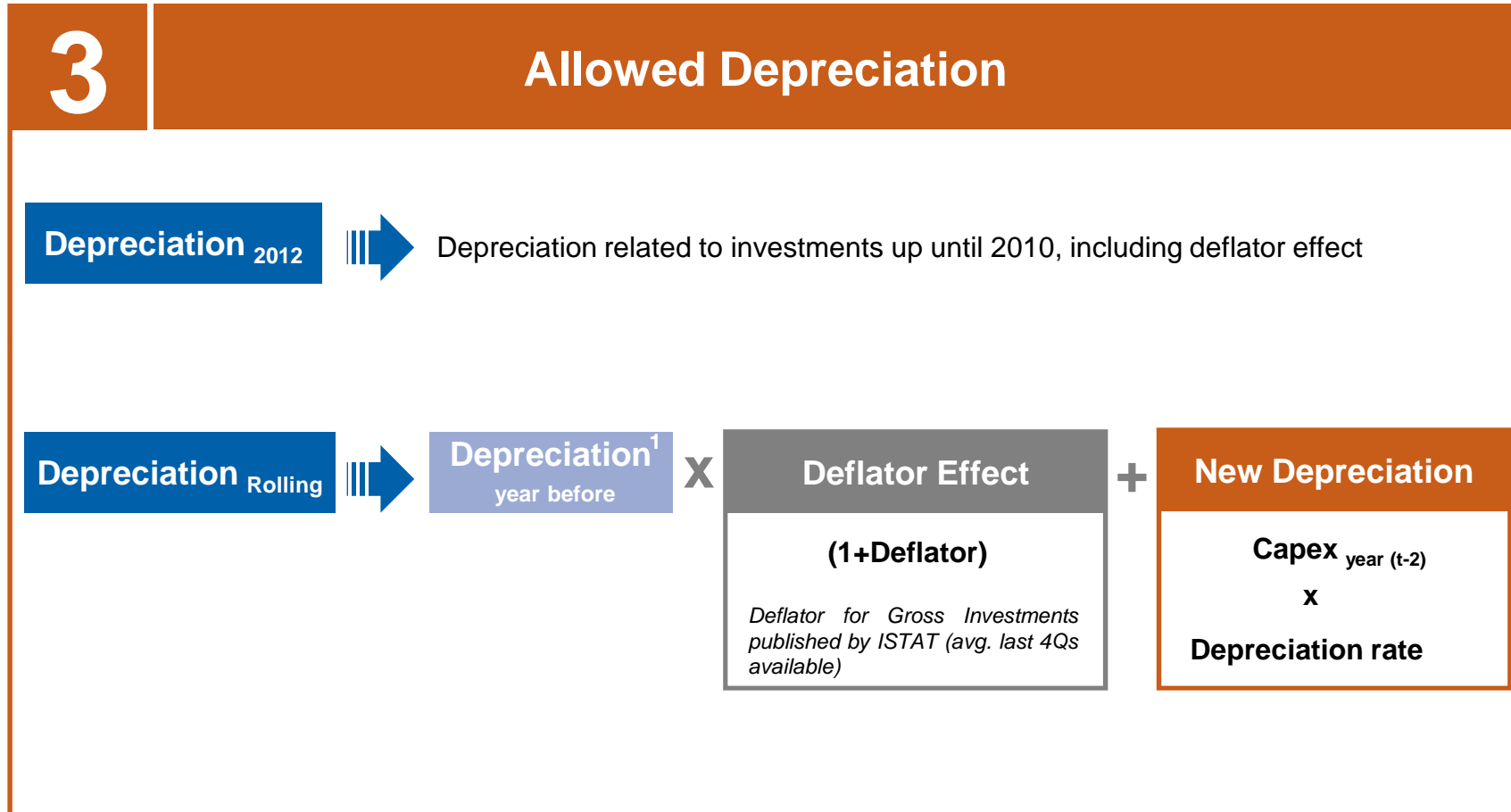
* **Inflation**: average percentage variation of consumer price index (ex-tobacco), published by ISTAT (average last 12M available)

** **X-factor** = 3.0%



Transmission (Resolution 199/11)

