





**IBERDROLA**

**INVESTOR DAY**  
Madrid / March 2nd / 2011



**Regulated Business**  
Mr. Javier Villalba  
Director of Networks



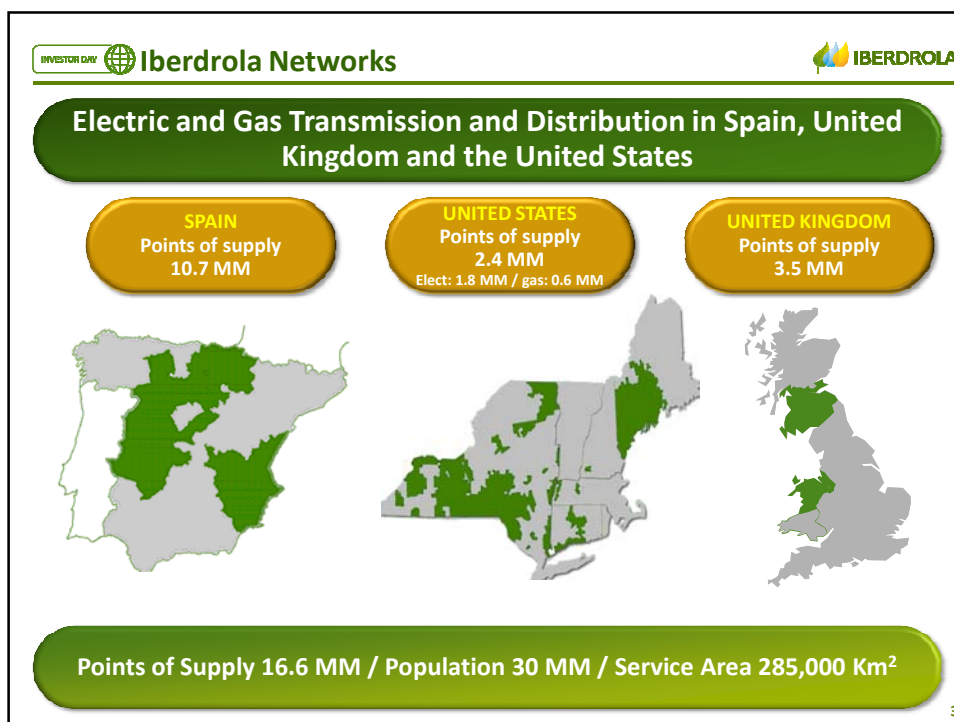
**Regulated Business - Introduction**



**Regulated Business Spain**

**Regulated Business United Kingdom**

**Regulated Business United States**

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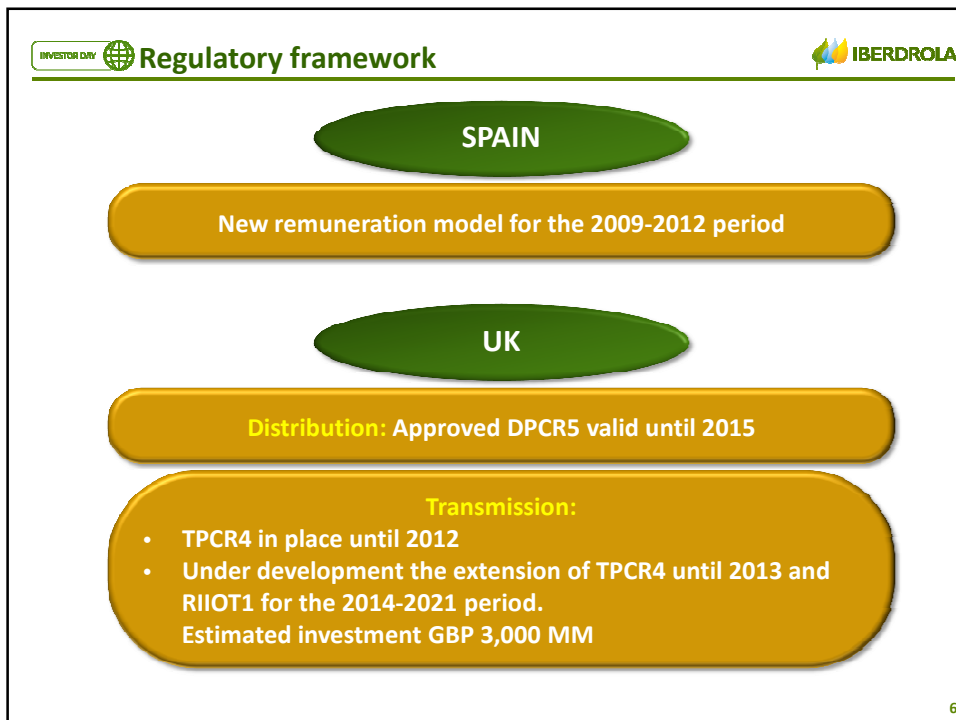
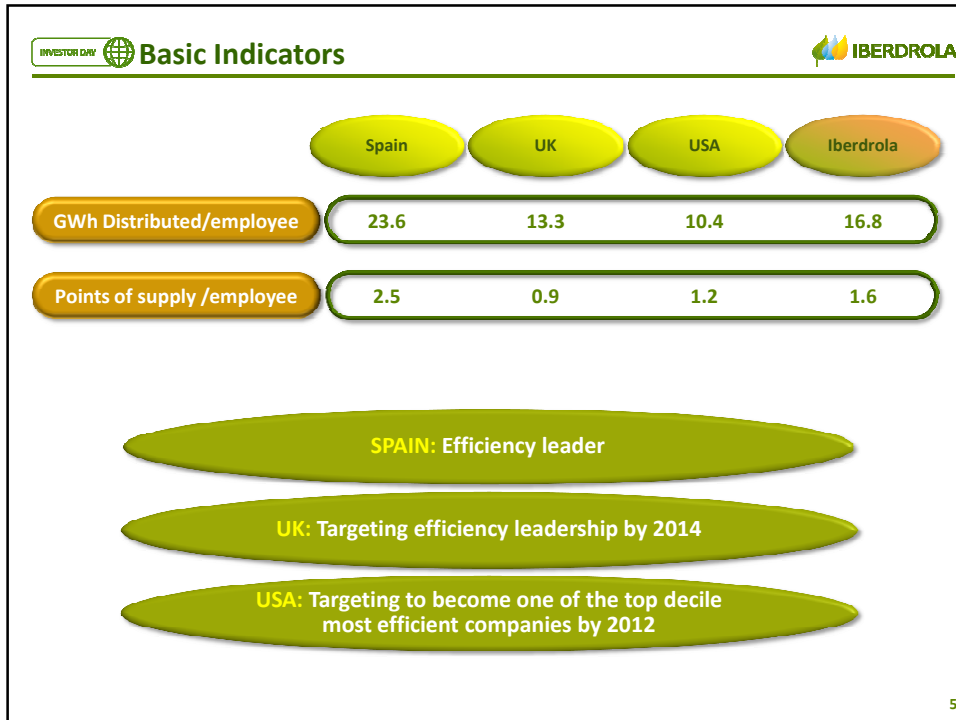
INVESTOR DAY  **2010 Main Figures** 



