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generations

ESB

Investor Presentation

ESB Networks Price Control 2016-2020

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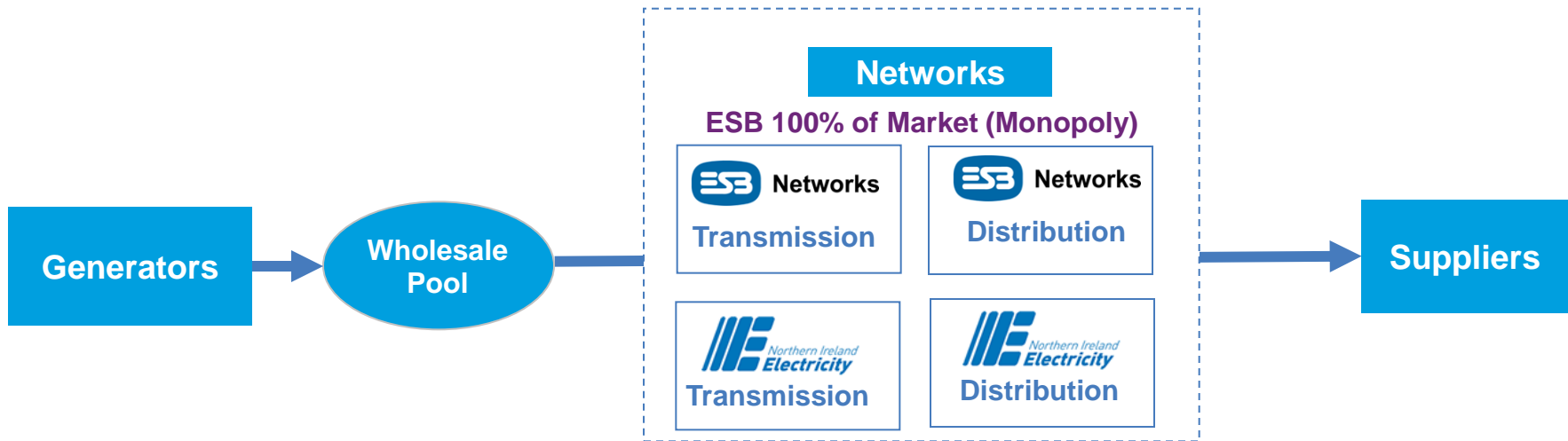
Agenda

- Background
- Regulatory Model
- Price Review 3 - Outturn
- Price Review 4 - Determination
- Summary
- Appendix

Background

Electricity Industry Structure

One Single Electricity Market (SEM) - All-Island



Regulators



System Operators



ESB Networks – Profile

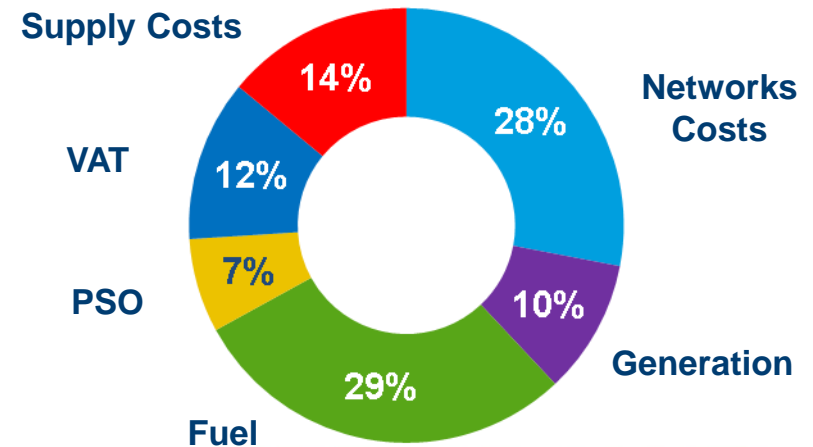
Business Description

- Sole owner and operator of the distribution network and sole owner of the transmission network in ROI
- Regulated Asset Base (RAB) of c.€7.4bn
- Operates as a ring-fenced business within ESB
- Comprises c.50% of Group EBITDA and Assets at y/e 2014
- Activities account for c.28% of residential end-user prices

