



Spanish Gas Sector reform

7 July 2014



Rational of the natural gas reform

1

Stability and Predictability

- ✓ New regulatory framework solves the incipient tariff deficit issue
 - ✓ 6-year regulatory periods. First ends in 2020

2

Transparency

The new Royal Decree establishes a new remuneration methodology unique for all gas transmission assets

3

Sustainability

- ✓ Mechanisms have been established to minimize differences between income and expenses
 - ✓ Introduces the principles of economic and financial sustainability

4

Adapted to current economic environment and maturity Spanish Gas System

- ✓ Focus on increasing use of current infrastructure
- ✓ Lower focus on investments, more on system quality
 - ✓ Provide enough returns

5

Efficiency and competitiveness

Main goal to reduce the final energy price in Spain, increasing competitiveness of Spanish companies

Key principles of new regulatory framework

1. Based on individualized assets with two components: $R_{ni} = RD_{ni} + RCS_{ni}$

RD_{ni} : Remuneration for availability of asset i in year n

- Remuneration linked to the asset within its useful regulatory life

RCS_{ni} : remuneration for continuity of supply for asset i in year n

- Remuneration linked to the long term availability of assets for the gas system with appropriate maintenance
- RCS is not affected by assets' amortization
- Distribution of RCS according to the replacement value of the assets

2. Present value recognized for the assets. Not reviewed with current unit values
- 3.- 10 year asset life extension for pre-2008 pipeline assets (from 30y to 40y)
- 4.- Investment remuneration based on the net asset value
- 5.- The rate of financial remuneration is linked to the 10 year Spanish bond yield and constant in each period
- 6.- Recognition of useful life extension. Equivalent methodology to the one provided in the electricity transport. Additional remuneration in OPEX when assets extend their regulatory life.
- 7.- Operation and maintenance costs calculated with present unit values
- 8.- In force from the date of the publication of the Royal Decree (5/July/2014)

Enagas measures to reduce impact on Net Profit

Operational efficiency

- Efficiency plan 2014-2020
- Value creation through operating efficiency

Investment plan

- New investments in Spain (Gascan, international connections)
- International development focused in our five strategic criteria
- Profits from international investments will start to grow significantly in 2015-2016

Amortization

- Lower A&D (extension of regulatory life pre 2008 transport assets)

Financial discipline

- Commitment to maintain strong investment grade
- Average debt maturity of at least 5y
- 70% of fixed/protected interest rates
- Strong liquidity profile

Tax reform

- Potential positive impact

Regulatory impact on revenues (€-120mill) will be buffered in Net Profit through opex control, lower D&A and profits from international investments



Conclusion

1

New regulatory framework provides stability and predictability to the system solving the incipient tariff deficit issue

2

Regulatory impact on revenues (€-120mill) will be buffered in Net Profit through opex control, lower D&A, international results.....

3

Enagas will present a new strategic plan in 4Q2014 once all the regulatory developments are in place



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