



Investors  
& Analysts'  
Briefing

Reuters: EDP.LS  
Bloomberg: EDP PL

## ERSE ANNOUNCES THE PROPOSAL FOR ELECTRICITY TARIFFS IN 2012 AND PARAMETERS FOR THE 2012- 2014 REGULATORY PERIOD

**Lisbon, October 17<sup>th</sup> 2011:** Today, the Portuguese Energy Services Regulator (Entidade Reguladora dos Serviços Energéticos – “ERSE”) announced its proposal for Portuguese electricity tariffs in 2012 and the parameters for the regulatory period 2012-14. ERSE informed EDP, through the letter and document attached, the following:

**EDP – Energias de Portugal, S.A.**

### Investor Relations Department

Miguel Viana, Head of IR  
Sónia Pimpão  
Elisabete Ferreira  
Pedro Coelhas  
Ricardo Farinha  
Noélia Rocha  
**phone** +351 21 001 2834  
**fax** +351 21 001 2899  
[ir@edp.pt](mailto:ir@edp.pt)

***Unofficial Translation***

***This is an unofficial translation of the letter and attached document received from  
ERSE – Entidade Reguladora dos Serviços Energéticos, prepared for  
information purposes only.***

**ERSE TECHNICAL NOTE: TARIFFS AND PRICES FOR ELECTRICITY IN 2012 AND  
PARAMETERS FOR THE 2012-2014 REGULATRY PERIOD**

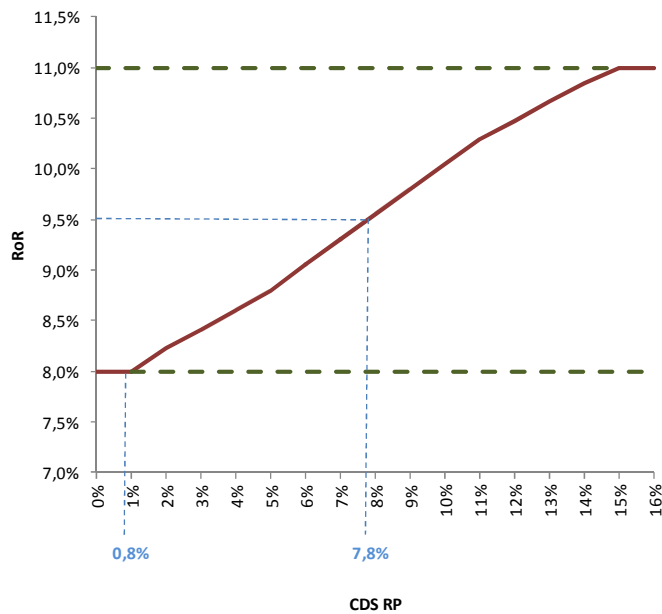
**1. FRAMEWORK**

- ERSE presented today the proposal for electricity tariffs in 2012 and parameters for the 2012-2014 regulatory period, which will be submitted for appreciation to the Tariff Council, composed by representatives of the consumers, the regulated companies and by the National Municipalities Association. The Tariff Council will present its non-binding appreciation on the mentioned proposal until November 15, 2011. After evaluation of the opinion manifested by the Tariff Council, ERSE will approve the final tariffs document, which is to be published until December 15, 2011.
- ERSE also disclosed a document containing the key elements of the mentioned proposal.
- However, considering that EDP – Energias de Portugal, S.A. (“EDP”) privatization process is on course and that EDP controls two regulated companies that operate in the Portuguese electricity system; and
- Considering also that the memorandum of understanding between the Portuguese State and the Troika aims at concluding EDP’s privatization process until the end of 2011, provided that market conditions allow it, which might imply that this process is concluded before the final tariffs document is published on the forecast date of December 15, 2011. As such, it should be ensured the needed transparency regarding prospective regulatory information, even though subject to final decision in accordance with current legislation;
- Bearing in mind that the main economic and financial assumptions for the calculation of electricity tariffs in 2012 and for the definition of the parameters for the 2012-2014 regulatory period are relevant factors for the economic and financial evaluation of EDP’s activity for the 2012-2014 period and that the values that are part of the proposal now presented by ERSE are, at the moment, the best available information for these values, the following information is exceptionally made available:

