



5th Regulatory Period & Acquisition of FS HV Grid

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Highlights – 5th Regulatory Period

AEEGSI Final Resolutions

583/2015/R/com	Allowed WACC
654/2015/R/eel	Electricity Transmission
658/2015/R/eel	Electricity Dispatching
653/2015/R/eel	Quality of Service

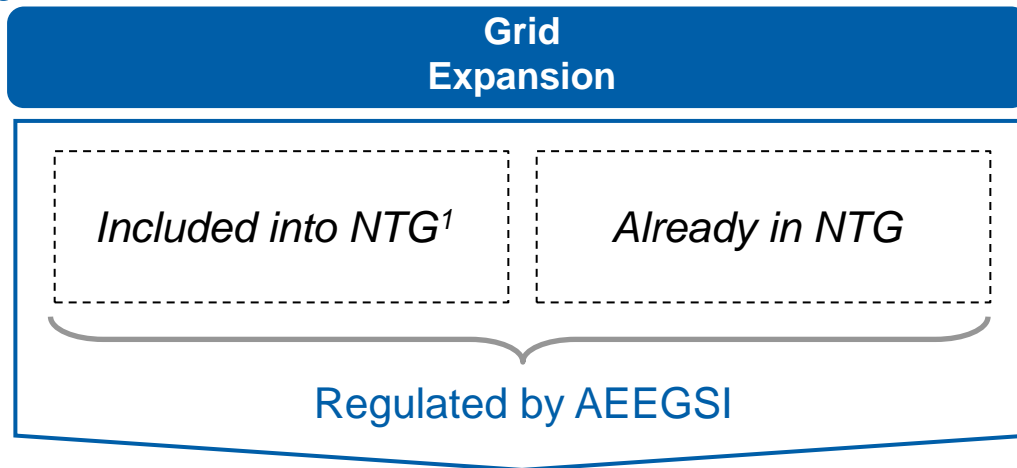
Outcome in a nutshell

- > New Definition of **regulatory periods** with Totex starting from 2020
- > **WACC** at **5.3%** for 2016-2018
- > More **selective approach** on Investments
 - Review of **incentives**
 - Change in **Work-in-Progress** treatment
- > **Time-lag** shortened
- > Change in regulated **asset life** for HV lines
- > New perimeter for **allowed opex**
- > Less **exposure** to consumption volatility than in the 2012-2015 period

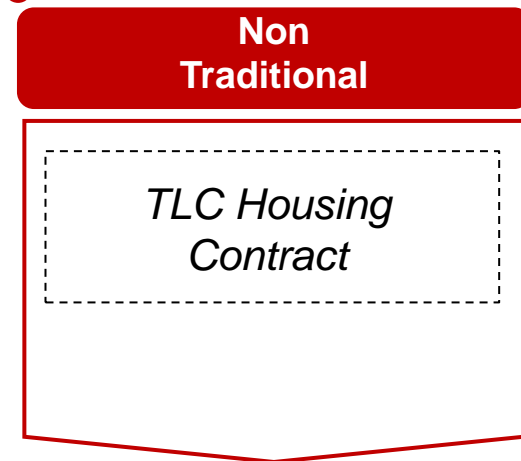
Highlights - Acquisition of FS HV Grid

- Acquisition of **100%** of SELF S.r.l. (re-named Rete S.r.l.) from Ferrovie dello Stato
- **Deal closed** on 23rd of December

REGULATED



NON REGULATED



- Total consideration: **757mn€**
- **No headcount and no debt** transferred

5th Regulatory Period

New Definition of Regulatory Periods

WACC

6 YEARS

WACC
INTERIM REVIEW



Electricity Transmission

8 YEARS

INTRODUCTION
OF TOTEX



5th Regulatory Period - WACC

- WACC real pre-tax for 2016-2018: **5.3%** (vs 6.3% in 2014-2015)
- A new approach
 - new formula based on a **direct reference to real returns**
 - **Floor** for Risk-Free rate
 - Introduction of an explicit **Country Risk Premium**
- Interim **review** after 3 years for 2019-2021 WACC
 - Rules already **defined**
 - **Parameters** under review:
 - Risk Free rate (and consequently Equity Risk Premium)
 - Inflation
 - Country Risk Premium
 - Tax rate (and tax shield)
 - Gearing