|  | Spain   | UK     | USA                   | Total   |
|--|---------|--------|-----------------------|---------|
| <b>Electricity</b><br>Energy Distributed GWh | 102,071 | 36,452 | 31,214                | 169,737 |
| <b>Gas</b><br>Energy Distributed GWh         | -       | -      | 29,698 <sup>(1)</sup> | 29,698  |
| <b>Workforce</b>                             | 4,317   | 2,750  | 4,122                 | 11,189  |
| <b>EBITDA* Eur MM</b>                        | 1,390   | 799    | 711                   | 2,900   |
| <b>Investments Eur MM</b>                    | 356     | 339    | 400                   | 1,095   |

Networks Business represents 39% of Group EBITDA and 25% of its investments

(1) Excluding Connecticut gas companies sold during 2010  
(\* Euro - IRFS)

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INVESTOR DAY  **Regulatory framework** 

**USA**

- Approved Rate Cases for all electric and gas distribution businesses until December 2013
- Approved and under construction the Maine Transmission Project with an investment of USD 1,400 MM
- Approved and under development the Maine Smart Metering project: investment of USD 192 MM (50% funded by the Department of Energy)

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INVESTOR DAY  **2011 Outlook** 

**Investments**

Investment of Eur 1.415 bn, an increase of 30% over 2010.  
United States investment increases 54% due to the development of the Maine Transmission Project



**EBITDA**

Networks EBITDA increase of 5%

**Targets**

- **Spain:** Maximise Quality and Losses incentives
- **United Kingdom:** Outperform DPCR5 by 100 bps
- **United States:** Obtain a return of 10-11%

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INVESTOR DAY  **2011 Outlook** 



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**Best Practices**

**Implement Best Practices in Group's Networks businesses:**

- Increase the quality and reliability of supply
- Optimise Operating Expenses
- Leverage the transformation based on technology
- Identify business growth opportunities

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INVESTOR DAY  **2011 Outlook** 

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INVESTOR DAY  **Regulated Business Spain** 

### Distribution Remuneration

- Remuneration Methodology RD 222/08
- Annual update
- Evolution of network business remuneration



### 2011 Objectives

- Regulatory tools improvement
- Increasing efficiency
- Future business model design

### Evolution and forecast of indicators

- Assets and market
- Financial results
- Quality of supply (QoS)

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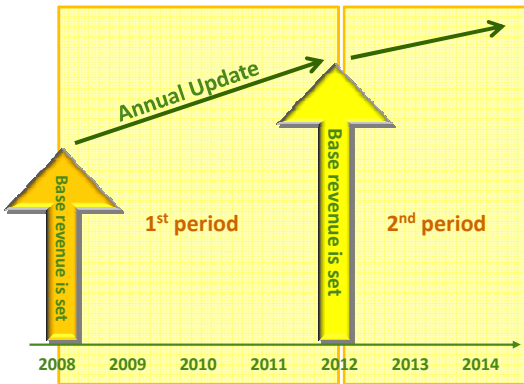
INVESTOR DAY  **Network business remuneration** 