% of FY 2014 Group EBITDA

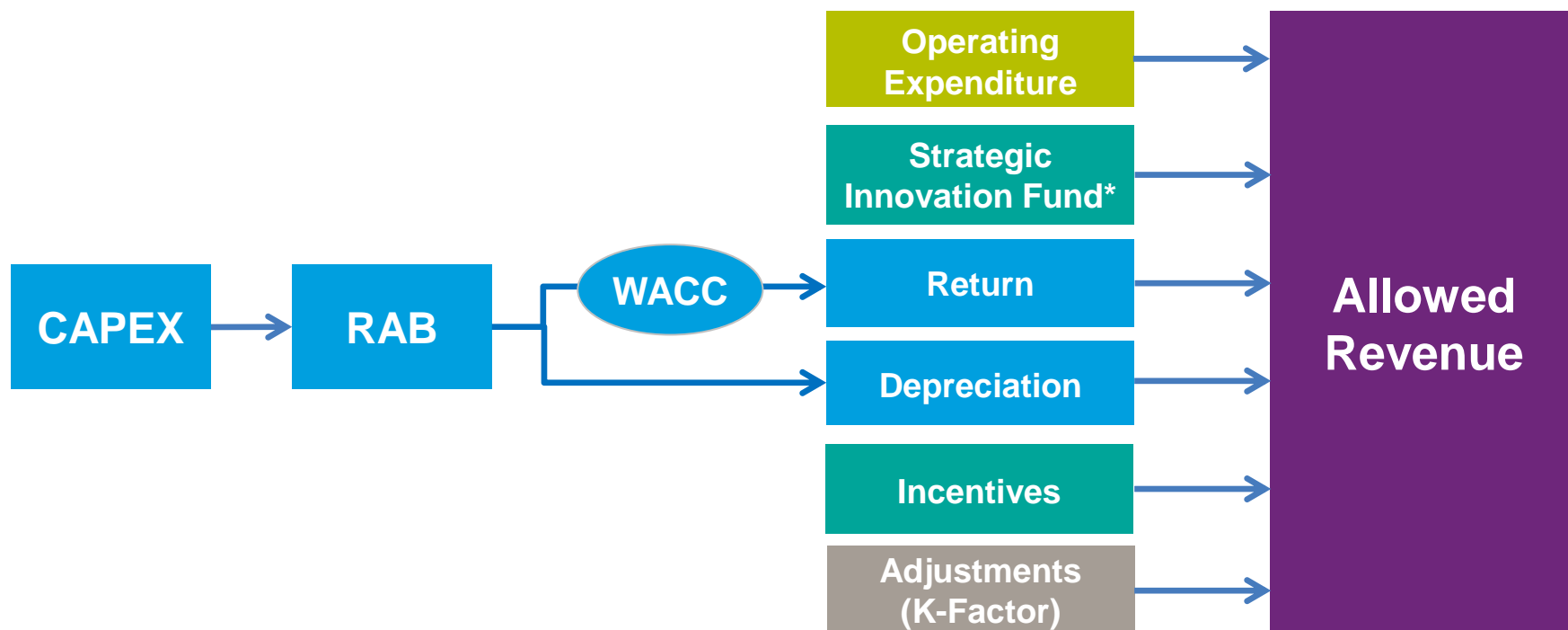


End-User Price Components



Regulatory Revenue Model

- 5 Year Price Control Cycles
- Model considered robust by Financiers and Rating Agencies
- No material change in regulatory approach in PR4



Price Review 3 - Outturn

Price Review 3 (2011-2015)

Key Features of Determination

- €4.7bn (real, 2009 prices) in revenue allowances
- Initial WACC 5.95% (pre-tax, real), with provision for mid-term WACC review
- €4.2bn in capex plans
- Focus on:
 - Reinforcing transmission for wind projects
 - Infrastructure to support load effects of economic boom
- Capex plans scaled back to €2.4bn in response to economic pressures

Achieved in PR3

- Delivered revised capex programme
 - 950MW of renewables connected
 - Distribution control centre opened
 - 9000km of distribution network upgraded to minimise losses
 - Customer service levels >80%
 - RAB of €7.4bn at end 2015
- Significant opex reductions relative to PR2 levels
- Full opex and capex spend allowed as deemed efficient by CER
- Benchmarked well against GB DNOs
- Positive outcome to mid-term WACC review
 - Revised to 5.20% for 2014 - 15

