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## **PRELIMINARY ASSESSMENT OF EFFECT ON ENEL GROUP OF NEW 2016-2023 REGULATORY PERIOD FOR DISTRIBUTION IN ITALY**

- *Stable regulatory framework favouring the implementation of the Italian distribution network investment plan*
- *New methodology used for calculating the rate of return on invested capital, or WACC (5.6% for 2016 to 2018)*
- *Rules governing the recognition of operating expenses and incentives for service quality essentially unchanged*
- *New mechanism to support the development of investment in smart grids*
- *Total tariff revenues for 2016 estimated at about 4.55 billion euros, in line with Enel Group's Strategic Plan disclosed in November 2015*
- *Regulated asset base (RAB) for 2016 estimated at around 21 billion euros*

**Rome, January 21<sup>st</sup>, 2016** – Alberto De Paoli, Chief Financial Officer of Enel, and Francesca Valente, Enel's Head of Regulatory and Antitrust Affairs - Italy, will hold a conference call today to provide the financial community with a preliminary assessment of the effect on the Enel Group of the new regulatory framework for distribution and electricity metering activities in Italy for the 2016-2023 period set out in the resolutions no. 654/2015, no. 583/2015 and no. 646/2015 of the Italian Authority for Electricity, Gas and Water ("AEEGSI").

The regulations for the new period provide stability and certainty, which will allow the Enel Group to implement the investment plan (including new generation meters) envisaged in its Strategic Plan, which was presented to the financial community in November 2015.

The duration of the new regulatory period was set at eight years (2016-2023), compared with four years in the previous period, with a review expected in 2020. The rate of return on invested capital (WACC) will be valid for a period of six years (2016-2021). A mid-term review with specified rules for updating WACC's value will be carried out in 2019.

Under the new calculation method, the WACC has been set at 5.6% for the first three years (2016-2018), down from the 6.4% for the 2014-2015 period. This decrease is mainly due to the reduction in interest rates.

AEEGSI has also eliminated the so-called "regulatory lag", i.e. the delay in the recognition in tariffs of the remuneration of new investments. At the same time, the new regulations provide for an extension from 30 to 35 years of the useful life of assets, on which the recovery of investments through tariffs revenues is based, for medium- and low-voltage distribution lines that entered into service after December 31<sup>st</sup>, 2007, taking into account the use of these lines for industrial purposes over a longer period.



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Regarding operating expenses recognised in tariffs, the calculation method based on actual costs in 2014 has remained essentially unchanged. The initial level of recognised operating expenses will be updated each year based on inflation and a rate of reduction (the so-called "X-factor") equal to 1.9% for distribution and 1% for metering. The X-factor in the regulatory period 2012-2015 was 2.8% for distribution and 7.1% for metering.

Distributors' revenues will be independent of the volume of electricity distributed and will continue to be based solely on the number of customers connected to the grid.

As in the previous regulatory period, quality of service will be incentivised through a mechanism with bonuses and penalties linked to the number and the duration of interruptions of the electricity supply. Some changes have been introduced in the mechanism to better support further improvements of the high service quality levels already achieved in Italy.

Finally, a new incentive mechanism for innovative investments (smart grids) has been introduced. This mechanism, which replaces the increase in WACC used in the previous regulatory period, will be based on the investments' benefits, or "output", to the system.

Based on the new regulatory framework and on the estimated revenues deriving from network rates charged to end users published in AEEGSI resolution no. 654/2015, tariff revenues of the subsidiary Enel Distribuzione S.p.A. for 2016 are forecast at about 4.55 billion euros (compared with 4.81 billion euros in 2015). This decrease, which is consistent with the Enel Group's Strategic Plan presented in November, reflects the decline in interest rates and the cost reductions achieved by the operators.

The value of the regulated asset base (RAB) for 2016 is estimated at about 21 billion euros.

The calculation of the definitive tariff revenue figures will be possible after the publication of the reference tariffs, expected for the distribution services by the end of April 2016 and for the metering services by the end of July 2016.

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