### Remuneration Methodology RD 222/08 of 15 February

Regulatory tools:  
MRR and IRC

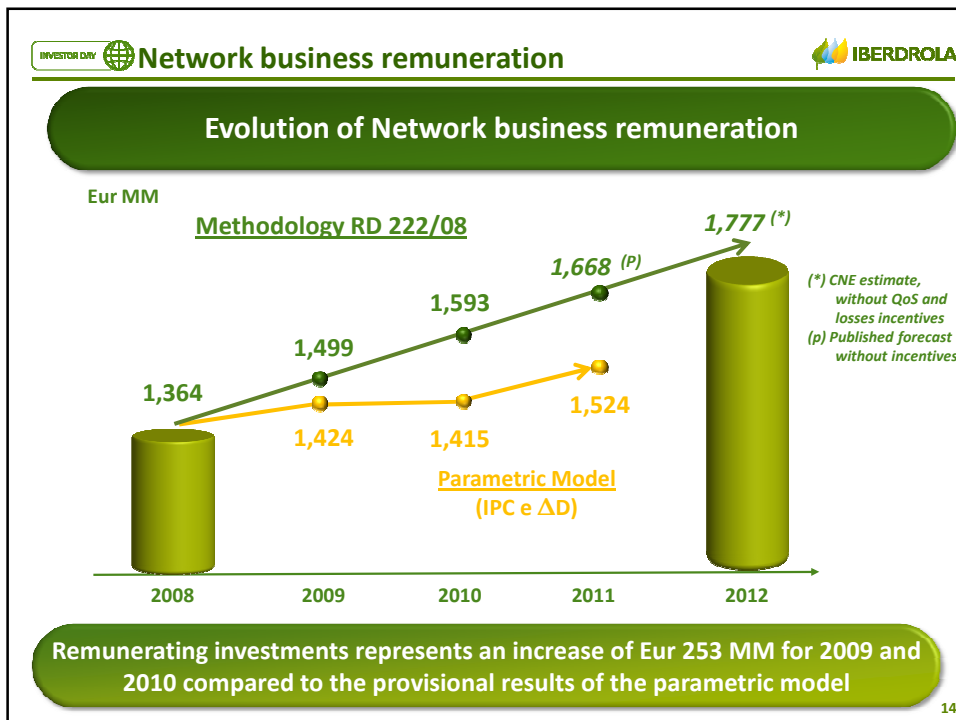
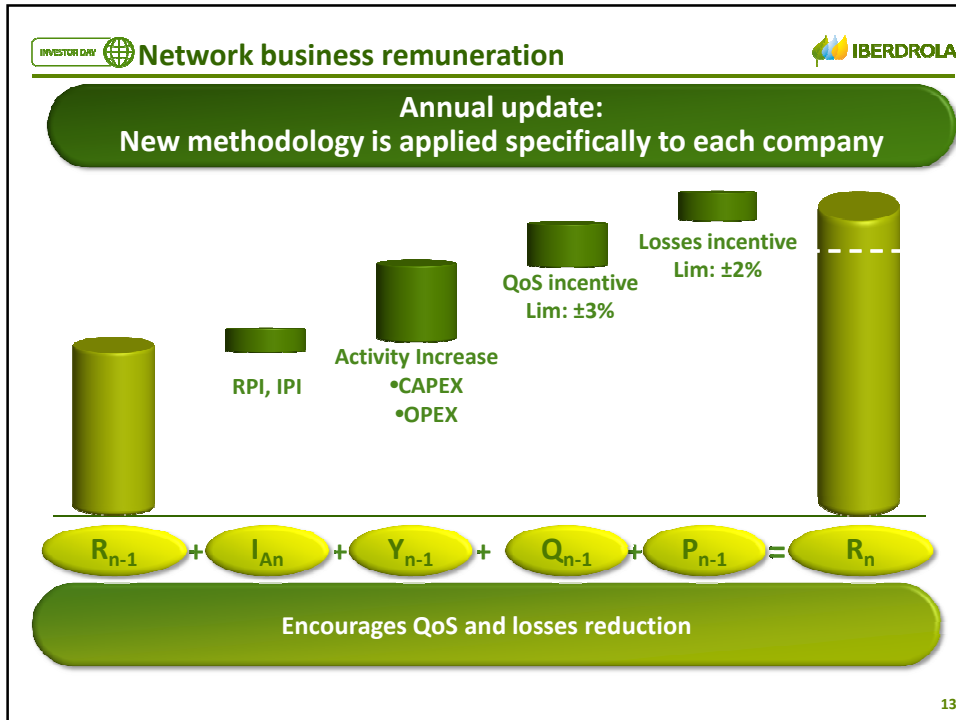
Regulatory period of 4 years



Investment plans must be submitted to CCAA, CNE and MITyC



Definitive remuneration for 2009 and 2010, provisional for 2011 and CNE estimate for 2012

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INVESTOR DAY  **2011 Objectives** 



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**Regulatory tools improvement:  
Cost base methodology for Regulatory period 2013-2016...**

|                     |   |  |
|---------------------|---|--|
| <b>MRR</b>          | ➔ | Distributors must have access to the tool<br>Real grid data must be used |
| <b>IRC</b>          | ➔ | Information simplification and review of cost<br>allocation criteria     |
| Investment<br>plans | ➔ | Contrast and validation procedure  |
| <b>POD's</b>        | ➔ | Network design standards and development cost<br>sharing criteria        |

MRR = Network reference model  
 IRC = Regulators accounting information  
 POD's = Distribution Operation Procedures

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INVESTOR DAY  **2011 Objectives** 

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**Efficiency improvement**

Assets: Improve management and risk tools

- Prioritise investment in network renewal
- Prolong asset lives and reduce maintenance costs

Continue with network automation  
and the implementation of automatic restoration application for:

- Operating costs reduction
- QoS and incentives improvement

Automating business processes to:

- Manage work on the network and improve management information (SIGOR)
- Implement Phase 2 of the mobility project for real-time operation (MEDIS)

Iberdrola is a leader in efficiency

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INVESTOR DAY  **2011 Objectives** 

### Design the future business model based on technology and smart grids

**Business model definition for 2020**

- Defining Core Competencies
- Centralisation/decentralisation of functions
- Multi-skilling, profiles and training



**Based on Information Technologies and communications**

- Deployment in Castellón, Bizkaia and Madrid (2011 – 2012)
- Remote management of 100% of the supply points by 2018
- Low and medium voltage network automation

**To maintain leadership**

- In operational and grid efficiency
- In quality and safety of the network and the operations
- In technology and innovation

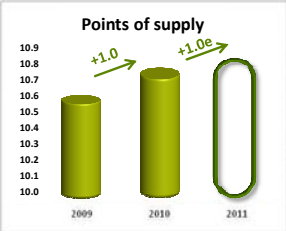
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INVESTOR DAY  **Evolution and forecast of indicators** 

### Assets and market

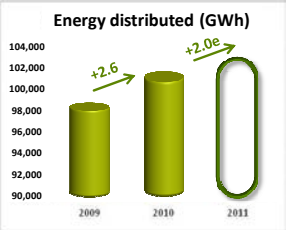
|                                 |            |
|---------------------------------|------------|
| Energy Distributed (GWh)        | 102,071    |
| Points of Supply                | 10,733,192 |
| Primary Substations             | 916        |
| Overhead lines (km)             | 169,836    |
| Underground cables (km)         | 65,045     |
| Installed capacity (MW)         | 63,759     |
| 2010 peak demand (MW)           | 18,330     |
| Service area (km <sup>2</sup> ) | 190,400    |
| Employees                       | 4,317      |