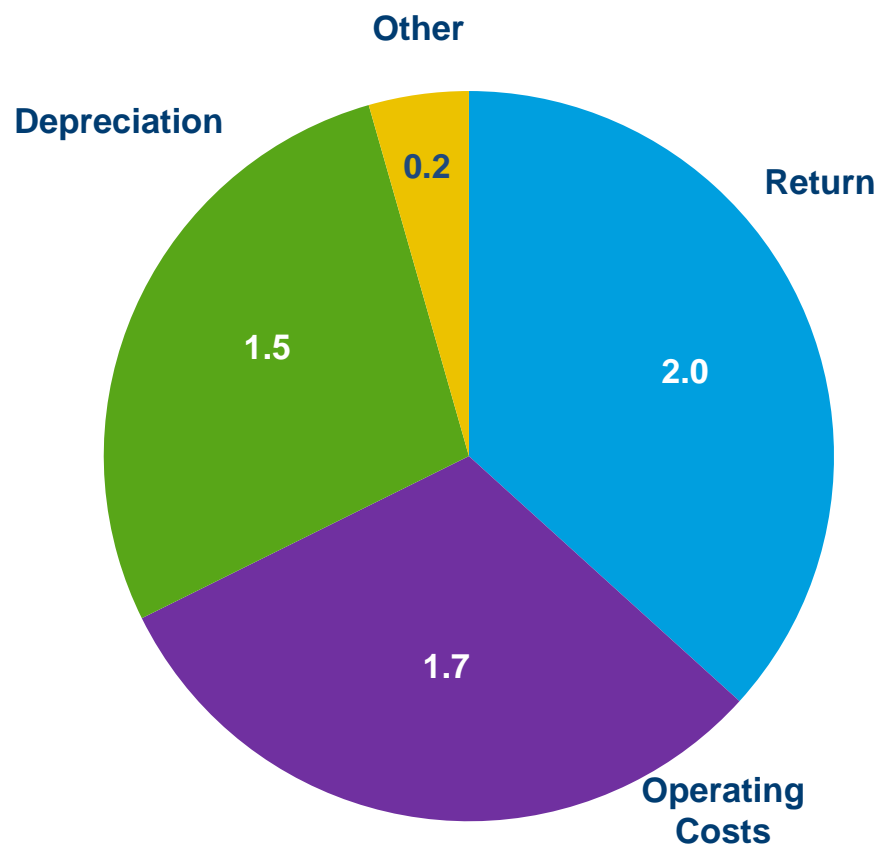
Price Review 4

PR4 Determination – Main Features

Overview

- €5.3bn Revenue (real, 2014)
- Capex (Net) €2.8bn
- Balances:
 - Affordability - Average 1% annual increase in end-user prices
 - Financeability - WACC (pre-tax, real) 4.95%
 - Investment requirements
- Regulatory model unchanged from PR3

PR4 Revenue 2016-20 (€5.3bn*)



*Real, 2014 money

PR4 Determination – Capital Expenditure

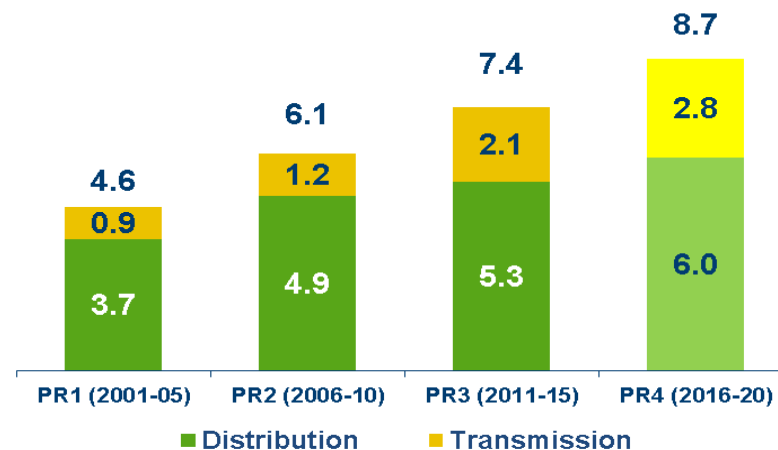
Overview

- Capex provision €2.8bn
 - Asset replacement, distribution reinforcement and new connections / business driving majority of spend
- Majority of plans submitted by ESB accepted
- €500m included for SMART metering
 - CER decision expected 2017
 - €100m in capex p.a. allowed, with true-up once scope agreed - avoids large tariff increase mid-period

