



Regulatory framework for non-mainland generation

- Investor Relations Days -



Palma de Mallorca, June 2006

The regulatory framework for non-mainland generation has been completed with the enacting of the Ministerial Orders

Contents

Electricity Sector Law 1997

- Establishes the specific character of the electricity systems in the islands and non-mainland territories
- Commitment to enact specific regulation

Royal Decree 1747/2003

- Non-mainland generation is a regulated business: remuneration follows similar criteria as for transmission
- Detailed regulation pending development

Ministerial Orders March 2006

- They complete the pending regulatory development
- Remuneration based on:
 - Capacity payment: Investment costs and fixed O&M
 - Fuel and dispatching: fuels and variable O&M
- Dispatching and settlement procedures

The Ministerial Orders for SEIE generation have created a stable regulatory framework (1/2)

Description

Investment

- Guaranteed coverage of:
 - Depreciation (25 years for fossil fuel, 65 years for hydro)
 - Financial remuneration: 10Y govt. bonds + 3% applied on net values
- Investment value: real value + 50% of the difference between standard and real
 - For existing assets, real values
- Possibility of recognition of extraordinary or additional investments

Operating and maintenance costs

- Standard unit values for O&M costs, differentiated by technology and size, to be applied to
 - Availability: fixed O&M
 - Operation regime: variable O&M
- Updates at CPI-1

The Ministerial Orders for SEIE generation have created a stable regulatory framework (2/2)