**Points of supply**



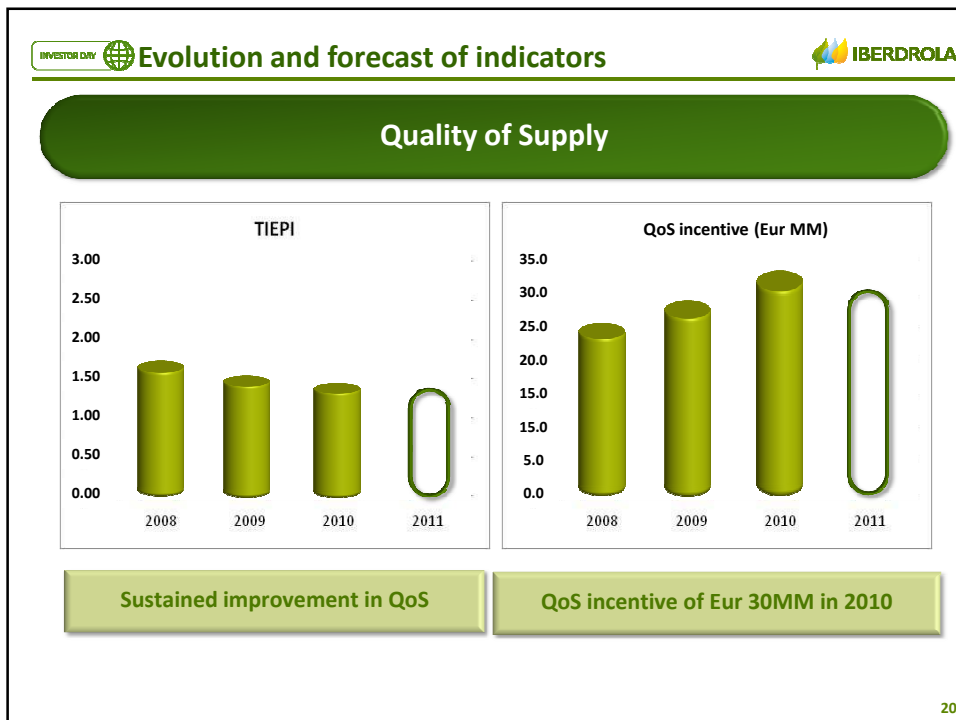
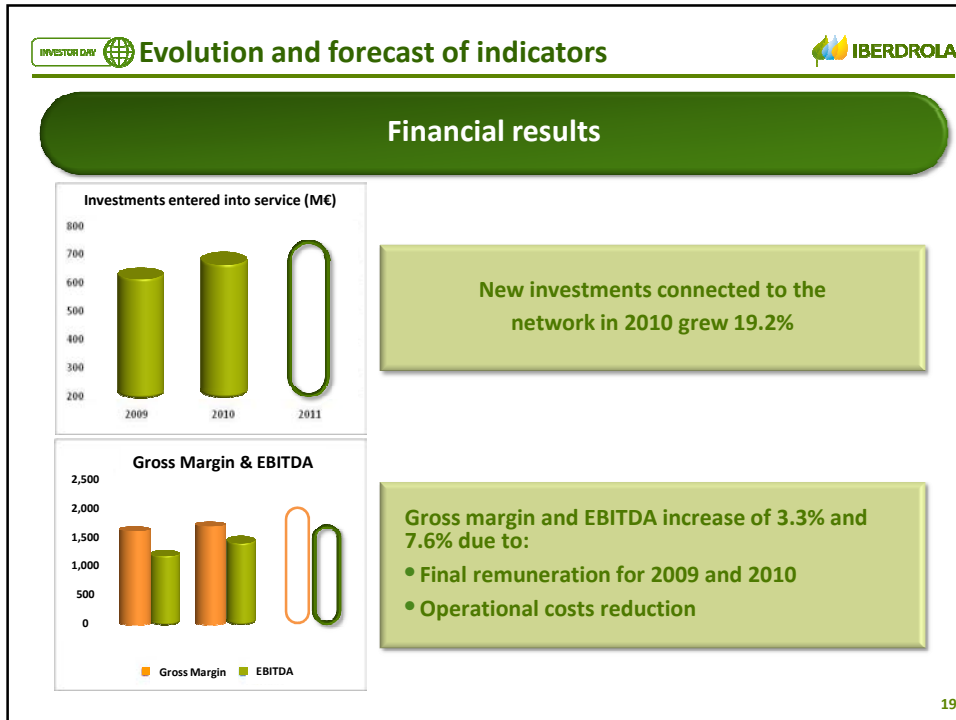
| Year            | Points of supply |
|-----------------|------------------|
| 2009            | 10.6             |
| 2010            | 10.7             |
| 2011 (forecast) | 10.8             |



**Energy distributed (GWh)**



| Year            | Energy distributed (GWh) |
|-----------------|--------------------------|
| 2009            | 99,471                   |
| 2010            | 102,071                  |
| 2011 (forecast) | 104,071                  |

