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Investors & Analysts' Briefing

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ERSE ANNOUNCES PARAMETERS, TARIFFS AND PRICES FOR ELECTRICITY AND OTHER SERVICES FOR 2006-2008

The Portuguese Energy Services Regulatory Authority ("ERSE") made public today the document relative to the "parameters, tariffs and prices for electricity and other services in Portugal" for the 2006-2008 regulatory period. As opposed to the previous regulatory period, which lasted for only one year since it was considered of an "exceptional and transitory" nature due to the foreseen implementation in 2005 of the Iberian Electricity Market ("MIBEL"), the new regulatory period covers a three years' time span and the 2006 tariffs could be subject to revision with the start of the MIBEL.

Average Electricity Prices to Final Clients PES – Public Electricity System (€/KWh)	2005 *	2006	% Chg
Average Electricity Prices to Final Clients	0.1055	0.1094	3.7%
Very High Voltage	0.0468	0.0498	6.3%
High Voltage	0.0522	0.0559	7.1%
Medium Voltage	0.0811	0.0894	10.2%
Special Low Voltage	0.1006	0.1156	14.9%
Normal Low Voltage	0.1320	0.1345	1.9%
Public Lighting	0.0859	0.0767	-10.8%

* Average electricity prices for final clients in VHV, HV and MV include tariff increases resulting from the quarterly adjustments that reflect the change in fuel prices.

In respect to EDP Distribuição regulated activities, ERSE, assuming a 3.4% annual growth in electricity consumption, set the following allowed revenues for 2006: (i) €1,032.2 million for the use of the distribution grid; (ii) €140.7 million for network services; (iii) €74.1 million for supply in the public system and; iv) €86.5 million related to the pass-through to the final tariff of the costs associated with the energy acquisition activity. As such, total regulated revenues at EDP Distribuição will amount to €1,333.5 million, an increase of 11.8% vis-à-vis the €1,192.9 million set by ERSE for the 2005 tariffs.

Allowed Revenues (€ million)	2005 ⁽¹⁾	2006		Chg. % ^{(3)/(1)}
		Proposal ⁽²⁾	Final ⁽³⁾	
Electricity Distribution before HRR* costs recovery and Adjust.	903.2	984.8	981.3	8.7%
Human Resources Restructuring (HRR) Costs Recovery	26.3	17.5	17.5	-33.5%
t-2 Adjustments	13.5	33.3	33.3	146.8%
Use of Distribution Grid Activity (UDGr)	943.0	1,035.7	1,032.2	9.5%
Network Services before HRR* costs recovery and Adjust.	129.8	136.0	134.2	3.4%
Human Resources Restructuring (HRR) Costs Recovery	6.7	4.2	4.2	-38.3%
t-2 Adjustments	1.4	2.3	2.3	65.5%
Network Services Activity (NS)	137.9	142.4	140.7	2.0%
Supply in Public System before HRR* costs recovery and Adjust.	78.2	71.4	70.6	-9.8%
Human Resources Restructuring (HRR) Costs Recovery	4.6	2.4	2.4	-47.6%
t-2 Adjustments	1.4	1.1	1.1	-23.1%
Supply in the Public System Activity (SPS)	84.3	75.0	74.1	-12.1%
t-1 Adjustments	-7.0	107.3	107.3	-
t-2 Adjustments	34.6	-20.7	-20.7	-
Energy Acquisition Activity	27.6	86.5	86.5	213.7%
Total Allowed Revenues	1,192.9	1,339.6	1,333.5	11.8%

*HRR - Human Resources Restructuring

Additionally, the rate of return on net assets for EDP Distribuição's regulated activities is now set by ERSE at 8.0%, replacing the former 8.5% rate that was defined for the previous regulatory period.

On what concerns the allowed revenues for the use of the distribution grid activity, ERSE changed its calculation formula. In previous regulatory periods, these allowed revenues were computed, for each voltage segment, based on a unit variable component times the electricity volumes distributed by EDP Distribuição and updated to previous year's inflation deducted by an efficiency factor ($CPI_{t-1} - X$). For the new regulatory period, ERSE introduced in the calculation formula, a fixed remuneration component, independent of electricity distributed volumes, which will also be updated to previous year's inflation deducted by an efficiency factor ($CPI_{t-1} - X$).

The amounts of the fixed and variable components for 2006, as well as the parameters used for updating the components in 2007 and 2008 are as follows:

Components for calculation of UDGr* allowed revenues	2005	2006
Fixed Component - HV/MV (€ million)	-	136.4
Variable Unit Component - HV/MV (€/MWh)	8.27	5.60
Electricity Distributed as estimated by ERSE – HV/MV (GWh)	41,760	45,236
Fixed Component - LV (€ million)	-	266.2
Variable Unit Component - LV (€/MWh)	24.47	13.61
Electricity Distributed as estimated by ERSE - LV (GWh)	22,797	23,916
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2007 and 2008 parameters for calculation of UDGr* allowed revenues	2007	2008
Fixed Component		
X Factor - HV/MV	0.5%	0.8%
X Factor - LV	0.5%	0.2%
Variable Component		
X Factor - HV/MV	4.5%	4.9%
X Factor - LV	3.9%	4.2%

* UDGr – Use of the Distribution Grid

The significant increase in the 2005 electricity system's costs, due to the unanticipated rise in fuel prices and Special Regime generation volumes, along with the fact that increases in low voltage clients' tariffs are limited, in each year, to inflation, created a tariff deficit of €369 million. Of this amount, approximately €115 million are attributable to EDP Distribuição and are included in the €1,333.5 million allowed revenues for 2006. This deficit, recognized by ERSE, represents an interest bearing amount that will be recovered by EDP Distribuição through the tariffs between 2007 and 2011.