## **2. PARAMETERS**

### **COST OF CAPITAL**

- The risk free rate was fixed at 3.41% for the next regulatory period. This value is based on the moving average of the yields of the euro zone European countries with AAA rating (Germany, Finland, France, Austria and Netherlands), over the last 3 years;
- The initial spread is based on the difference between the RoR initially defined for the company (9.5%) and the risk free rate (3.41%);
- The spread will be indexed based on the average daily quotation of the 5Y credit default swaps (CDS) of the Portuguese Republic (source Reuters – SNRFOR-EUR-CR);
- For the purpose of the calculation of the RoR of year t, the index daily average from October of year t-1 until September of year t, eliminating the 1/12 highest and the 1/12 lowest observations, will be considered;
- The starting point of the index is 7.80%. This amount was obtained in accordance with the moving average of the daily quotation of the 5 year Portuguese Republic CDS from April until September 2011, removing 1/12 highest and 1/12 lowest observations;
- In case the value of the 5 year Portuguese Republic CDS increases or decreases between 0% and 3%, a step up or step down, in accordance with each case, of between 0% and 0.75% will be applied to the RoR;
- If the referred value goes up or down between 3% and 7%, the RoR will be increased or reduced, in accordance with each case, up to  $\pm 0.75\%$ , limited by a total change of  $\pm 1.5\%$ .



## INTEREST RATES AND SPREADS

The interest rates and spreads applicable to the tariff deviations are as follows:

	2012
Interest rate for 2010 applicable to 2010 deviations: EURIBOR 12 M + spread of 125b.p.	2.603%
Interest rate for 2011 applicable to 2010 and 2011 deviations: EURIBOR 12 M + spread of 200b.p.	3.993%
Interest rate applicable to the 5 year smoothing of the over cost with energy purchased from the special regime producers	5.5%

Note: [1] This rate shall be adjusted according to the methodology set on the Ordinance no. 279/2011, of October 11.

### 3. ELECTRICITY DISTRIBUTION ACTIVITY

#### ALLOWED REVENUES FOR 2012

ERSE changed some topics regarding the regulation methodology in the Electricity Distribution, namely:

- Application of the price-cap methodology only to the operating costs (OPEX). However the price-cap regulation is not applicable to the remuneration of the regulated asset base and the corresponding depreciation which is subject to the acceptance of the amounts by ERSE;
- Two new cost drivers regarding the Electricity Distribution activity: besides the electricity delivered by the distribution grid, there is also the electricity injected into the distribution grid and the number of consumers;
- Costs of capital, which were so far accepted on the basis of the amounts forecasted by the company, are now accepted on the basis of the real actual and audited invested amounts;
- Differentiation between the conventional grid assets and the smart grid assets, with different rates of remuneration.