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- Regulated Business - Introduction
- Regulated Business Spain
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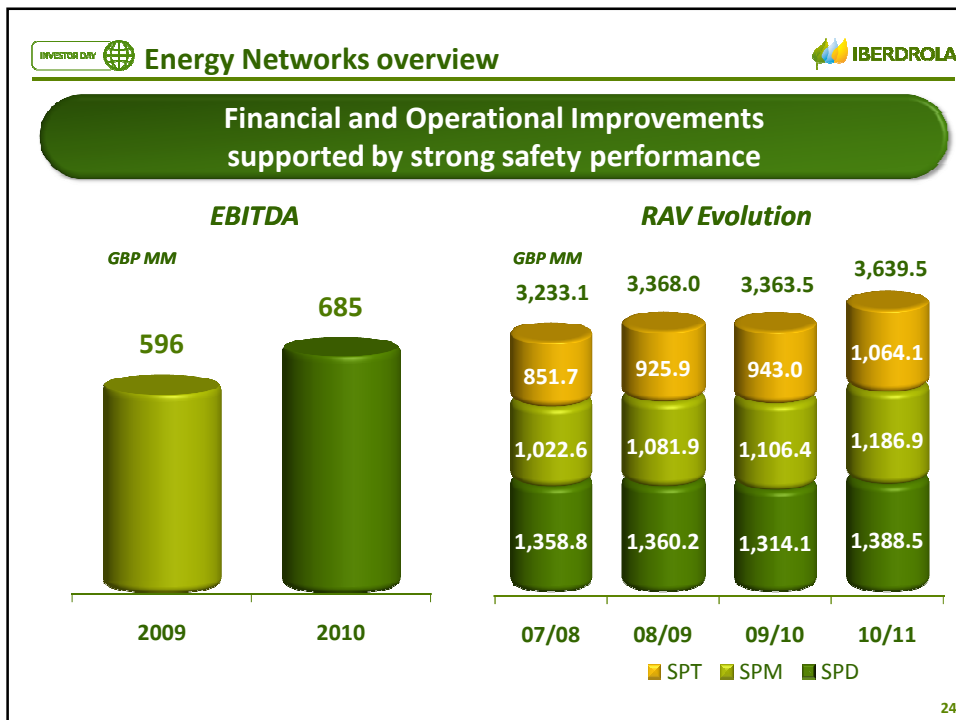
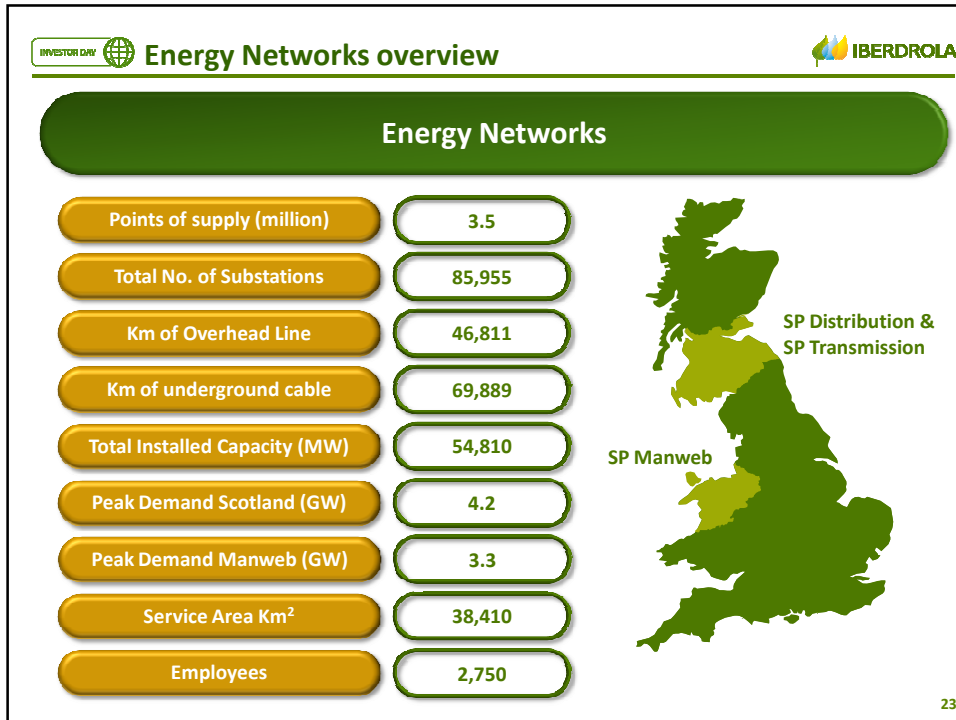
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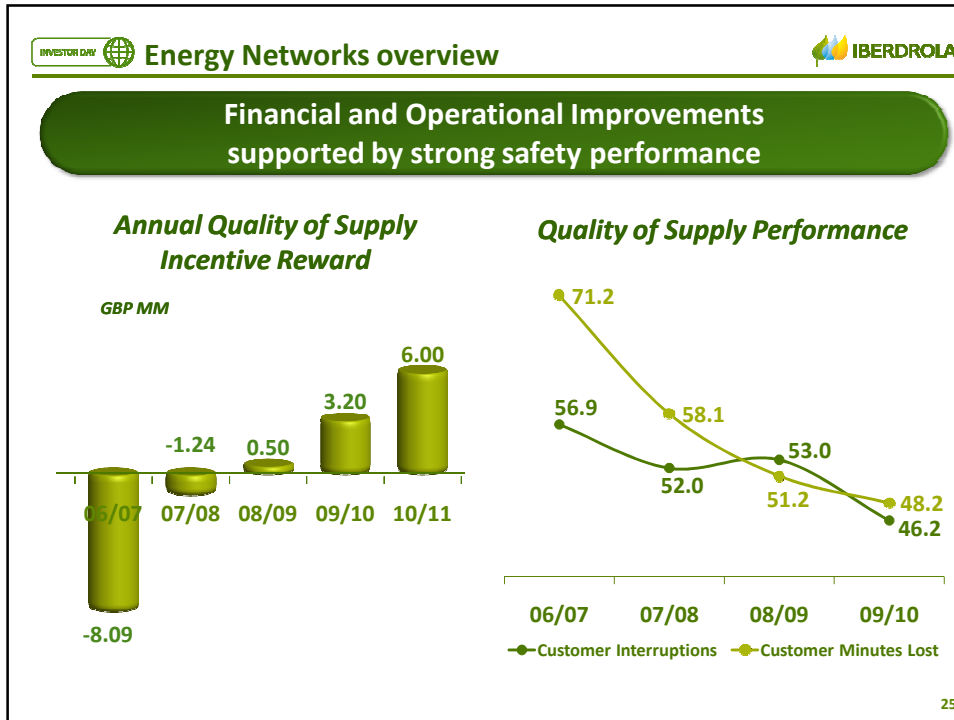
INVESTOR DAY  **Regulated business UK** 



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- Energy Networks overview**
- Energy Networks Strategy**
- Distribution: DPCR5 progress**
- Transmission: Roll over and RIOT1**
- 2011 Challenges**

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**INVESTOR DAY**  **Energy Networks strategy** 

**“We aim to be the leading Energy Networks business in the UK by 2014”**

- Deliver 100 bps outperformance on the DPCR5 package
- Secure optimal outcome from TPCR4 rollover and RIOT1
- Develop people and processes to become upper quartile DNO in the UK for customer service
- Develop stronger relationships with the Regulator and related Government Departments
- Maximise potential synergies from the IBE Global Model e.g. IEC, Procurement
- Build the capability to deliver in excess of a twofold increase in Regulatory Asset Value over the next ten years

**SP Energy Networks undertook the most fundamental business re-structure in 2010**

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**INVESTOR DAY**  **DPCR5 Progress: delivering out performance** 



