

 **OUTLOOK 2012/14**
24th OCTOBER LONDON

Networks Agenda



Networks

- 1. 2011 Key Figures**
- 2. Strategic Positioning**
- 3. Regulatory Environment**
- 4. Investment Plan (2012-2014)**
- 5. Business Evolution**

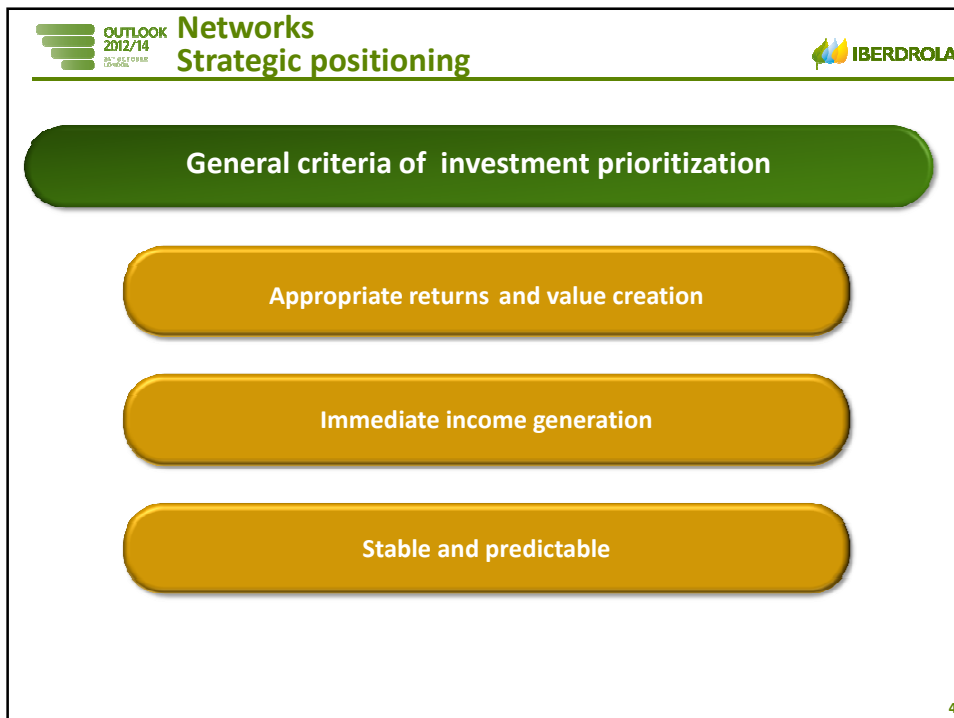
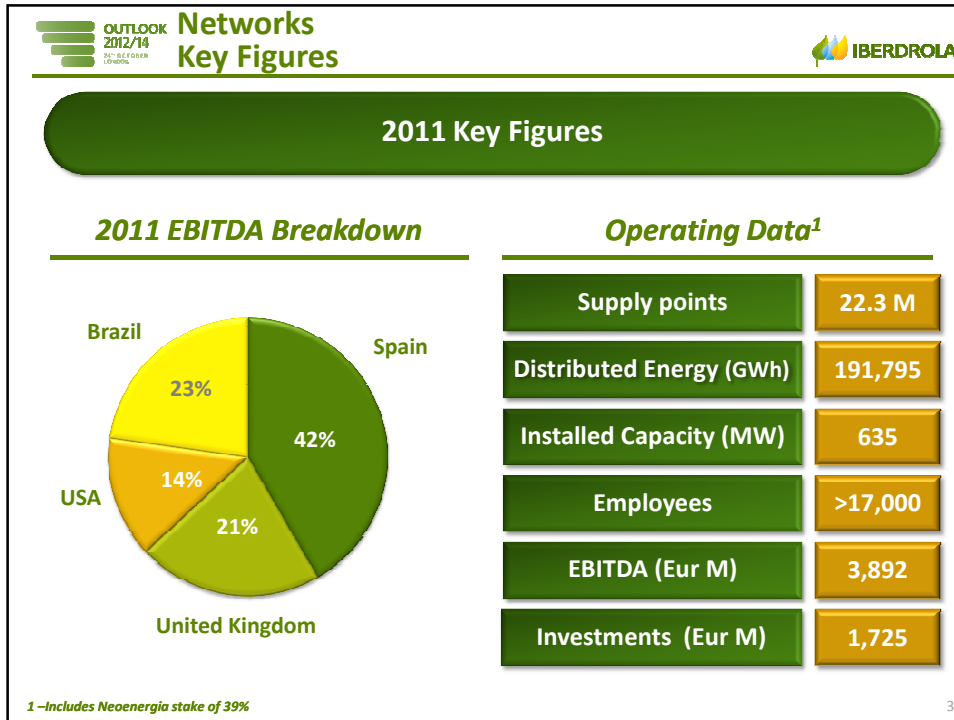
Spain

