

2016-23: New regulatory period for electricity distribution in Italy

January, 21st 2016



New regulatory period for electricity distribution in Italy

Highlights



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Overall framework

Stable and supportive of network investment plan

2016 tariff revenues

Estimated reduction by 5% from 4.81 €bn in 2015 to 4.55 €bn in 2016
WACC revision from 6.4% to 5.6%

2016 regulated asset base

Estimated at ~21 €bn

Overall in line with expected regulatory scenario in November plan

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Summary of the regulatory decisions



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Resolutions

Published

- **654/2015** - Tariff general framework
- **583/2015** - WACC
- **646/2015** - Quality of service and output based regulation

To be published

- Final allowed revenues
- Smart meters regulation

Main changes

Longer regulatory periods

New WACC methodology

Regulatory lag reduction

Gradual approach to the extension of asset life

Key confirmations

Allowed opex

No exposure to energy volumes

Quality of service

Pillars for the future

New framework for innovative investments

Smart meters regulation draft

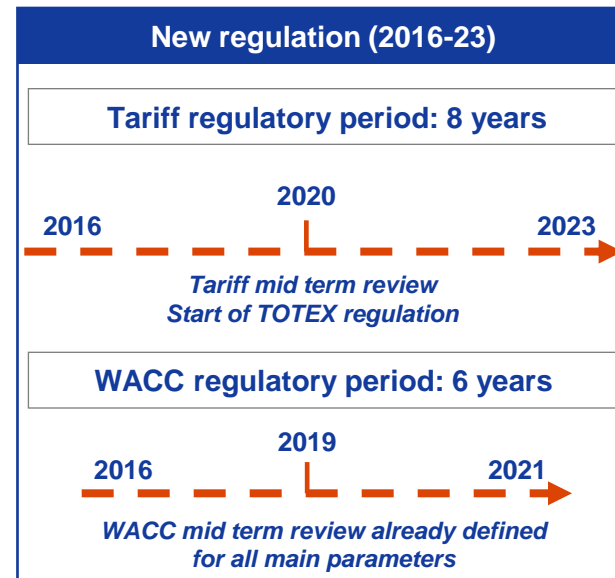
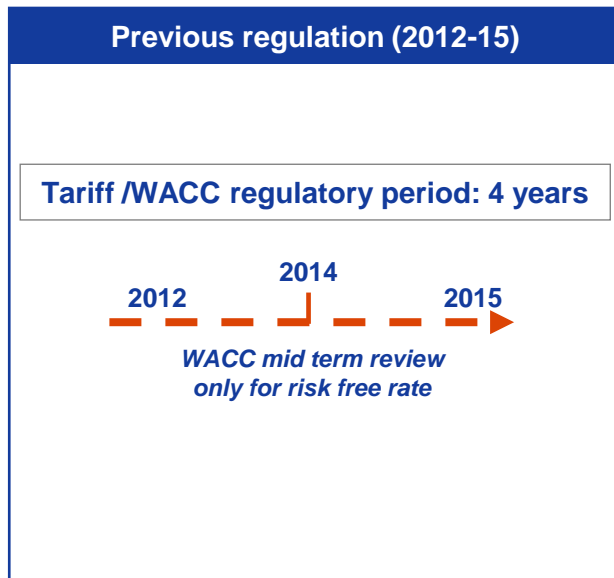
Totex regulation starting from 2020

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Main changes: longer regulatory periods



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Greater stability thanks to longer regulatory periods

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Main changes: new WACC methodology (1/2)



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New methodology to stabilize fluctuations in interest rates and inflation



2016-18

Real pre-tax WACC set at 5.6% vs. 6.4%

2019-21
Future updates

New methodology defined for all main parameters

A new approach to manage the new macro-economic scenario

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Main changes: new WACC methodology (2/2)



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	2016-18	Update rules (2019-21)
Real risk-free rate	0.5%	October 2017- September 2018 high rating Countries risk free rate – 0.5% floor
Country risk premium	1%	Based on Italy-Germany 10 year bond spreads change in 2018 vs. 2015
Equity risk premium	5.5%	Based on the new Risk Free Rate and on a fixed 6% Total Market Return
β unlevered	0.39	Potential update in 2019 within tariff regulatory period
Debt spread	0.5%	No interim update
Gearing = $D/(D+E)$	0.44	Alignment to European benchmark - cap 0.5
Tax shield	27.5%	To be updated at the end of 2018
Tax rate	34.4%	To be updated at the end of 2018
Inflation rate	1.5%	European Central Bank forecast at the end of 2018
“F” Factor	0.5%	Resulting from the update of Tax rate, Tax shield and Inflation
WACC real pre-tax	5.6%	

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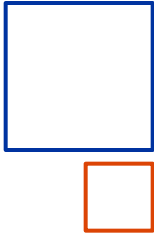
Main changes: regulatory lag reduction