**Last year we committed to 100 bps** **Excellent progress in 2010**

|  |           |   |
|--|-----------|---|
| Some out performance included in baseline  | 45 bps    | <ul style="list-style-type: none"> <li>Additional revenues realised through tariffs (GBP 15 MM) plus mitigated Rates increases (GBP 8 MM)</li> </ul>  |
| Driving through a new customer service strategy  | 50-60 bps | <ul style="list-style-type: none"> <li>Forecast earnings in year of GBP 6 MM through Quality of Service incentive</li> <li>Highest ever score in the Ofgem Customer Satisfaction mechanism</li> </ul> |
| Implement global model to drive efficiency across network operations                   |           | <ul style="list-style-type: none"> <li>GBP 56 MM of contract savings identified for DPCR5</li> <li>Targeting procurement savings of over GBP 85 MM for DPCR5</li> </ul>                               |
| Exploiting group economies of scale through global procurement & engineering resources |           | <ul style="list-style-type: none"> <li>3-year framework agreement with IEC</li> <li>Total value: GBP 293 MM</li> <li>All major project investment managed by IEC</li> </ul>                           |

**100 bps of out performance (5.0% real WACC)**

**Business re-structured and over 15% staff savings delivered in 2010 to deliver DPCR5**

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**INVESTOR DAY**  **Investment Challenge in Transmission**   
(up to £3.0Bn in 10 years)

**80% of SP Transmission's network investment is aimed at wind connections across Scotland**

High constraint costs on the SP network requires upgrade of "export" capacity  
Changes in Scottish generation mix also requires sufficient "import" capacity

**The UK requires a supportive regulatory framework that enables delivery of UK Government & European Energy Policy**

Renewed over 10% of our substation assets and replaced over 700 circuit km of OHL

**20% of investment needed to modernise the network**

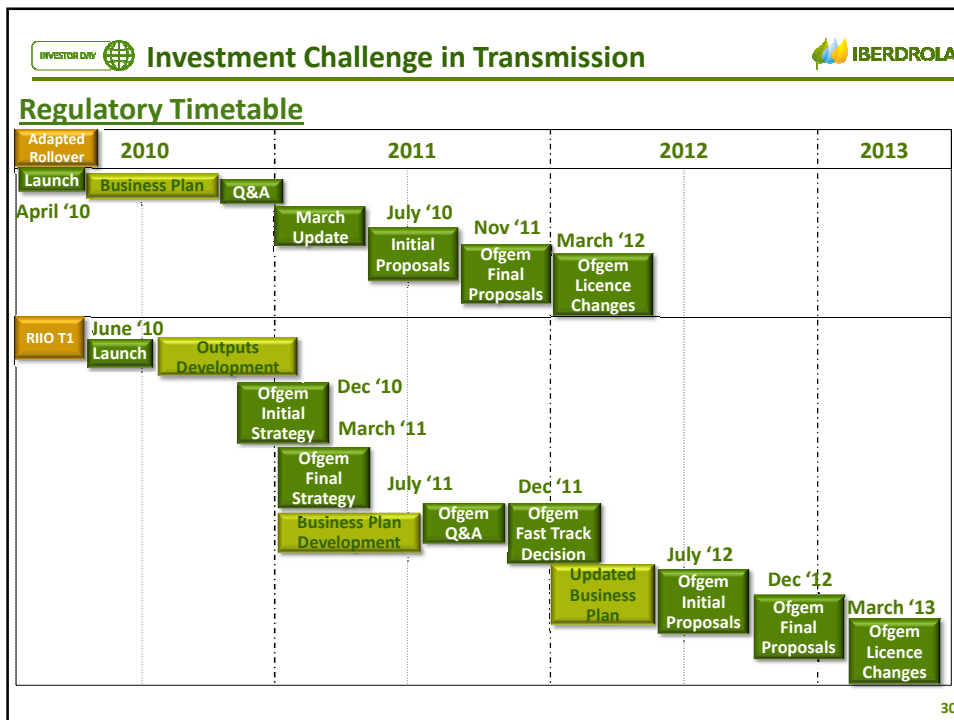
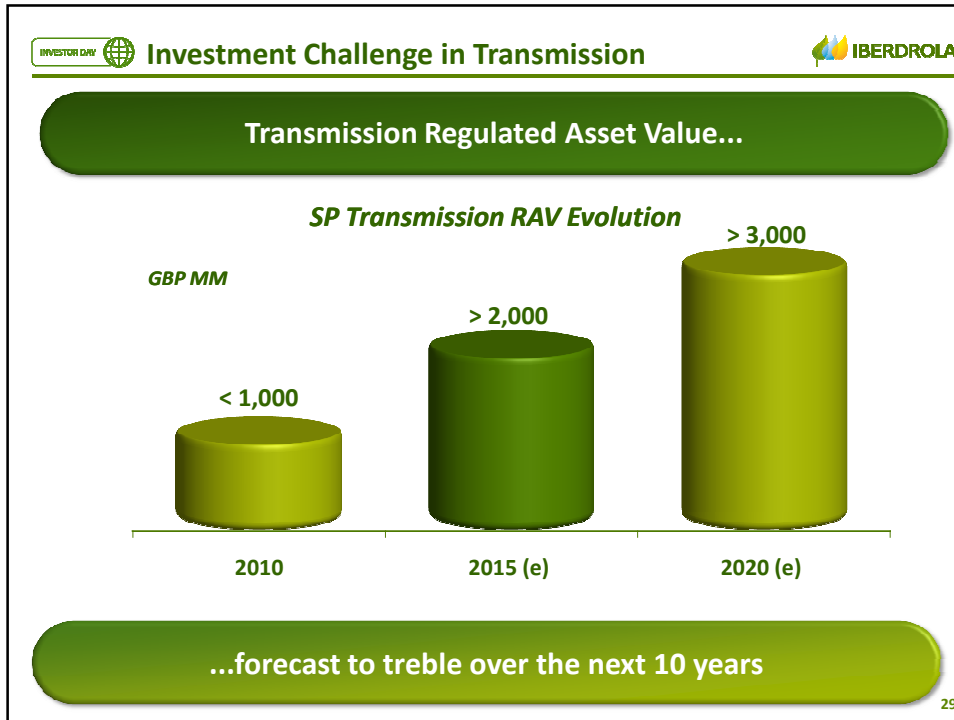
Vast majority of 275 kV Network > 40 years old  
Significant sections of 132 kV network > 60 years old