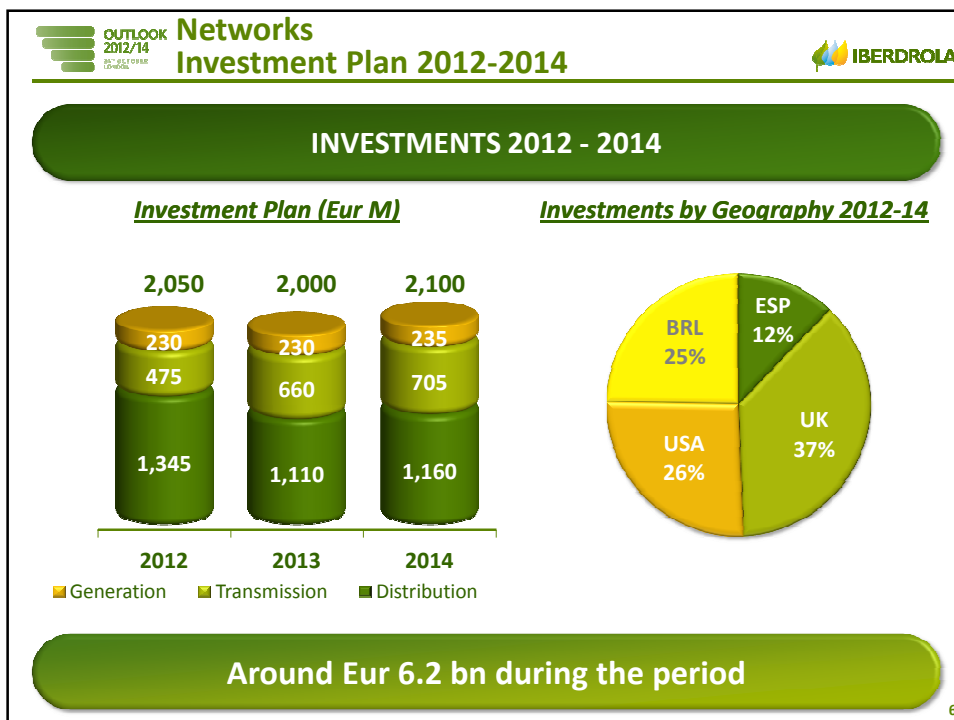
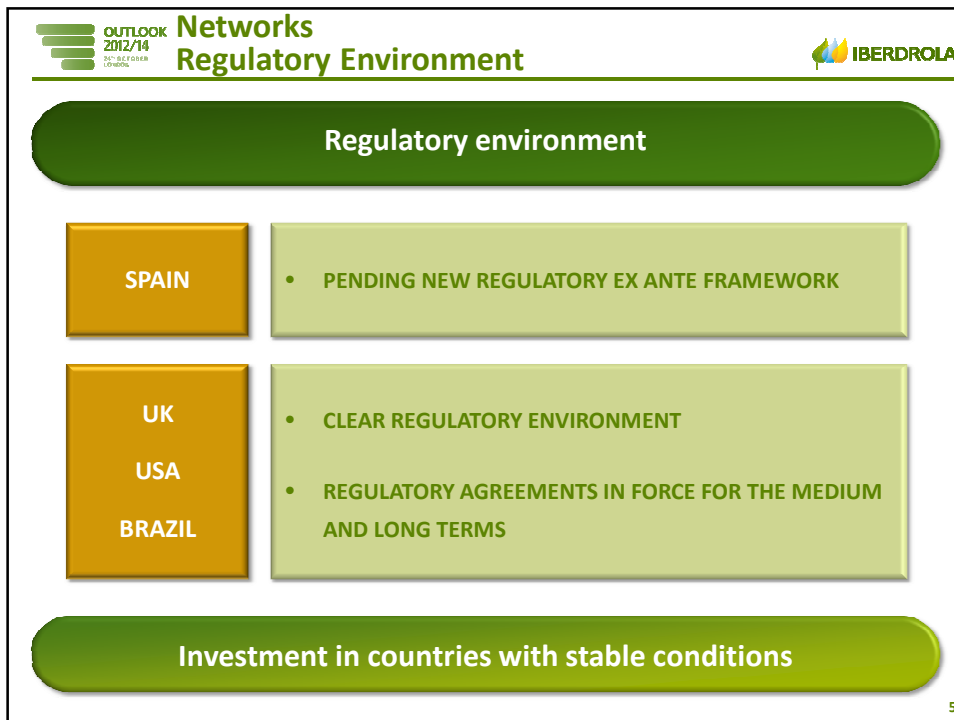
United Kingdom