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	Previous regulation 2012-15	New regulation 2016-23
Remuneration on RAB	<ul style="list-style-type: none">▪ Year $t-2$ capex included in year t RAB▪ +1% WACC for new investments	<ul style="list-style-type: none">▪ Year $t-1$ capex included in year t RAB▪ +1% WACC premium on 2012-14 capex replaced by a RAB uplift
Allowed depreciation	<ul style="list-style-type: none">▪ Year $t-2$ capex included in year t Depreciation	<ul style="list-style-type: none">▪ Year $t-2$ capex included in year t Depreciation

Lag reduction to 1 year with neutral NPV and positive effects on cash flow



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Main changes: extension of asset life



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Life for MV and LV lines built after 2007 extended from 30 to 35 years

Further possible revision with the introduction of Totex mechanism in 2020



Gradual reduction of allowed depreciation

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Key confirmations: allowed opex (1/2)



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Allowed opex composition

50% of 4th regulatory period extra efficiencies

Residual value of 3rd regulatory period extra efficiencies

2014 opex



Allowed opex calculated on 2014 costs

50/50 profit sharing for the 4th regulatory period extra-efficiencies

Residual value of 3rd regulatory period and 50% of 4th regulatory period extra efficiencies to be returned to consumers by 2019 via the X-factor

Allowed opex regulation broadly confirmed

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Key confirmations: allowed opex (2/2)



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	Previous regulation 2012-15		New regulation 2016-23	
Distribution	2.8%	X-factor set to return to consumers the 2 nd and 3 rd regulatory period extra-efficiencies (by 2015 and 2019 respectively)	1.9%	X-factor set to return to consumers the 3 rd and 4 th regulatory period extra-efficiencies (both by 2019)
Metering	7.1%		1%	
Weighted average	3.1%		1.8%	

X-factors set only to return previous periods extra-efficiencies by 2019



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Key confirmations: no exposure to energy volumes



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Allowed revenues will continue to be based on the average number of customers

Allowed revenues to be guaranteed by an equalization mechanism



No exposure to energy volumes



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Key confirmations: quality of service



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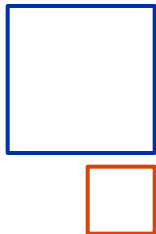
Stable incentive mechanisms on frequency and duration of interruptions

Frequency: four year extension supportive of structural network investments

Duration: premium maintained to sustain the high quality levels already achieved



Quality of service regulation broadly confirmed



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Pillars for the future: new framework for innovative investments



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**New regulatory mechanism “Output based”
replacing extra WACC remuneration**

**New bonus mechanisms based on a benefit sharing
between the distributor and the system**

**First two main innovative functionalities on MV grid
RES observability systems and advanced voltage regulation to increase RES hosting capacity**

**New regulatory framework as fundamental enabler
for the future smart grid development**



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Pillars for the future: 2nd generation digital meters



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New meter functional requirements definition ongoing

Cost benefit analysis process in line with European guidelines

Potential first TOTEX application on the second generation meter investment



Smart meters regulation to be finalized by first half 2016

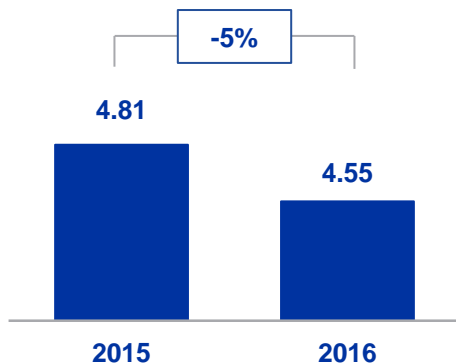
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Estimated revenues and RAB

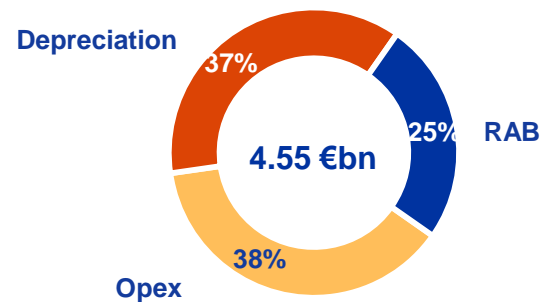


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Allowed revenues¹ (€bn)



2016 revenues breakdown

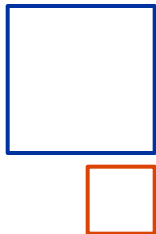


Estimated Tariff RAB²

~21 €bn

Estimated 2016 revenues in line with November plan assumptions

1. Enel estimates based on criteria foreseen by the resolution and on tariffs applied to customers; final allowed revenues will be published in April - July
2. Including estimated NPV of depreciation of electromechanical meters as per Resolution n. 654



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Closing remarks

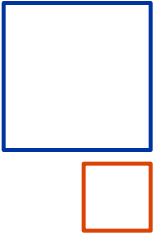


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**A new regulatory framework to face the current
macroeconomic scenario and system needs**

2016 estimated results in line with November business plan figures

A positive context to encourage investment in networks and innovation



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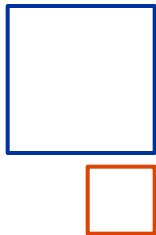
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