

DIALOGUE PROCESS ON THE NEW ELECTRICITY-TRANSMISSION TO BE OPEN AND BROAD-BASED

- **Red Eléctrica will submit proposals for the Royal Decree setting the remuneration for electricity transmission starting in 2015**

Red Eléctrica de España will submit proposals in coming days for the draft Royal Decree setting the remuneration for electricity transmission starting in 2015. The text was forwarded on Monday to the National Energy Commission, and a period during which sector stakeholders will be able to submit comments was initiated. The aim of REE's proposals is to present alternatives for improving the text that regulates electricity transmission in Spain, within a framework of an open, broad-based process of dialogue and discussion.

On 15 July, as it is required to do, the Ministry of Industry forwarded to the National Energy Commission, among other documents, its proposed tariffs for the second period of 2013 as well as its proposal for the Royal Decree setting remuneration for transmission starting in 2015, and the Commission conducted a hearing for the sector stakeholders.

As is set forth in the proposed Ministerial tariff order, the tariff for the second period of 2013 envisions a €75 million reduction in REE's transmission revenue. In addition, the document will make the tariffs for 2008 to 2011 definitive and set the standard amounts for capex, opex and maintenance for facilities belonging to non-mainland systems. This translates into adjustments to the balances for several items during this period which were indicated in the Company's financial statements during the aforementioned years.

Although the definitive clarification of some parameters in accordance with Royal Decree-Law 9/2013 is still pending, the Company's estimate of the transmission tariff is about €1.6 billion in 2014.

Consequently, in both cases, the information received ratifies the estimates contained in the communiqué released by the Company early Monday. The new remuneration for 2013 and 2014 will be definitive for both years, notwithstanding the possible approval of the amounts corresponding to the availability bonus and the remuneration for capex, opex and maintenance associated with the one-off investments at a later date.

As noted, the draft Royal Decree establishing a methodology for the future remuneration of electricity transmission, to be reviewed every six years, has also been received. The highlights of this draft are:

- It unifies the methodologies set forth in RD 2819/1998 and RD 325/2008.



- The value of assets in service for the beginning of the first regulatory period will be determined according to replacement value and will be published in a resolution issued by the Directorate General of Energy Policy and Mines.
- Remuneration of capex will be based on the 10-year Spanish treasury bond plus 200 basis points.
- Remuneration of opex and maintenance will be calculated in accordance with the facilities' representative unit costs.

An initial reading of the draft Royal Decree and of the statements made in recent days by the Minister of Energy leads to the conclusion that:

- The principles for electricity reform on which the Royal Decree are based, and which were reaffirmed by the statements of the Minister of Energy, refer to the intention of ensuring an appropriate level of profitability for electricity transmission.
- This proposal assumes a different—and, hence, more complex—calculation method than the previous one, given that a large set of parameters and information must be estimated individually for all facilities in the transmission network. Some of the data and information are not easily grasped, requiring a considerable amount of time for the determination of the calculation method.
- A comment period been opened to allow stakeholders to clearly express their contributions to the regulation that has been published and, naturally, to submit alternatives to improve that regulation. During that dialogue, Red Eléctrica will introduce proposals for clarifying some specific issues, such as the factor for updating assets, the establishment of the residual life of those assets and of adequate incentives for the availability of facilities as well as construction and maintenance processes.
- With these arguments, Red Eléctrica will also formally submit allegations in coming days relative to the proposed regulatory documents.

The entire dialogue and allegation process is intended to ensure the development of electricity transmission in order to guarantee supply security and defend the interests of our shareholders at all times.