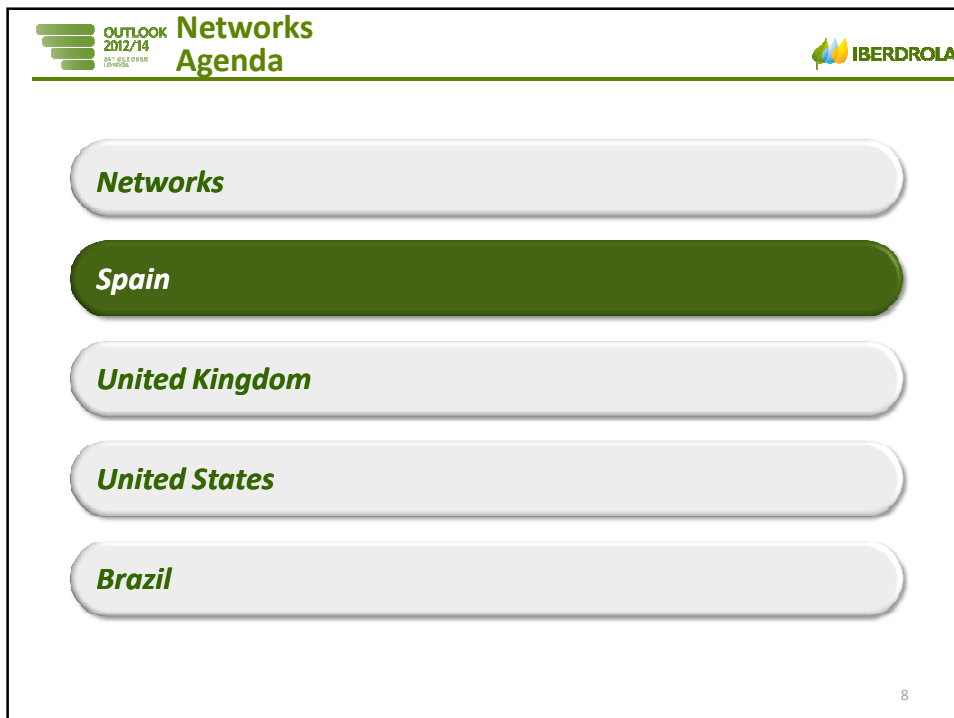
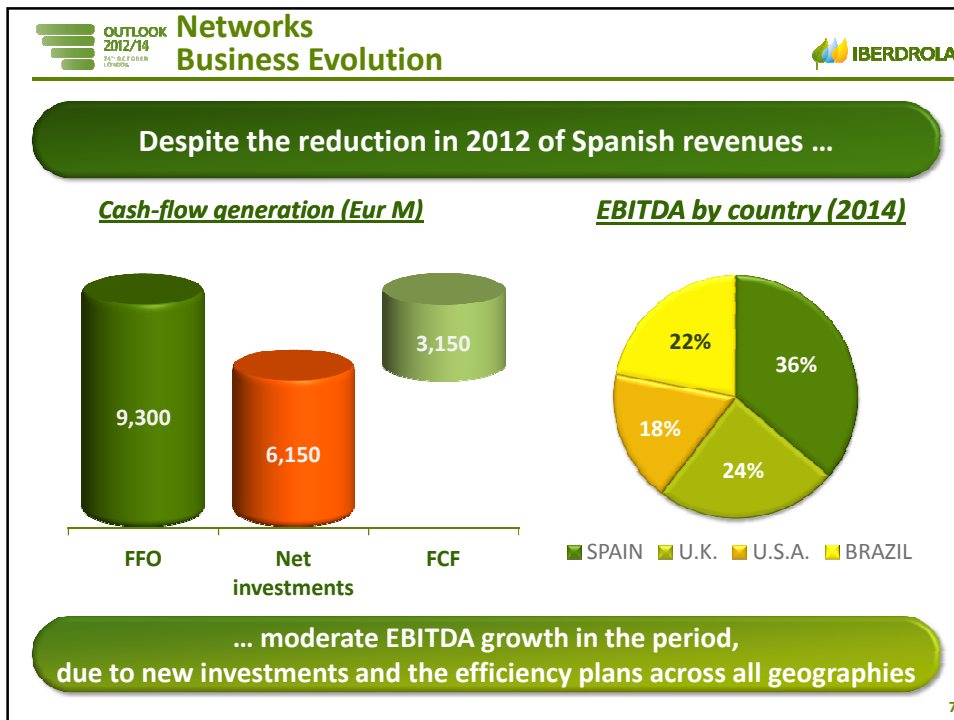
United States


Brazil

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OUTLOOK 2012/14 **Networks**
Spain: General landscape 

GENERAL LANDSCAPE

ECONOMIC SITUATION	<ul style="list-style-type: none"> • Energy consumption at 2007 levels
REGULATORY FRAMEWORK RD 13/2012	<ul style="list-style-type: none"> • Income reduction in 2012: Eur 156 M below 2011 • New investments generate returns from year N+2 from when they enter service • The new regulatory framework announced is currently in development