Description

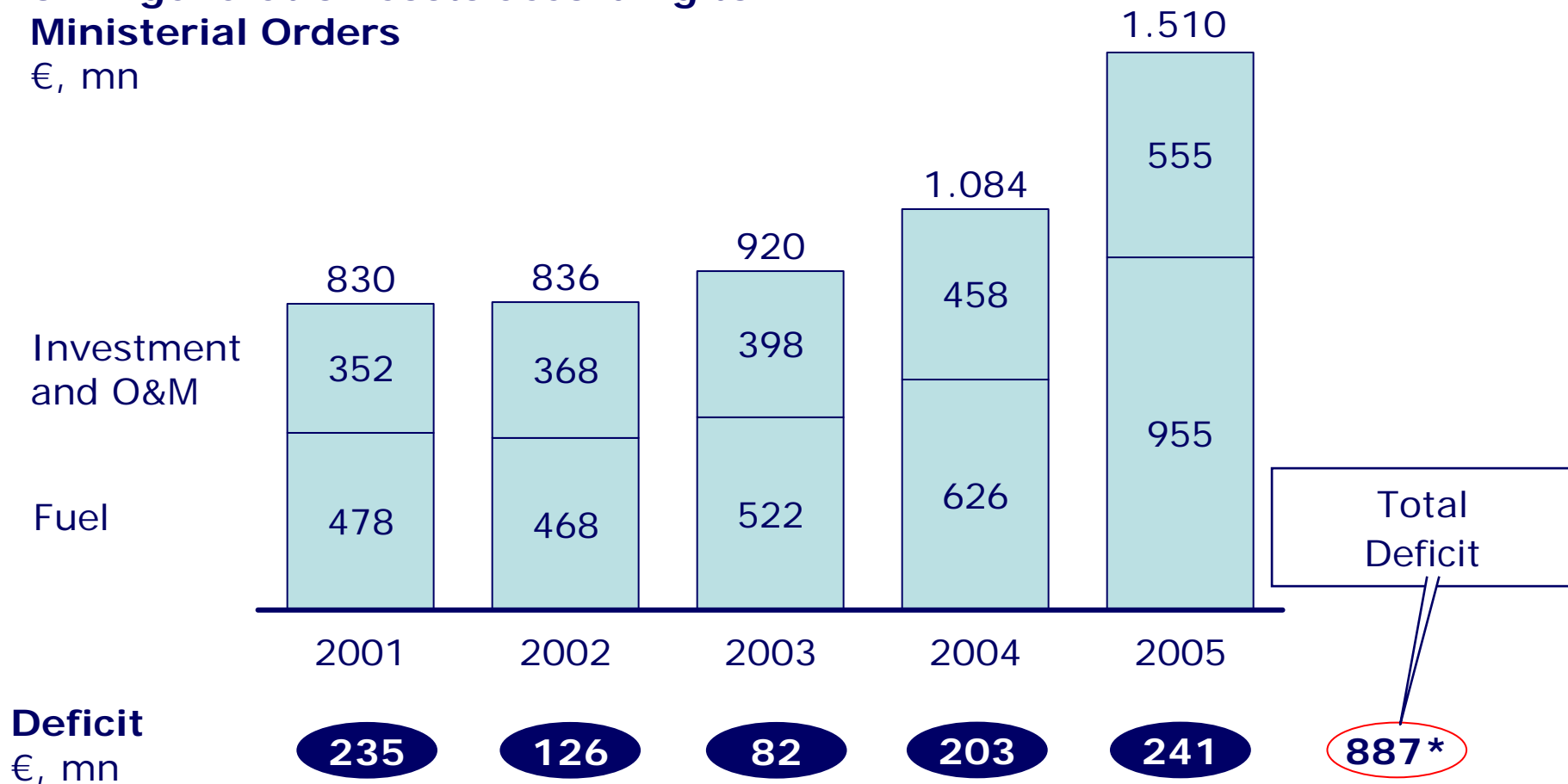
**Fuel, logistics,
emission rights**

- Fuel:
 - Standard heat rates for normal operation, reserve, regulation and start-up
 - CIF price in the international market
 - Additional cost for having to operate at higher reserve margins
- Logistics: updated at CPI-1
- CO₂ emission rights: deficit from allocation of rights covered