**TPCR4 Out-Performance**

Headline RoRE (Ofgem's Benchmark) is 10.3% in real terms vs. 7.0% allowed rate of return  
Forecast to exceed the Regulatory target of connecting 1,734 MWs of renewable generation

**SP Energy Networks undertook the most fundamental business re-structure in 2010**

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**INVESTOR DAY**  **Ofgem Strategy RIIO T1 - Initial Proposals** 

**In order to help deliver UK Energy Policy, RIIO T1 must attract industrial investors who can bring global capability to support UK energy ambitions**

| Ofgem's Key Proposals  | Iberdrola position  |
|--|---|
| Cost of Equity: Range 4.0 – 7.2% (real)  | <ul style="list-style-type: none"> <li>Must be set a level that enables companies to deliver unprecedented levels of investment</li> </ul>  |
| Cost of Debt: Use a 10-year trailing average cost of debt index (current estimate 3.1% (real))   | <ul style="list-style-type: none"> <li>Needs to be modified to cope with the risk of changes in economic policy and market conditions over price control period</li> </ul>  |
| Financeability: Asset lives should move from 20 years to 45 to 55 years                          | <ul style="list-style-type: none"> <li>Shorter depreciation for income solution has been a cornerstone to date</li> <li>Investors demand long term stable and sustainable dividends</li> </ul>  |
| Outputs: More outputs and incentives to boost ROE for top performers, but still a lack of detail | <ul style="list-style-type: none"> <li>Incentives should not deflect the objective of getting the baseline WACC return correct in first place</li> <li>Outputs should be controllable and incentives proportionate but in principle we're fully supportive</li> </ul> |

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**INVESTOR DAY**  **UK Regulated Business** 

**What we need to deliver**

- Preparing for up to GBP 3 bn investment in transmission
- Preparing for up to GBP 2.5 bn by 2015 in distribution
- Out-perform DPCR5 by 100 bps
- Maintain improvement in customer service & system performance

**External Challenges**

|                                |   |
|--------------------------------|---|
| <b>UK Regulatory Agenda</b>    | <ul style="list-style-type: none"> <li>Introduction of RIIO-T1; TPCR4 Rollover; DPCR6 (RIIO-D1)</li> <li>Government targets for low carbon economy</li> <li>TRANSMIT</li> <li>New Security of Supply regulations</li> </ul> |
| <b>External Market Demands</b> | <ul style="list-style-type: none"> <li>Up to 11GW of renewables seeking network connection</li> <li>Closure of thermal generation</li> <li>Introduction of leading edge technology</li> </ul>                               |
| <b>Supply Chain Challenges</b> | <ul style="list-style-type: none"> <li>Need to ensure that supply chain is ready for delivery</li> <li>Need to recruit and train skilled staff</li> <li>Ageing power sector workforce in the UK</li> </ul>                  |
| <b>UK Macro Management</b>     | <ul style="list-style-type: none"> <li>Rising interest rates (Basel III &amp; QE etc)</li> <li>High demand for key engineering skills</li> <li>Attracting investors to fund GBP 200 bn in UK energy sector</li> </ul>       |

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**Regulated Business - Introduction**

**Regulated Business Spain**

**Regulated Business United Kingdom**

**Regulated Business United States**

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INVESTOR DAY  **Regulated Business USA** 



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**Regulatory, political and sector update**

**Achievements in 2010**

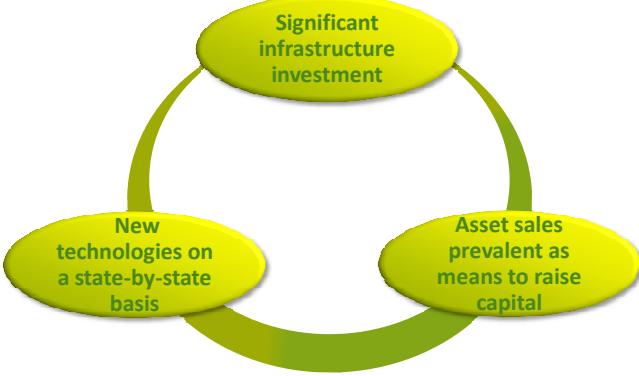
**Guidance and Plans for 2011**

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INVESTOR DAY  **U.S. Utility Sector Outlook** 

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**Significant challenges over the next few years**



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INVESTOR DAY  **Regulatory and Political Developments** 

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**Numerous changes resulting from November elections**

|  |   |  |
|--|---|--|
| <b>Federal initiatives</b>                           | ➔ | 100% bonus depreciation for 2011 and 50% for 2012 will improve near term cash-flows while lowering rate base   |
| <b>New Governors in NY and Maine (Cuomo/Le Page)</b> | ➔ | <ul style="list-style-type: none"> <li>• Near term focus on significant budget deficits</li> <li>• No new energy-related appointments to date</li> </ul>                                     |
| <b>Public Service Commissions</b>                    | ➔ | <ul style="list-style-type: none"> <li>• No changes in NY. Terms extend to 2012-2015 time periods</li> <li>• Chairman in ME has announced his resignation. No appointment to date</li> </ul> |

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**INVESTOR DAY**  **Regulated Business USA** 

**Regulatory, political and sector update**

**Achievements in 2010**

**Guidance and Plans for 2011**



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**INVESTOR DAY**  **2010 Commitments** 

**Work towards becoming a top - decile performer vs U.S. Peers by focusing on 3 primary objectives**

- Transform the way we do business to increase efficiency**
- Improve regulatory relationships and achieve multi-year rate plans in NY (NYSEG and RG&E)**
- Aggressively pursue attractive growth opportunities**

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INVESTOR DAY  **Business Transformation** 

**Process redesign drives significant efficiencies**

- Annualized savings in excess of USD 100 MM
- EBITDA up 35% in US GAAP and 58% in IFRS vs 2009
- Headcount down by 29%\*
- All regulatory customer satisfaction, safety and reliability measures met