#### Allowed revenues for the Electricity Distribution activity

		Unit 10 <sup>3</sup> EUR	
		2011 Tariffs	2012 Tariffs
1	Fixed component of the allowed revenues from the Electricity Distribution activity in HV/MV	153 443	34 542
2	Unit variable component of the allowed revenues from the Electricity Distribution activity in HV/MV (€/kWh)	0,005655	0,001761
3	Electricity delivered by the distribution grid in HV/MV to regulated and liberalized consumers (GWh)	48 914	47 271
4	Unit variable component of the allowed revenues from the Electricity Distribution activity in HV/MV (€/kWh)		0,000000
5	Electricity injected in the distribution grid in HV/MV to regulated and liberalized consumers (GWh)		15 767
6	Unit variable component of the allowed revenues from the Electricity Distribution activity in HV/MV (€/consumer)		2 100
7	Number of HV/MV consumers		23 787
8	Costs with capital related to distribution activity in HV/MV		326 958
9	Costs with HR restructuring	26 637	23 584
10	Costs with the promotion of the environmental performance	3 056	0
11	Differential resulting from the update of remuneration rate	184	0
12	Deviation from 2010 included in 2012 tariffs related to the Electricity Distribution activity in HV/MV	- 154	31 839
<b>A</b>	<b>=(1)+(2)x(3)x1000+(4)x(5)x1000+(6)x(7)/1000+(8)+(9)+(10)+(11)-(12)</b>	<b>460 083</b>	<b>486 444</b>
13	Fixed component of the allowed revenues from the Electricity Distribution activity in LV	206 388	51 757
14	Unit variable component of the allowed revenues from the Electricity Distribution activity in LV (€/kWh)	0,009487	0,005017
15	Electricity delivered by the distribution grid in LV to regulated and liberalized consumers (GWh)	26 083	24 959
16	Unit variable component of the allowed revenues from the Electricity Distribution activity in LV (€/kWh)		0,000000
17	Electricity injected in the distribution grid in LV to regulated and liberalized consumers (GWh)		50
18	Unit variable component of the allowed revenues from the Electricity Distribution activity in LV (€/consumer)		12
19	Number of LV consumers		6 132 966
20	Costs with capital related to Distribution activity in LV regarding the conventional grid		219 306
21	Costs with capital related to Distribution activity in LV regarding the smart grid		2 688
22	Costs with HR restructuring	48 570	44 444
23	Concession fees costs	240 740	248 231
24	Costs with the promotion of the environmental performance	1 294	0
25	Differential resulting from the update of remuneration rate	94	0
26	Deviation from 2010 included in 2012 tariffs related to the Electricity Distribution activity in LV	-20 994	25 232
<b>B</b>	<b>=(13)+(14)x(15)x1000+(16)x(17)x1000+(18)x(19)/1000+(20)+(21)+(22)+(23)+(24)+(25)-(26)</b>	<b>765 531</b>	<b>741 524</b>
<b>C</b>	<b>=(A)+(B)</b>	<b>1 225 614</b>	<b>1 227 968</b>

Note: Unit variable component associated to electricity injected on the distribution grid is not applicable to the calculation of tariffs for 2012. For 2013, the value of this parameter is set by reducing the fixed component to represent 5% of controllable costs. This value evolves for 2014 with a goal of efficiency.

The efficiency factor<sup>1</sup> applicable to the operating costs for 2013 and 2014 is 3.5% per annum,

The evolution of the cost drivers estimated for 2013 and 2014 is as follows:

	2013	2014
Electricity delivered by the distribution grid – HV/MV (GWh)	43 956	44 409
Electricity injected into the distribution grid – HV/MV (GWh)	16 894	17 809
Number of consumers – HV/MV	21 936	22 146
Electricity delivered by the distribution grid – LV (GWh)	24 482	24 796
Electricity injected into the distribution grid – LV (GWh)	173	272
Number of consumers – LV	6 146 201	6 171 381

The rate of return of 2012 assets base is set at 9.5% (according to the methodology of indexation to the Portuguese Republic CDS already mentioned). For the investments in smart grids, the rate of return is added by 1.5%.

#### 4. ELECTRICITY SUPPLY AND SALE AND PURCHASE ACTIVITIES

##### ALLOWED REVENUES FOR 2012

##### 4.1 ELECTRICITY SUPPLY ACTIVITY

The regulatory methodology of the Electricity Supply activity for 2012-2014 is unchanged from the last regulatory period:

- Application of the price-cap only to the operating costs (OPEX);
- Change of the cost drivers of Electricity Supply activity indexed to average number of consumers and to the number of customer service processes;
- Remuneration of the working capital.

---

<sup>1</sup> Throughout the whole document whenever the efficiency factor is mentioned it should be considered the X factor which is multiplied by the IPC-X parameter published.