The new framework recognises the deficit accumulated since 2001

SEIE generation costs according to Ministerial Orders

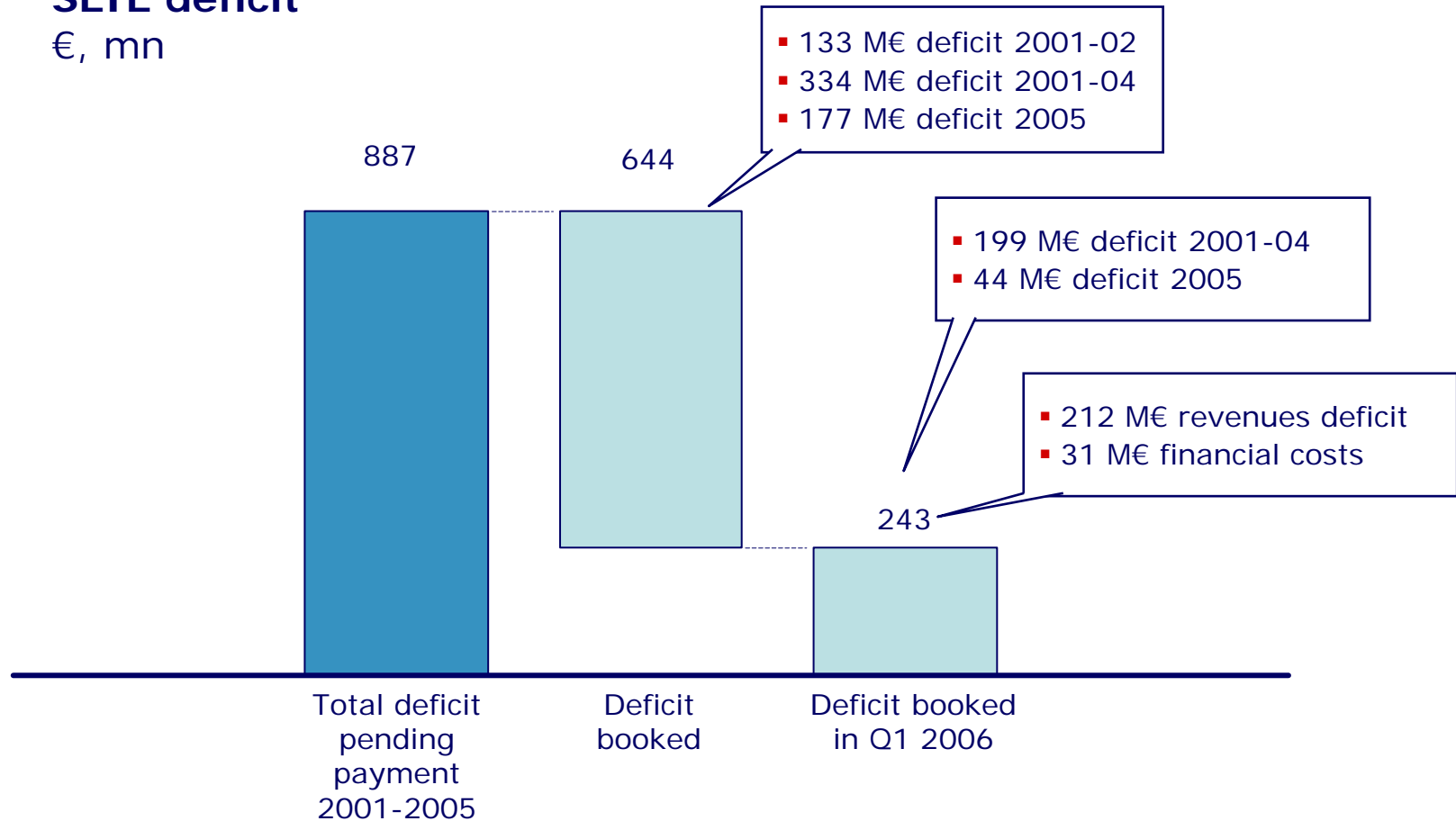
€, mn



* Accumulated deficit, including financial costs. Provisional estimate as of Q1 2006, pending completion of audits, according to the Second Transitory Provision of Order ITC/914/2006, of March 30th, establishing the methodology to calculate the capacity payment for generation plants in ordinary regime in the non-mainland systems

The total amount of the SEIE deficit pending payment is €887mn

SEIE deficit*
 €, mn



* Accumulated deficit, including financial costs. Provisional estimate as of Q1 2006, pending completion of audits, according to the Second Transitory Provision of Order ITC/914/2006, of March 30th, establishing the methodology to calculate the capacity payment for generation plants in ordinary regime in the non-mainland systems

This new system recognises the specific characteristics in non-mainland generation

Description

Dispatch

- The system operator (REE) dispatched the generation units based on economic merit order and network and environmental constraints
- REE determines the hourly energy cost group by group as a function of the remuneration regime established in the Orders
- New dispatching procedures will lead to higher reserve margin, that will be remunerated

