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## **PRELIMINARY ASSESSMENT OF THE IMPACT OF THE NEW TARIFF SYSTEM FOR THE ELECTRICITY SECTOR ON ENEL**

- *RAB up from around 20 billion euros (2004-2007) to approximately 22 billion euros (2008-2011).*
- *Average WACC stable compared with previous regulatory period.*
- *Planned efficiency gains for 2008-2011 period to 1.9% for distribution activities and to 5% for metering activities.*
- *Tariff revenues for 2008 expected to remain substantially unchanged at approximately 4,860 million euros.*
- *Tariff cuts recovered in 2008 through increase of volumes sold; positive evolution in the 2009 – 2011 period.*

**Rome, 14 January 2008** – Luigi Ferraris, Head of Administration, Planning and Control, and Simone Mori, Head of Regulatory Affairs at Enel, will provide a preliminary assessment of the impact on the Enel Group of the new regulatory framework for the Italian electricity sector at a conference call scheduled for today.

The new framework was established with recent resolutions of the Authority for Electricity and Gas: no. 333/2007 (concerning service quality), no. 348/2007 (concerning the rate system for the regulated activities during 2008-2011 period) and no. 349/2007 (concerning the levels of remuneration for sales carried out within the scope of the enhanced service safeguards system).

The new framework should not have a negative impact on the financial performance of the Enel Group in 2008, and could have a positive effect in 2009-2011.

Based on Enel's preliminary estimates, under this new framework net capital employed recognized for regulatory purposes (Regulatory Asset Base - RAB) should be around 22 billion euros for the Enel Group at the start of the 2008-2011 period, compared with about 20 billion euros at the start of the 2004-2007 period.

During the 2008-2011 period, the weighted average cost of capital (WACC) was set at 7.0% for distribution (6.8% for 2004-2007), 7.2% for metering (8.4% for 2004-2007) and 7.0% for sales (8.4% for 2004-2007).

Planned efficiency gains (X-factor) required of the Enel Group for distribution and metering activities are expected to be 1.4% on average for 2008-2011 (on a like-for-like basis) compared with 3.5% for 2004-2007. During the new period, the X-factor

(equal to 1.9% for distribution activities and 5% for metering activities) will only be applied to the rate component covering operating costs, whereas it was also applied to the rate component covering amortisation and depreciation for the 2004-2007 period.

This should lead to a rate reduction for the Enel Group in 2008 which is expected to be entirely offset by the increase in the volume of electricity sold: consolidated tariff revenues from the distribution, metering and sale of electricity in Italy should therefore be around 4,860 million euros in 2008 (compared with an estimated 4,850 million euros estimated for 2007).

With regard to service quality, the new rules for the first time require that distribution companies reduce the number of service interruptions in addition to confirming the requirement for a further reduction in the average duration of interruptions. As in the past, the Enel Group expects to exceed the targets set by the Authority and therefore to continue to benefit from the financial incentives awarded to the most efficient companies.

The new regulatory framework is designed to promote the liberalisation of the electricity sector, providing incentives to customers to switch from the enhanced service safeguards system to the free market, in line with Enel's strategy of increasing its share of that market.

At the same time, the new framework seeks to lower the risks for companies that sell electricity under the enhanced service safeguards system. The Authority has announced the introduction of a compensation mechanism that will allow operators, in 2008, to recover cost and revenue imbalances exceeding 5%.

In addition, the Authority has announced the upcoming organisation of measures designed to ensure coverage of fixed costs for operators in the event a significant number of customers migrate to the free market.

In Enel's view, the above mentioned Authority resolutions establish a clear and stable regulatory framework for 2008-2011, providing new opportunities and new challenges for companies involved in the distribution and sale of electricity.