Allowed Depreciation



1) Net of fully depreciated assets



Dispatching (Resolution 204/11)

Main Elements

Perimeter

- **Energy Operation Activities** (“*Conduzione*”) moved from Transmission to Dispatching¹
 - Consequent switch of the Allowed Opex pertaining to such activities from Transmission to Dispatching
 - Recalculation of X-factor accordingly (0.6%)

2012 Unitary Tariff

Unitary Tariff
(0.0526 €/kWh)

X

Volumes
(318,269 GWh)



Revenues 167 €mn

including

- Partial payment of 2010 dispatching premia (53 €mn)
- Δ perimeter related to Energy Operation Activities
- Incentives on Terna’s ability to predict Daily Energy Consumption and Wind Power Plant Production (5 €mn)

1) In resolution n° 11/07 the Regulator redefined the perimeter of Terna’s activities for the Fourth Regulatory Period, moving the Energy Operation Activities from Transmission to Dispatching



Quality of Service (Resolution 197/11)

Main Elements

Premium/Penalty Schemes

Confirmed a framework based on premium/penalty mechanism linked to the quality of service on Transmission

- Simplified technical KPIs, now based only on ***Energy not Supplied***
- Quality targets
 - Based on historical values
 - Split between Terna and Terna Rete Italia S.r.l (former Telat).

Terna symmetric premium/penalty mechanism **40.000€/MWh**

Terna Rete Italia S.r.l. asymmetric mechanism for premium (**40.000€/MWh**) and penalty (gradual increase from **10.000** to **40.000€/MWh**)

Impacts

- **Potential Maximum Annual Impacts on Revenues: - 12_{€mn}/ + 30_{€mn}**
- Application only if the mismatch between actual/targeted values > **+/- 5%**



Key Takeaway

Grid Fee: 1.63 €bn

Transmission

~1.53 €bn

+

Dispatching

~ 0.1 €bn

Framework

- More long-term visibility gained, but discretionary elements introduced by the Authority
- Ongoing full assessment of risks
- Interim review of Risk-free rate parameter welcomed

What's Next... New Guidance of further impacts of the new Regulations in the Strategic Plan Presentation, scheduled for February



THANK YOU. QUESTIONS?