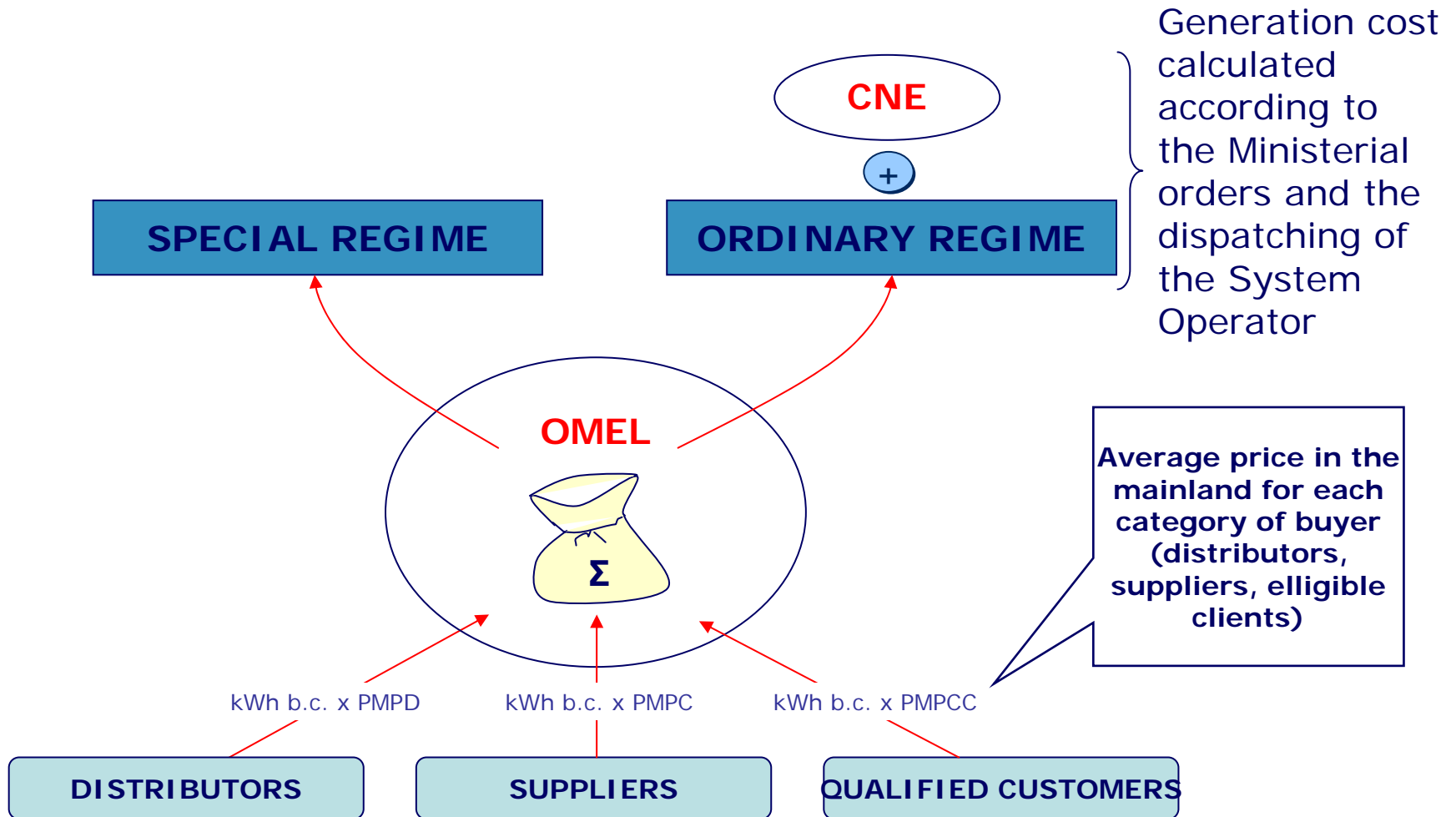
Supply

- Suppliers pay OMEL (Spanish market operator) for the acquired energy, valued at the price of the mainland market
- They pay the access tariff to the distributor

Settlement

- OMEL pays the generators for their production, at mainland market prices
- The CNE (energy regulator) pays the differential between the price of mainland energy and the cost calculated by REE

Settlement procedure



This new regulatory framework makes value creation possible

Value creation drivers

Investments

- Efficiency on new investments relative to the standards
- Extension of the useful life of investments made