### Allowed revenues of the Supply activity

			Unit 10 <sup>3</sup> EUR	
			2011 Tariffs	2012 Tariffs
1		Fixed component of the allowed revenues from the Electricity Supply activity in VHV/HV/MV	136	99
2		Unit variable component of the allowed revenues from the Electricity Supply activity in VHV/HV/MV (€/kWh)	72.639	11.414
3		Average number of consumers in VHV/HV/MV	4 271	4 733
4		Unit Variable component of the allowed revenues from the Electricity Supply activity in VHV/HV/MV (€/Process)		3.358
5		Number of customer service processes in VHV/HV/MV (thousands)		12 676
6		HR Restructuring Costs	0	0
7		Replacement cost of financial needs in VHV/HV/MV	1 064	692
7a		Difference between the average collection period and the average payment period (days)	15	15
7b		Costs with electricity sale and purchase activity (ESPA) in VHV/HV/MV	179 263	111 928
7c		Allowed revenues of sale and purchase of access to the transmission and distribution grid (SPATD) in VHV/HV/MV	122 743	66 544
7d		Remuneration rate of the working capital	8.56%	9.50%
8		Cost occurred in year t-1, not forecasted for the regulatory period, updated for the year t	0	0
9		Adjustment of year t of electricity supply activity revenues, in year t-2 in VHV/HV/MV	2 010	- 586
A	$=(1)+(2)\times(3)/1000+(4)\times(5)/1000+(6)+(7)+(8)-(9)$	<b>Allowed revenues for the electricity supply activity in VHV/HV/MV</b>	<b>-500</b>	<b>1 474</b>
B		<b>Positive or negative difference due to the end of regulated tariffs for VHV/HV/MV final consumers</b>	<b>-1 729</b>	<b>757</b>
C	<b>A-B</b>	<b>Revenues to recover for the electricity supply activity in VHV/HV/MV</b>	<b>1 229</b>	<b>717</b>
10		Fixed component of the allowed revenues from the Electricity Supply activity in SLV	51	111
11		Unit variable component of the allowed revenues from the Electricity Supply activity in SLV (€/kWh)	6.940	6.570
12		Average number of consumers in SLV	11 513	9 428
13		Unit Variable component of the allowed revenues from the Electricity Supply activity in SLV (€/Process)		3.358
14		Number of customer service processes in SLV (thousands)		14 533
15		HR Restructuring Costs	0	0
16		Replacement cost of financial needs in SLV	513	427
16a		Difference between the average collection period and the average payment period (days)	15	15
16b		Costs with electricity sale and purchase activity (ESPA) in SLV	70 365	55 266
16c		Allowed revenues of sale and purchase of access to the transmission and distribution grid (SPATD) in SLV	75 451	54 515
16d		Remuneration rate of the working capital	8.56%	9.50%
17		Cost occurred in year t-1, not forecasted for the regulatory period, updated for the year t	0	0
18		Adjustment of year t of electricity supply activity revenues, in year t-2 in SLV	792	-46
D	$=(10)+(11)\times(12)/1000+(13)\times(14)/1000+(15)+(16)+(17)-(18)$	<b>Allowed revenues for the electricity supply activity in SLV</b>	<b>-147</b>	<b>696</b>
E		<b>Positive or negative difference due to the end of regulated tariffs for SLV final consumers</b>	<b>- 737</b>	<b>245</b>
F	<b>D-E</b>	<b>Revenues to recover for the electricity supply activity in SLV</b>	<b>590</b>	<b>450</b>
19		Fixed component of the allowed revenues from the Electricity Supply activity in LV	16 468	36 200
20		Unit variable component of the allowed revenues from the Electricity Supply activity in LV (€/kWh)	12.160	3.699
21		Average number of consumers in LV	5 623 516	5 470 944
22		Unit Variable component of the allowed revenues from the Electricity Supply activity in LV (€/Process)		3.358
23		Number of customer service processes in LV (thousands)		4 747 898
24		HR Restructuring Costs	0	0
25		Replacement cost of financial needs in LV	5 031	7 090
25a		Difference between the average collection period and the average payment period (days)	7	9
25b		Costs with electricity sale and purchase activity (ESPA) in LV	1 083 020	1 289 761
25c		Allowed revenues of sale and purchase of access to the transmission and distribution grid (SPATD) in LV	1 981 640	1 737 184
25d		Remuneration rate of the working capital	8.56%	9.50%
26		Cost occurred in year t-1, not forecasted for the regulatory period, updated for the year t	0	0
27		Adjustment of year t of electricity supply activity revenues, in year t-2 in LV	3 246	3 248
G		<b>Allowed revenues for the electricity supply activity in LV</b>	<b>86 635</b>	<b>76 222</b>
H	<b>A+D+G</b>	<b>Allowed revenues for the electricity supply activity</b>	<b>85 987</b>	<b>78 392</b>
I	<b>B+E</b>	<b>Positive or negative difference due to the end of regulated tariffs for VHV/HV/MV and SLV final consumers</b>	<b>-2 467</b>	<b>1 003</b>
J	<b>H-I</b>	<b>Revenues to recover for the electricity supply activity</b>	<b>88 454</b>	<b>77 389</b>
		<b>Over revenue associated with the tariff increase pursuant n.º 2 of article 6 of Decree-Law n.º 104/2010 of 29 of September</b>	<b>-53 729</b>	<b>-5 249</b>