Limited volatility and good **predictability**

5th Regulatory Period

Selective Approach on Investments - Incentives

> Review of incentives¹

	OLD		NEW	
I3 category	2.00%	I-NPR1 category	1.00%	12 years duration confirmed
I2 category	1.50%	O-NPR1 category	1.00%	

> Projects must respect some **conditions** to be eligible for I-NPR1 and O-NPR1

- Inclusion in 2017 National development Plan
- Full authorization as of 2015YE
- Completion foreseen by 2019
- 25% of capex contracted at 2015YE (or CBA>1.5 for O-NPR1)

> 2% incentive for **Sorgente-Rizziconi** if project into service by June 2016

> Gradual introduction of **output-based incentives**

5th Regulatory Period

Selective Approach on Investments - Work in Progress (WIP)

> Stock WIP at YE-2015

- > Remunerated at base WACC until 2019 (or entry into service if earlier)

> WIP 2016-2019 for incentivized investments (I-NPR1 and O-NPR1)

- > Cap equal to stock WIP at 2015YE, net of Sorgente-Rizziconi
- > Remunerated at base WACC

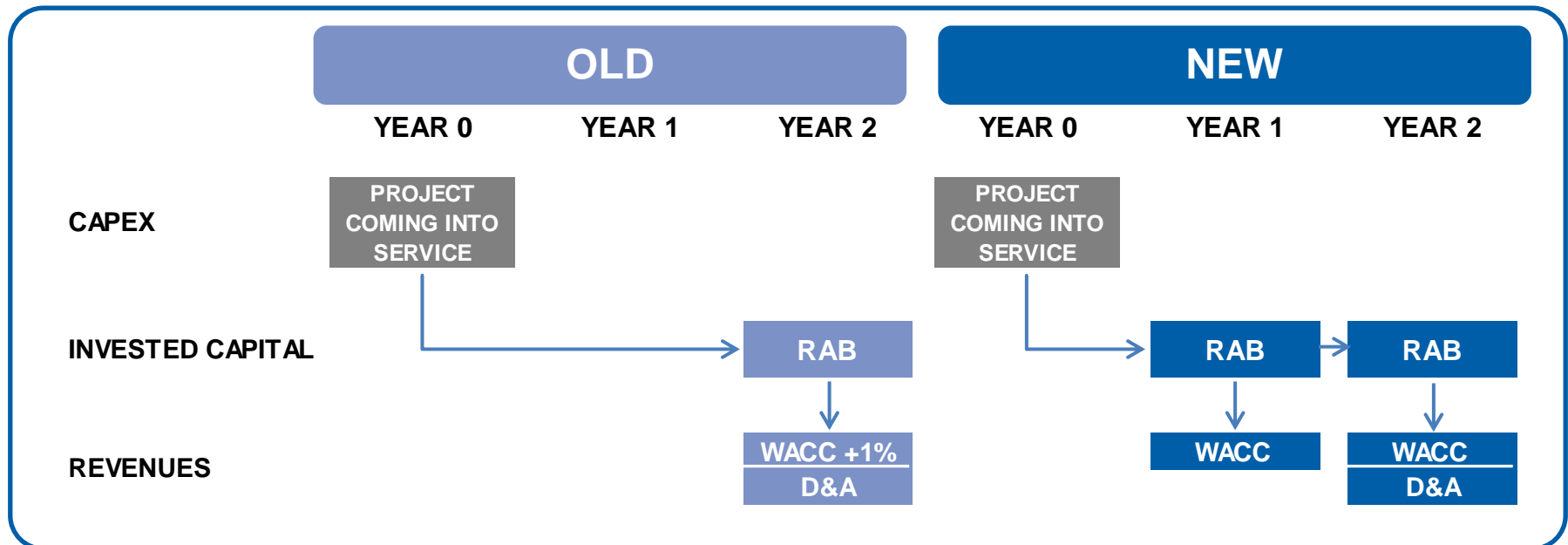
> Other WIP

- > Excluded from the RAB
- > Financial charges to be capitalized (included in the RAB¹)