\*Includes sale of gas companies (18% reduction excluding sale)

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INVESTOR DAY  **Return on Equity** 

**2011 goal is to earn authorized return at each utility**

|                       | 2009  | 2010  | 2011-12 (e) |
|-----------------------|-------|-------|-------------|
| NYSEG-E <sup>1</sup>  | 5.8%  | 9.4%  |             |
| RG & E-E <sup>1</sup> | 4.9%  | 9.3%  |             |
| CMP-D                 | 9.6%  | 10.0% |             |
| CMP-T                 | 11.4% | 12.4% |             |
| NYSEG-G               | 10.3% | 10.1% |             |
| RG & E-G              | 5.9%  | 5.8%  |             |
| <b>IBERDROLA USA</b>  | 7.2%  | 9.6%  | 10-11%      |

<sup>1</sup> Excluding one-time charges

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**INVESTOR DAY**  **New York – 2010 Rate Plan** 

**Approved Sept 2010 – NYSEG and RG&E: Improves EBITDA and creates a path to improve credit ratings**

**Term** 3 years, 4 months (Sep. 2010 – Dec. 2013)

**ROE / Equity Ratio to set Rates** 10.0% ROE / 48% Equity Ratio

**Earnings Sharing Mechanism (Customer % / Shareholder%)**

| Sharing | 2011           | 2012           | 2013 and beyond |
|---------|----------------|----------------|-----------------|
| 0/100   | Up to 10.3%    | Up to 10.6%    | Up to 10.9%     |
| 50/50   | 10.3% – 11.05% | 10.6% - 11.35% | 10.9% - 11.65%  |
| 85/15   | Over 11.05%    | Over 11.35%    | Over 11.65%     |



Equity Ratio up to 50%  
If Reliability or Service Quality metric missed, then ESM is reduced (30, 40, 50 BP)

**Rate Increases**

|            | Sep. 2010                         | Sep. 2011 | Sep. 2012 |
|------------|-----------------------------------|-----------|-----------|
| w/out PBA  | USD 158 MM                        | USD 23 MM | USD 31 MM |
| w/ PBA     | USD 53 MM                         | USD 59 MM | USD 63 MM |
| % Delivery | 2-8%                              | 3-7%      | 3-7%      |
| Cumulative | USD 400 MM over 3 years, 4 months |           |           |

**Significant uncontrollable cost true ups and revenue decoupling approved**

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**INVESTOR DAY**  **Growth Initiative: MPRP** 

**USD 1.4 billion transmission project approved and under construction**

**FERC regulated, 12.89% ROE on actual equity**

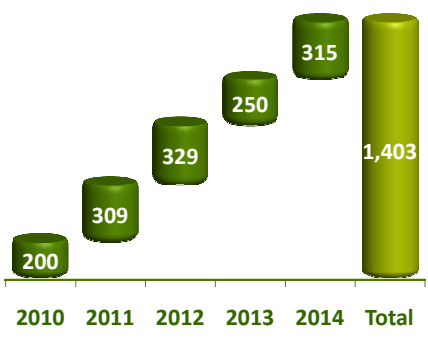
**Over USD 200 MM invested so far**

**Sale of gas companies provides funding source**

**Contribution to revenue and cash flows from July 1st, 2010**



**Average EBITDA increase in 2010-2015 of 59% annually**

**Capital Investment 2010-2014 (USD MM)**



| Year         | Capital Investment (USD MM) |
|--------------|-----------------------------|
| 2010         | 200                         |
| 2011         | 309                         |
| 2012         | 329                         |
| 2013         | 250                         |
| 2014         | 315                         |
| <b>Total</b> | <b>1,403</b>                |

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INVESTOR DAY  **Maine Transmission Regulatory Structure** 

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**FERC Regulated**

|  |  |
|--|--|
| <b>Term</b>                            | Unlimited – Formula in Place since 2001  |
| <b>ROE / Equity Ratio to set Rates</b> | <ul style="list-style-type: none"> <li>• ROE Varies per Vintage and Project                             <ul style="list-style-type: none"> <li>• 11.14% / 11.64% Base Transmission</li> <li>• 12.89% MPRP Transmission Project</li> </ul> </li> <li>• Equity – Actual per books</li> </ul> |
| <b>Earning Sharing</b>                 | None – Earnings Reconciled to Authorized ROE   |
| <b>Rate Changes</b>                    | <p><u>Rate Formula</u></p> <ul style="list-style-type: none"> <li>• Set each June 1st</li> <li>• Based on historical calendar FERC annual report</li> <li>• Include forecast CWIP through 12/31 of current year</li> </ul>   |

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INVESTOR DAY  **Growth Initiative: AMI** 

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**Smart meter implementation on-going in Maine**

135,000 meters installed (total of 620,000)

USD 192 MM project (USD 55 MM spent to date), 50% DOE grant funded

Project will be part of the Rate Base for distribution in Maine

Expect full implementation by early 2012

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**INVESTOR DAY**  **Regulated Business USA** 

**Regulatory, political and sector update**

**Achievements in 2010**

**Guidance and Plans for 2011**

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**INVESTOR DAY**  **2011 Priorities** 

**Growth and efficiency**

- Continue Business Transformation, including the integration of best practices and collaboration across Iberdrola Group**
- Earn authorized rates of return in New York and Maine**
- Continue successful implementation of MPRP and AMI**
- Achieve all safety, reliability and customer service requirements**
- Investigate additional growth opportunities**

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**INVESTOR DAY** **Capital Spending & Rate Base Forecast** **IBERDROLA**

**Enhanced spending to ensure system safety and reliability**

USD MM

|                    | CAPEX 2011 | Rate Base 2011 | Capex 2012 | Rate Base 2012 |
|--------------------|------------|----------------|------------|----------------|
| NYSEG              | 190        | 2,075          | 167        | 2,115          |
| RG & E             | 171        | 1,330          | 171        | 1,360          |
| CMP - Distribution | 104        | 565            | 55         | 575            |
| CMP-Transmission   | 396        | 720            | 433        | 970            |
| <b>Total</b>       | <b>869</b> | <b>4,690</b>   | <b>826</b> | <b>5,020</b>   |

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