Giuseppe Saponaro Chief Financial Officer

Luigi De Francisci Director of Regulatory Affairs

Fourth Regulatory Period
January 9th, 2012

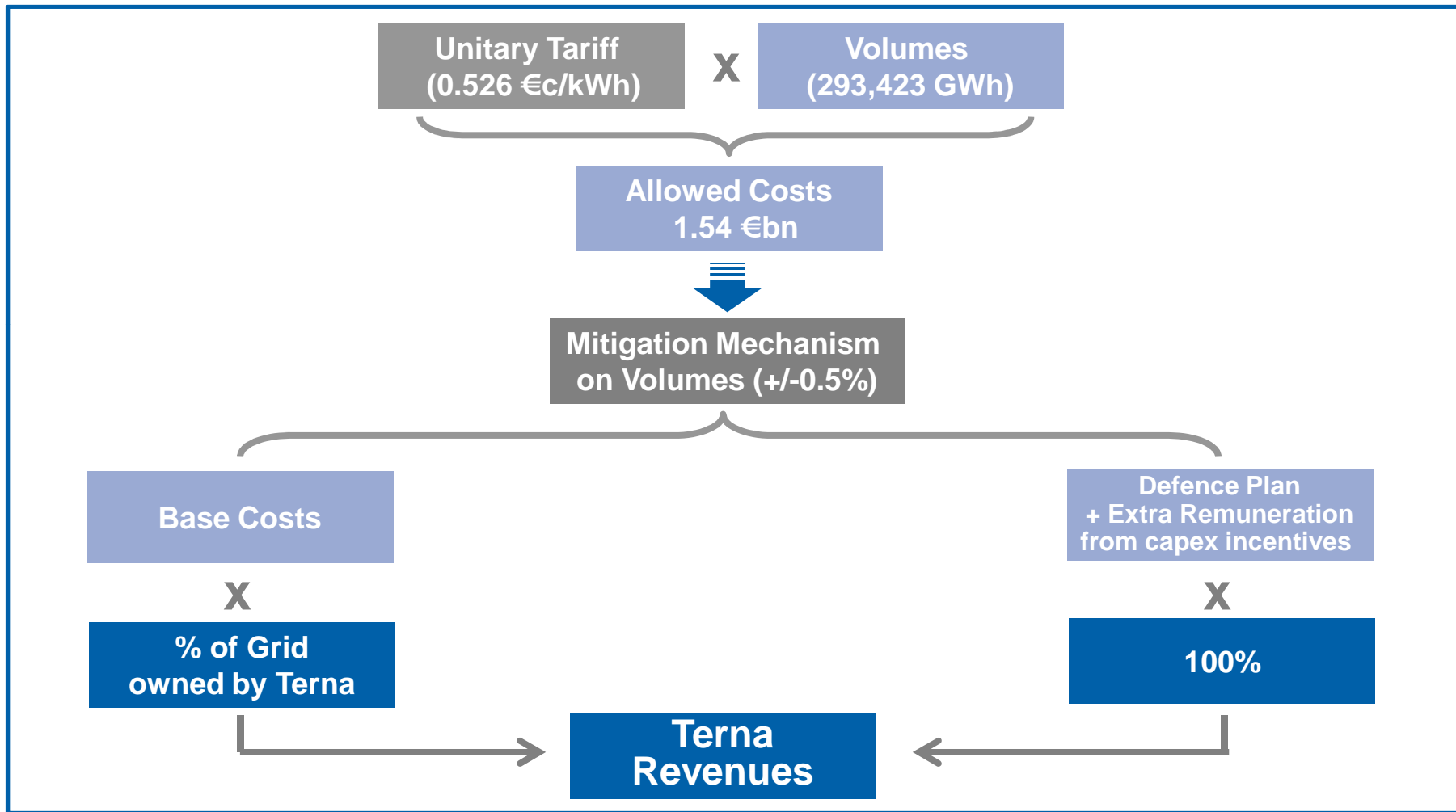


ANNEXES



Annexes

2012 Transmission Revenues





Annexes

References

Resolution 199/11 - Transmission

2012 Allowed Opex		Volumes	p.20
Profit sharing: 50%	<i>p. 9</i>	Binomial tariff regime	p.20
Reference year for actual costs: 2010	<i>p.9 and 16</i>	Allowed Opex	
CPI: 2%	<i>p.15-16</i>	X-factor: 3%	<i>p.31 (TIT art.21)</i>
Deflator for 2012 Tariffs: 2.36%	p.16	Base Allowed Return	
Base Allowed Return		Until 31-12-2011: 7.4%	<i>p.33 (TIT art.22.2)</i>
Risk-free Rate: 5.24%	<i>p.17 and 23 (art.2)</i>	Starting from 2012: 8.4%	<i>p.33 (TIT art.22.2)</i>
Cost of Debt: 5.69%	<i>p.17 and pag. 34 TIT</i>	Update: within Nov.30, 2013	<i>p.33 (TIT art. 22.3)</i>
Tax rate: 35.7%	<i>p.11 and 18</i>	Incentives on Capex	
Spread costo del debito: 0,45%	<i>p.17 and pag 34 TIT</i>	I1 category: 0%	<i>p.33 (TIT art.22.5)</i>
Beta: 0.575 confirmed	<i>p.18</i>	I2 category: 1.5% for 12 years	<i>p.33 (TIT art.22.5)</i>
Update: within Nov.30, 2013	<i>p.18 and 23 (art.2)</i>	I3 +I4 categories: 2% for 12 years	<i>p.33 (TIT art.22.5)</i>
Regulatory lag: 1%	p.11 and 18	Remuneration scheme on Work In Progress	p.36-40 (TIT artt.25-29)
2012 RAB determination	p.16 and 17		

Resolution 204/11 - Dispatching

Change in perimeter	p.3
Volumes	p.5
Cash payment of 2010 Premia: 53mn	p.8
2012 unitary tariff: 0.0526	p.10
X-factor: 0.6%	p.10



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