5th Regulatory Period

Time Lag Shortened


- > 1 year reduction
 - > Projects coming into service in year 0 to be recognized in RAB of year 1
 - > D&A recognized in year 2
- > Compensation for time lag (1%) eliminated but
 - > confirmed on projects that came into service in 2012-2014



5th Regulatory Period

Change in Regulated Asset Life

- Assets in RAB before 2004 **excluded**
- Life for HV lines **extended** from 40 to 45 years
- No restatement of historical RAB



Lower allowed D&A
Lower reduction of RAB

5th Regulatory Period

New Perimeter for Allowed Opex

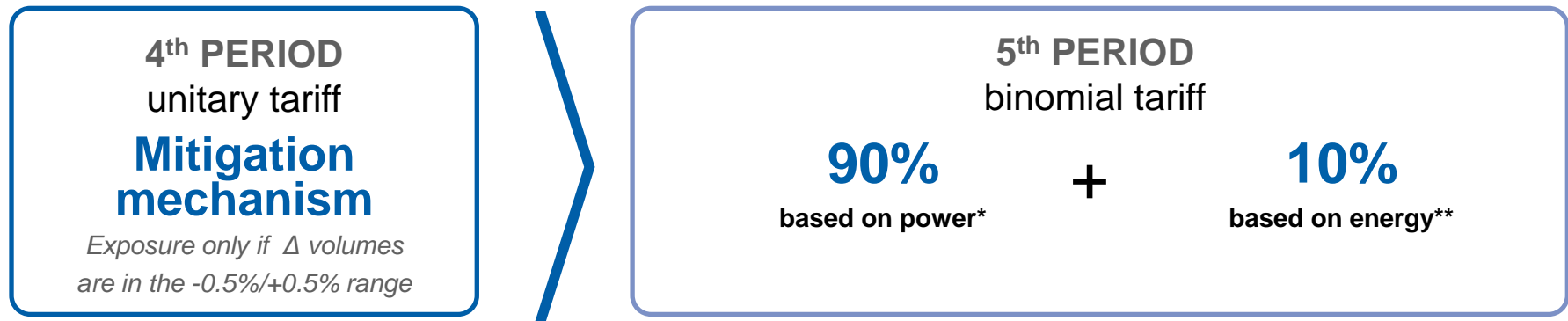
- Allowed Opex 2016
 - **Baseline** calculated on 2014 actual Opex. Change in perimeter:
 - Excluded: non-mandatory insurance costs
 - Included: costs for early retirements
 - 100% of social security contributions
 - 70% of incentives
 - **plus** 50% of 2014 extra-efficiencies
 - **plus** the residual profit sharing of extra-efficiencies of the 3rd regulatory period
- **Price Cap** for roll-over confirmed
 - X-factor 1% both for Transmission and Dispatching

5th Regulatory Period

Volume Effect and Quality of Service

VOLUME EFFECT

> The new methodology **reduces the overall exposure** to consumption volatility



QUALITY OF SERVICE

- > **Confirmed** premium/penalty mechanism based on reduction of **Regulated Energy Not Supplied** (KPI)
- > KPI target more challenging: annual rate improvement set at **3.5%** (vs current 2%)
- > Application only if mismatch between actual and target > **+/- 5%** confirmed
- > Estimated Potential Maximum Annual Impacts on Revenues - **12_{€mn}** / **+ 30_{€mn}** confirmed