The efficiency factor applicable to the operating costs for 2013 and 2014 is 3.5% per annum.

The evolution of the cost drivers estimated for 2013 and 2014 is as follows:

	2013	2014
Average number of consumers – non low-voltage	[1]	[1]
Number of customer service processes – non low-voltage	[1]	[1]
Average number of consumers – special low voltage	[1]	[1]
Number of customer service processes – special low voltage	[1]	[1]
Average number of consumers – low voltage	5 488 136	5 513 093
Number of customer service processes – low voltage	4 784 657	4 794 227

Note: [1] For non low voltage and special low voltage no figures are disclosed due to the regulated tariffs extinction on those segments.

The remuneration rate for the working capital in 2012 is set at 9.5%.

#### 4.2 ELECTRICITY PURCHASE AND SALE ACTIVITY

Allowed Revenues for electricity purchase and sale activity include €6.4 million related to operating costs for clients supply in 2012.

Energy supplied by the last resort supplier considered for 2012 tariffs is 24 098 GWh.

### 5. ADJUSTMENTS AND DEFERRALS

#### 5.1 2010 AND 2011 TARIFF ADJUSTMENTS

EDP Serviço Universal allowed revenues include €631million relative to 2010 and 2011 adjustments, to be recovered in 2012.



## 5.2 DEFERRALS

The amount regarding the deferral of the over cost with special regime generation, in accordance with article 73ºA of Decree-Law n.º 78/2011, of June 20, is evidenced in the table below. This amount will be remunerated at a rate calculated in accordance with ordinance n.º 279/2011, of October 17.

Unit 10<sup>3</sup> EUR

	SRP					
	T2012	T2013	T2014	T2015	T2016	Total
<b>SRP<sup>1</sup></b>						
Anuity	131 329	140 230	140 230	140 230	140 230	692 250
Principal	114 876	113 196	119 422	125 990	132 920	606 404
Interests	16 453	27 034	20 808	14 240	7 311	85 846
Amount in debt	475 075	334 845	194 615	54 384	-85 846	
5 year smoothing	-475 075	140 230	140 230	140 230	140 230	692 250
<b>SRP<sup>2</sup></b>						
Anuity	128 239	136 932	136 932	136 932	136 932	675 966
Principal	112 174	110 534	116 613	123 027	129 793	592 140
Interests	16 066	26 398	20 319	13 905	7 139	83 827
Amount in debt	463 900	326 968	190 037	53 105	-83 827	
5 year smoothing	-463 900	136 932	136 932	136 932	136 932	675 966

Note: SRP<sup>1</sup> - SRP from Renewables Sources of Energy

SRP<sup>2</sup> - SRP from Non Renewables Sources of Energy

The amount regarding the exceptional deferral, from 2012 to 2013, of the annual revisibility of the CMEC (Custos para a Manutenção do Equilíbrio Contratual) equals €141 million. This amount will be remunerated at the average EURIBOR 12M of year 2011 plus a spread of 200b.p.