Adapting investments to the new regulatory framework
Maximizing efficiency

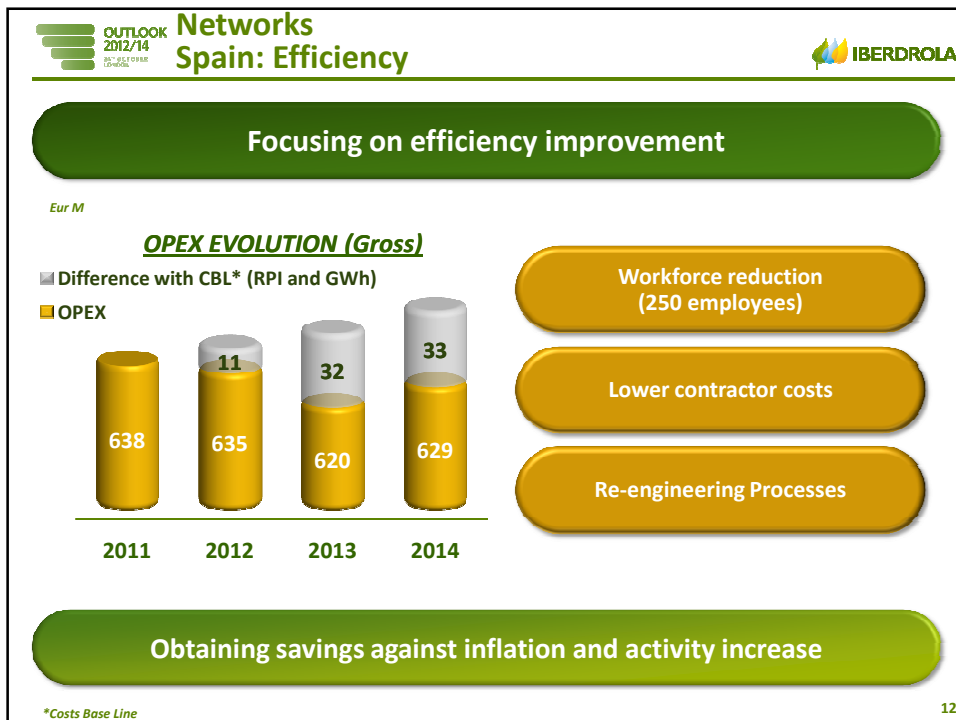
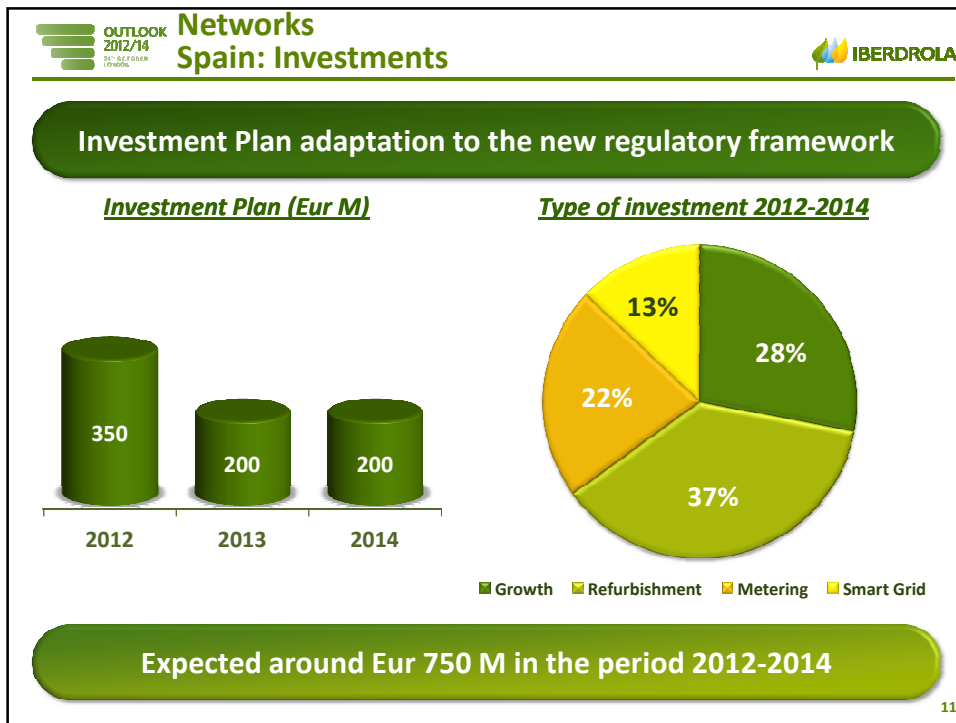
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OUTLOOK 2012/14 **Networks**
Spain: Regulatory framework 

Business Plan Hypotheses

- Consolidation of current remuneration and establishing a RAV to be amortised over the remaining useful life of the assets
- Remuneration of new investments with rates of return appropriate for the activity and similar to other countries
- Recognition of Opex based on standards, promoting operating efficiency
- Enhancing incentives for quality of supply and reduction in losses
- Remuneration system similar to the countries in which we operate