5th Regulatory Period

2016 Total Grid Fee excluding FS HV Grid¹

2015

Transmission

1.7 €bn

Resolution 653/2014

+

Dispatching

0.12 €bn

Resolution 658/2014

=

1.82 €bn

RAB for tariff

12.3 €bn

2016

Transmission

~1.69 €bn

Resolution 654/2015

+

Dispatching

~ 0.11 €bn

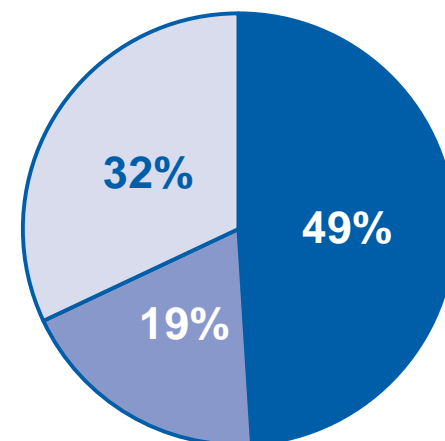
Resolution 658/2015

=

~ 1.8² €bn

RAB for tariff

~ 13.8 €bn

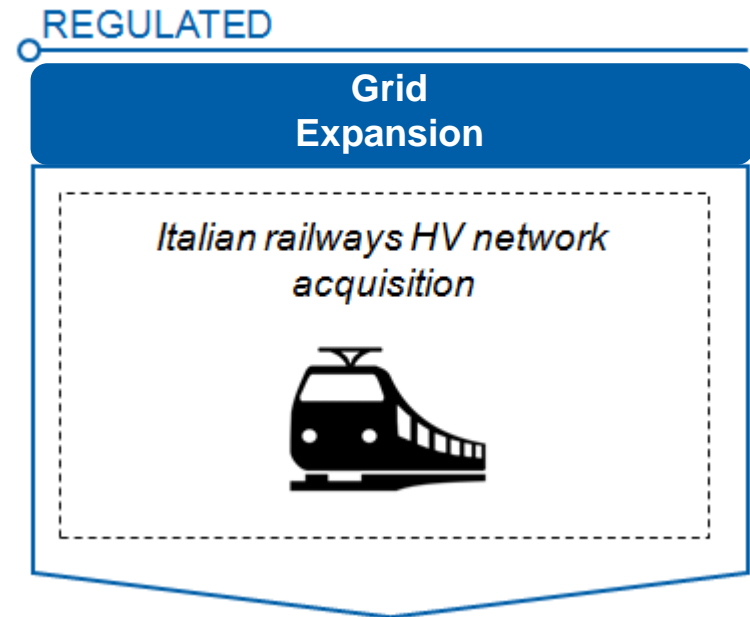


- RAB remuneration
- Allowed Opex
- Allowed D&A

Acquisition of FS HV Grid

Transaction Overview

- Acquisition of **100%** of SELF S.r.l. (re-named Rete S.r.l.) from Ferrovie dello Stato (FS)
- Total consideration: **757mn€**
- Financing: **100% Debt** and liquidity already available
- **Service contracts** with FS for O&M



Acquisition in line with Terna's strategy and risk profile

Acquisition of FS HV Grid

Perimeter

REGULATED

Grid Expansion

Included into NTG¹

- 7,510 Km lines
- 350 primary stations
- RAB 674€mn



Already in NTG

- 869 Km lines
- Revenues 7.4€mn



Regulated by AEEGSI

NON REGULATED

Non Traditional

TLC Contract

- Revenues 5.6€mn
- Long Term
- Stable Revenue flow



Housing of optical fibres for Basicel (100% BT Italia)

Perfect mix of solid Reg. and highly visible Non Reg. activities

Acquisition of FS HV Grid

AEEGSI Resolution 517/2015 (excluding assets already in NTG)

RAB

- 674_{€mn}
- WACC in line with Terna
- Extra-remuneration 1.5% for 12yrs on 149_{€mn} RAB
- Existing assets residual life 29 years

REVENUES

- 2016: allowed opex (42_{€mn})
- From 2017:
 - full remuneration (RAB remuneration + Opex + D&A)
 - X-Factor for allowed opex
 - first 2 years 1.6%
 - following 9 years 4.8%

Stable and visible revenue stream

Acquisition of FS HV Grid

Strategic Rationale

> Scaling up

- > SELF integration will allow a **13%** increase of Terna's HV lines
- > National Transmission Grid **consolidation**
- > Maximize **benefits** for the electricity system

> Strategic Fit

- > Existing **low-risk** profile preserved
- > Established **regulatory** framework
- > TLC contract **in line with** existing Non Regulated Activities



EPS accretion starting from 2017

Looking Beyond

> 2015: a year full of events

> Focused on value creation

Regulatory review 

Acquisition of FS's HV grid 

Opex discipline 

> Ready for new Strategic Plan



Focus on **attractive** and **sustainable** shareholder returns

> THANK YOU. QUESTIONS?