Operating and maintenance costs

- O&M cost efficiencies

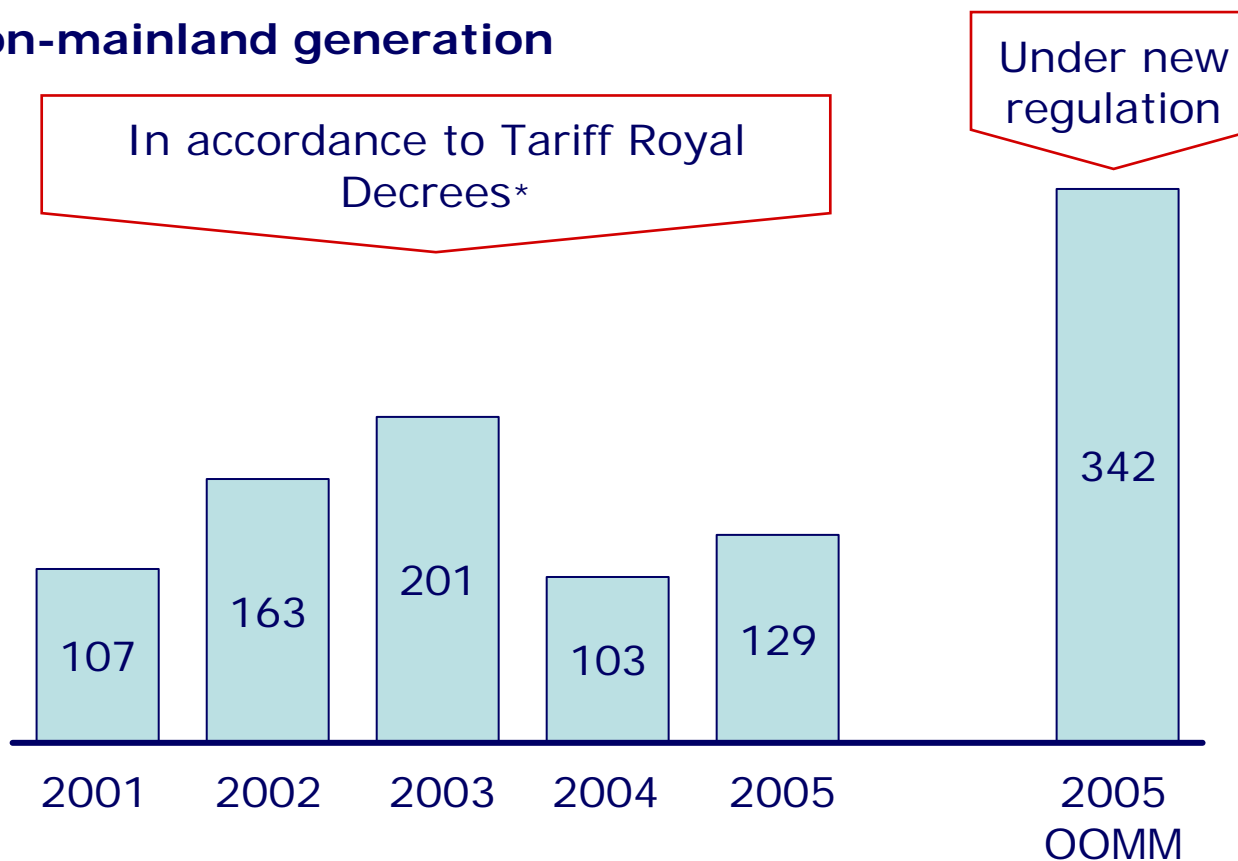
Fuel and logistics

- Fuel purchasing efficiencies relative to the CIF spot market
- Logistics management

The new regulatory framework provides an adequate profitability to a high growth activity

EBITDA non-mainland generation

M€



Regulated activity with annual demand growth around 7-8%

* Does not include the adjustments made to adapt the revenues to the methodology of the Royal Decree 1747 or the reports of the CNE

In summary...

- The new regulations resolve the generation issues of recent years:
 - Recognition of the deficits accumulated since 2001
 - Definition of a stable regulatory environment

- The new regulatory framework includes...
 - coverage of all costs
 - sufficient returns on investmentproviding scope for value creation through optimisation of investments, O&M costs and fuel purchases



Disclaimer

This presentation contains certain “forward-looking statements” regarding anticipated financial and operating results and statistics and other future events. These statements are not guarantees of future performance and are subject to material risks, uncertainties, changes and other factors which may be beyond Endesa’s control or may be difficult to predict.

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