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Networks


Spain

United Kingdom

United States

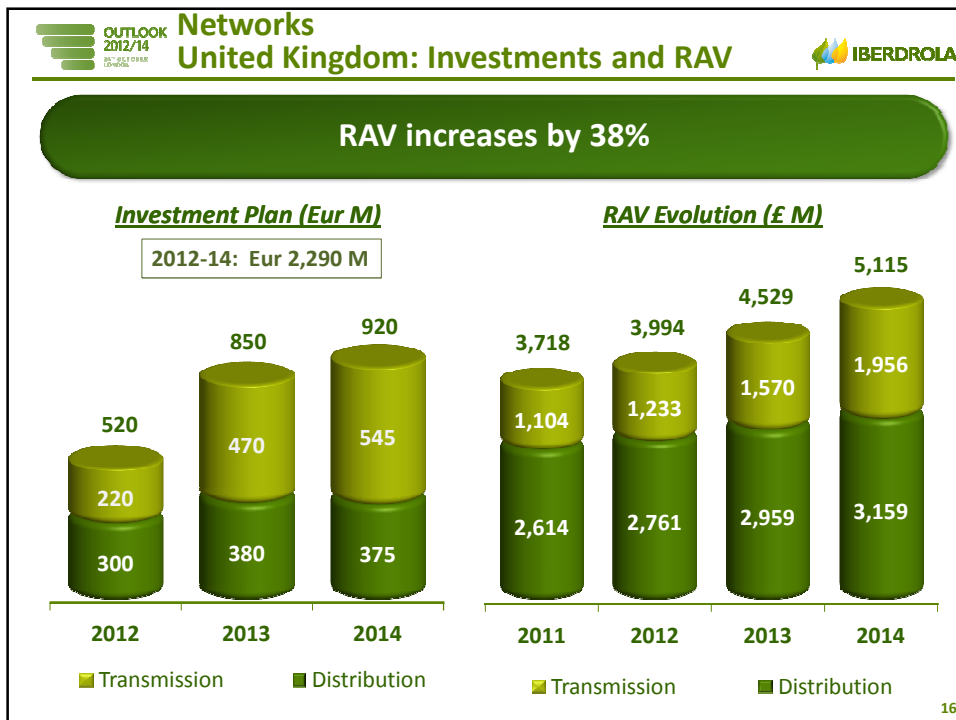
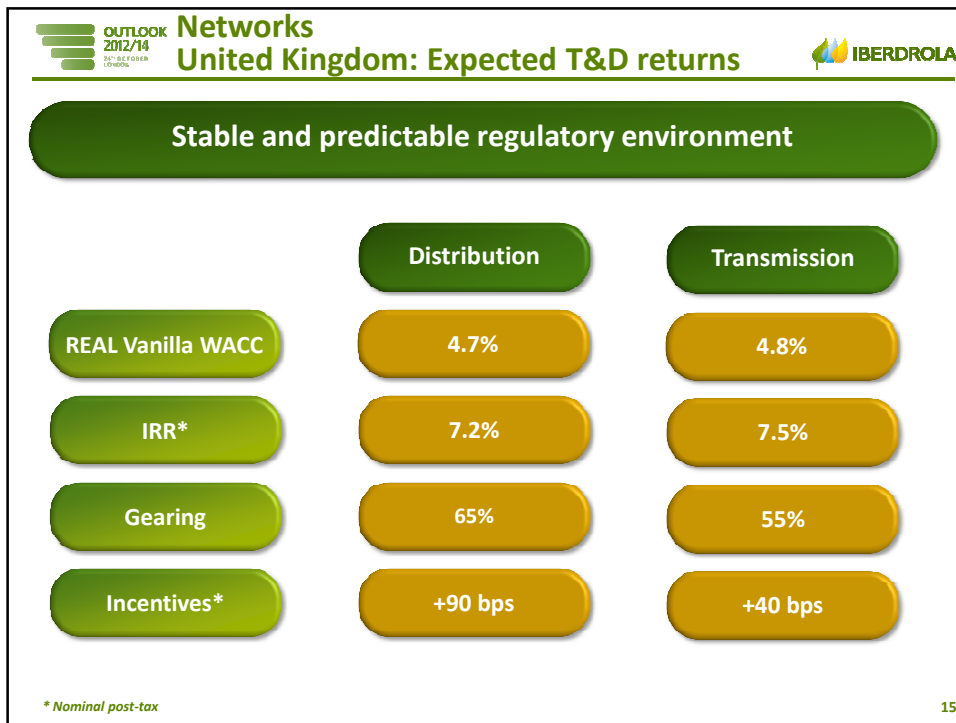
Brazil


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OUTLOOK 2012/14 **Networks United Kingdom: Regulatory Framework** 

Distribution	Transmission
<ul style="list-style-type: none"> • DPCR5 for SP Distribution and SP Manweb • In force until April 2015 • Negotiations started for RIIO-EDI1 • Will last until 2023 	<ul style="list-style-type: none"> • RIIO-T1 in force until 2021 • Agreement included in fast-track process in January 2012 • Investment of £2.6 bn


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Networks Agenda



Networks


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Networks United States: Regulatory Framework



Distribution

NEW YORK

- Tariff agreements in NY (NYSEG and RGE) in force until December 2013.
- Option to extend tariffs for the year 2014