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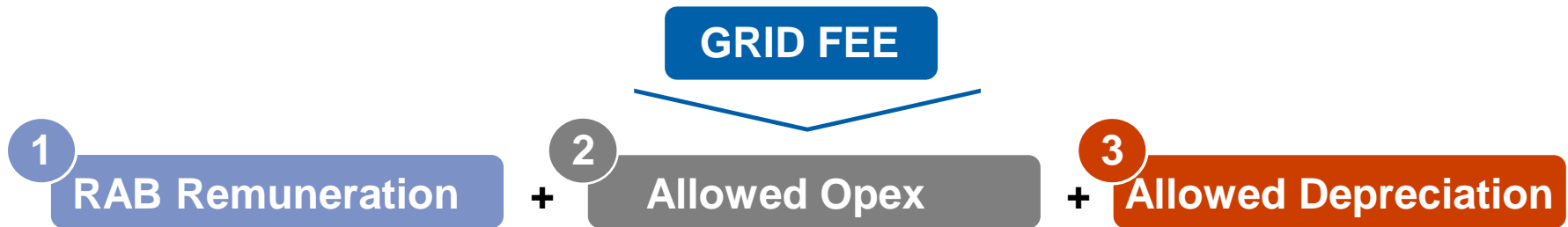
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› Annexes – The Regulatory Framework

The Regulatory Framework

Transmission Grid Fee Structure 1/2 (*)



1

RAB REMUNERATION

2016 Tariff RAB based on re-evaluated historical cost

- Parametric values before 2004 + Actual values from 2004 to 2014 + pre-closing values for 2015
- Deflator₂₀₁₄₋₂₀₁₅ 0.2%
- Stock WIP at 31 Dec 2015
- Adjustments for funds, allowed net working capital, grants, etc.

RAB annual roll-over for NPR1 (2016-2019)

- Adjustment for Deflator and Net Investments
- Adjustment for actual values VS pre-closing values
- Adjustment for WIP according to pre-set rules

WACC

- 2016-2018: 5.3% ; interim review for WACC₂₀₁₉₋₂₀₂₁
- ΔWACC: Reduction in current incentives (+100 bps for 12 years) and specific eligibility conditions
- Regulatory Lag Remuneration: 100 bps on investments in operation 2012-2014

The Regulatory Framework

Transmission Grid Fee Structure 2/2 (*)

2

ALLOWED OPEX

2016 Opex

- 2014 reference year
- $CPI_{Jun14-May15} : -0.11\%$; Profit sharing: 50/50

Annual roll-over for NPR1 (2016-2019)

- Adjustment for Inflation and X-factor (1% both for Transmission and Dispatching)
- Faster claw-back of 4th regulatory period extra-efficiencies

3

ALLOWED DEPRECIATION

2016 Depreciation and annual roll-over

- Coherent with 2016 RAB calculation and annual adjustment
- Calculation on Regulated Asset Life (extended for HV Lines)

The Regulatory Framework

WACC 2016-2018

	2016-2018
Risk-Free Rate (real)	0.50%
Country Risk Premium (CRP)	1.00%
Beta asset (unlevered)	0.35
Total Market Return (TMR)	6.00%
Equity Risk Premium (ERP)	5.50%
Tax shield	27.50%
Gearing = $D/(D+E)$	44.44%
Debt Spread	0.50%
Expected inflation	1.50%
Tax rate	34.4%
WACC real pre-tax	5.3%

➤ Formula description available in the AEEGSI resolution 583/2015/R/com

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AWARDS²³¹

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