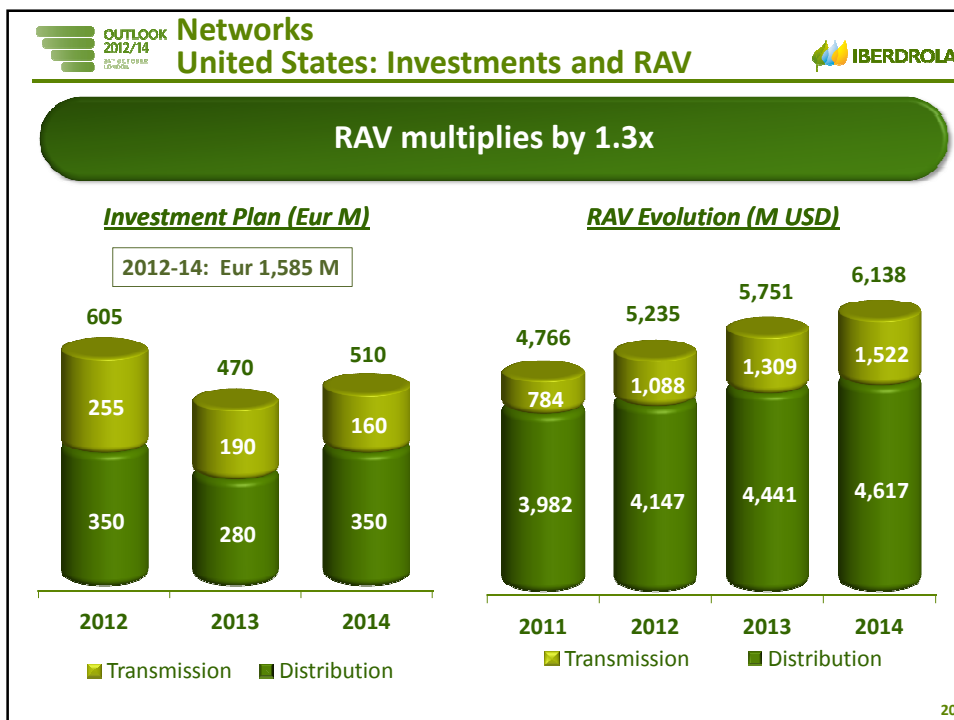
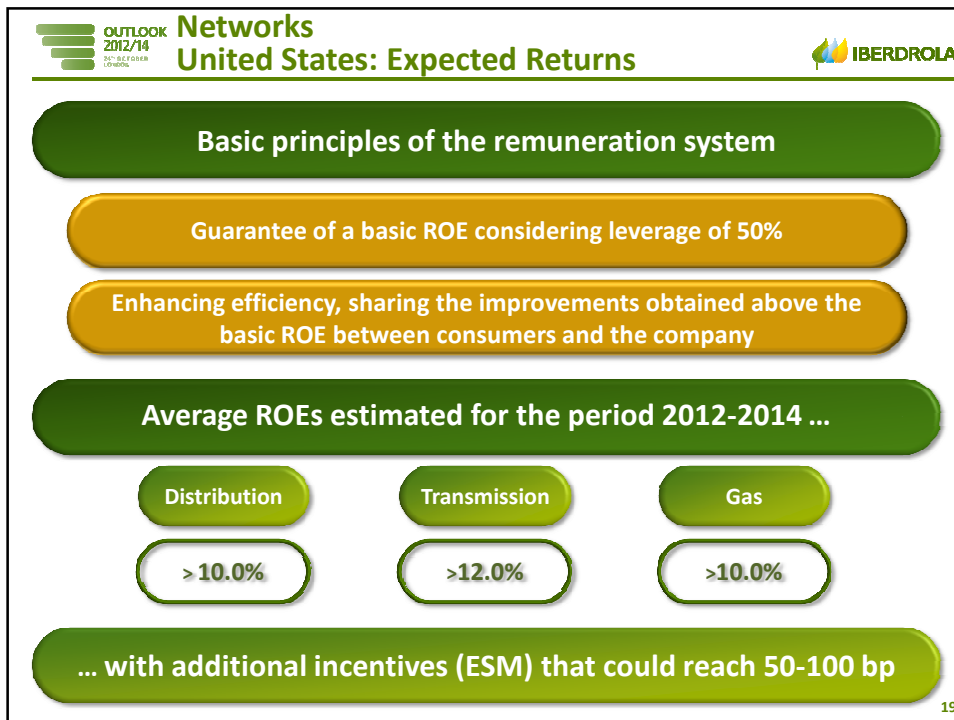
MAINE

- Tariff agreement in Maine (CMP) in force until December 2013
- A multi-annual rate case will be negotiated in 2013 which will come into effect in 2014

Transmission

- MPRP Transmission project under construction in Maine with a total investment of \$1.4 bn
- New investment opportunities under analysis for transmission from 2015

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United States: Efficiency

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In the period 2009-2011, NOE/GM* ratio has improved from 50% to 41%

Reduction of External Services

20% reduction in workforce (without considering sale of Connecticut gas)

In the period 2012-2014 the goal is to maximize returns

Achieving all metrics, avoiding penalties

Allowing a forecasted NOE/GM* ratio of 34% in 2014

* Net Operating Expenses / Gross Margin

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Networks



Spain

United Kingdom

United States

Brazil



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Networks
Brazil: Regulatory Framework (1/2)


Distribution: Impact of the 3rd cycle of Tariff Reviews

- Elektro: In force until August 2015
- Neoenergia Distributors: Next review April 2013
- Rate of return of 7.5% real, 12% nominal
- The 3rd cycle incentivises efficiencies, defining Regulatory Opex based on a benchmarking model
- Incentives/Penalties for the quality of supply
- Concessions in force until 2027

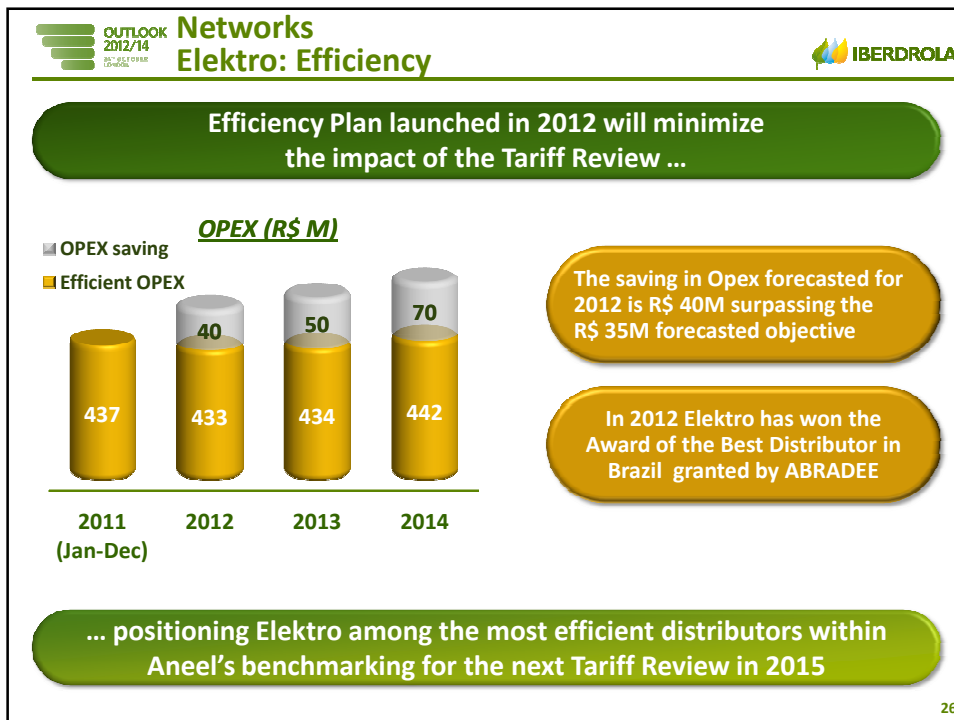
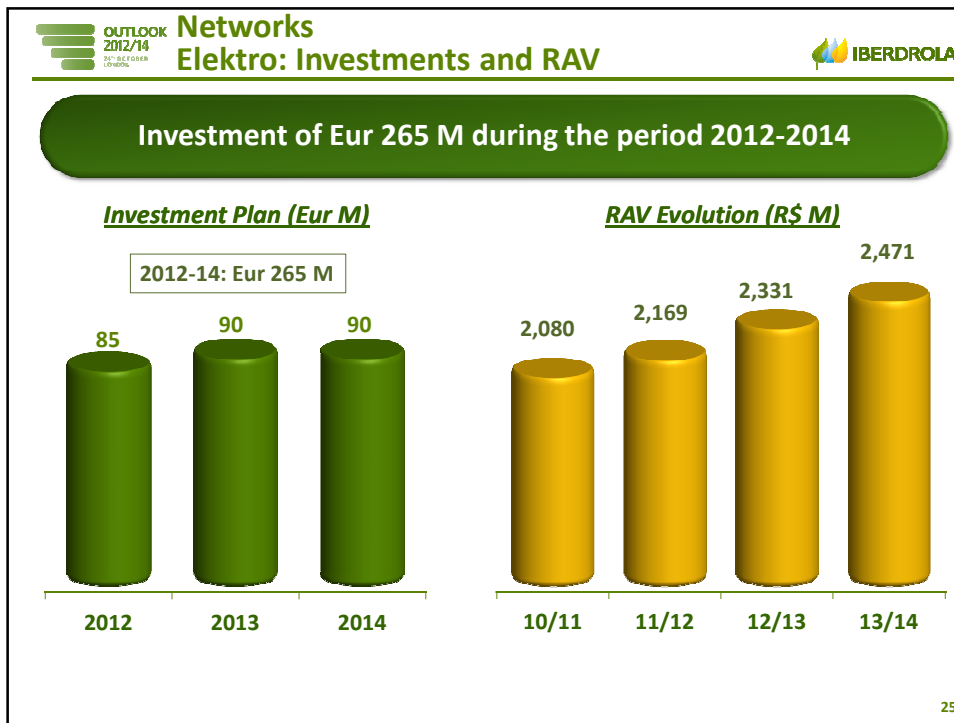
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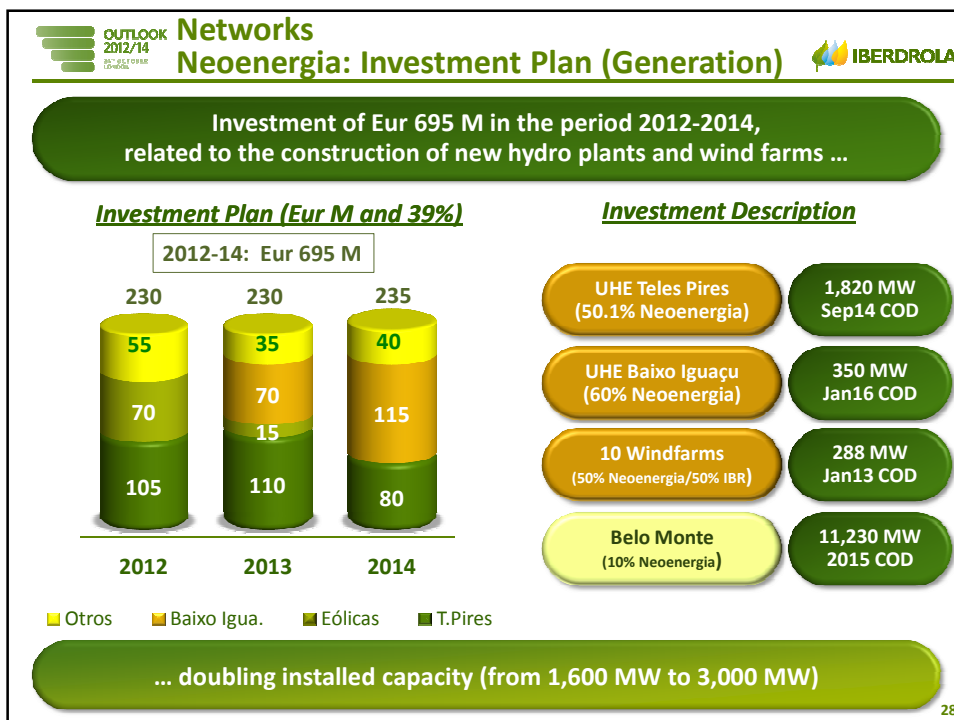
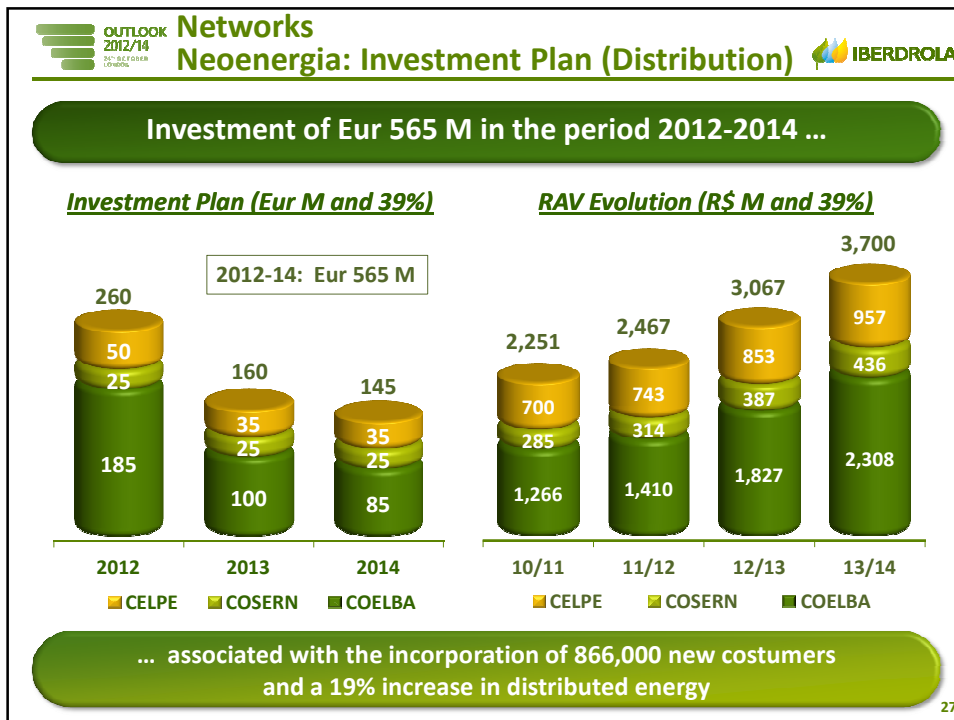

Networks
Brazil: Regulatory Framework (2/2)



Generation/Transmission: successful tendering model

- Predictable and secure tendering model, with fixed tariffs yearly readjusted by inflation.
- Tendering with offer from contractor (controlled investment risk).
- Access to BNDES financing in preferential conditions (60-70%).
- Without hydro risk, guaranteed income volume independent of the energy generated.
- Long-term concession contracts (30-35 years).
- MP 579: no impact on Neoenergia Generation/Transmission, opportunity for Distribution.
- High wind and hydro potential in Brazil: good positioning of Neoenergia.

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