Allowed Capex (net, real 2014)

	€'000m
Transmission	984
Distribution & Non-Network	1,837
Total	2,821

RAB Growth €bn



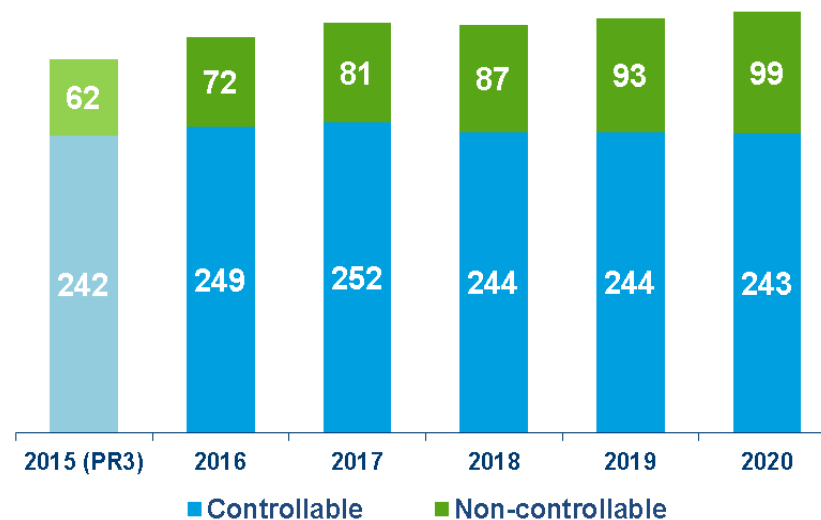
PR4 Determination – Operating Expenditure

Overview

- Overall allowance €1.7bn (real)
- Allowed controllable opex 10% higher than PR3 levels
 - 8% overall reduction on requested allowances, primarily maintenance
- Opex Delivery
 - Challenges to meet, in particular around meeting safety requirements
 - Execution teams reviewing business plans to identify areas where efficiencies can be achieved

ESB Opex Allowances (real, 2014)

	€'000m
Transmission	303
Distribution & Non-Network	1,362
Total	1,665



Key Points

- Strategic Innovation Fund
 - €100m in additional revenues over 5 years
 - To promote innovation in development of distribution network
- Pension Recovery
 - ESB requested recovery of additional pension fund contributions paid under 2010 agreement
 - Not allowed in PR4, but separate submission requested by CER for 2016
- Asset Lives
 - Reduction in transmission asset lives from 50 years to 45 years
 - Not allowed in PR4, but commitment to review asset lives as part of PR5

Incentives

- Previously incentivised via targets including:
 - Enhanced overall customer satisfaction
 - Continuity
 - Delivery of transmission projects
- Consultation around new targets to be undertaken
 - Will likely retain existing incentives
 - May introduce delivery incentives for strategic projects
 - ~€10m p.a. in incentive payments included in revenues
 - Up to €30m p.a. in total incentive payments / penalties

Summary

- CER has allowed a real, pre-tax WACC of 4.95% for 2016-2020
 - Cost of Debt – bottom-up approach to calculation;
 - WACC is fixed and will not be reopened
- CER has an obligation to ensure ESB Networks is capable of financing its operations
 - Determination to allow ESB Networks achieve ‘investment grade’ rating

WACC Components

	%
Cost of Debt (pre-tax)	2.90
Cost of Equity (pre-tax)	6.86
Gearing	55
Effective tax rate	12.5
Calculated pre-tax WACC	4.74
‘Aiming-up’ allowance	0.21
Allowed WACC (real, pre-tax)	4.95

PR4 Determination

	PR4 Determination	PR4 Submission	PR3 Outturn
WACC (pre-tax, real)	4.95%	4.98%	5.20% (post mid-term review)
Overall Revenue	€5.3bn (real, 2014)	€5.3bn (real, 2014)	€4.4bn
Gross Capex	€3.2bn (real, 2014) (includes SMART)	€3.0bn (real, 2014) (excluding SMART)	€2.3bn
Operating Allowances	€1.7bn (real, 2014)	€1.8bn (real, 2014)	€1.4bn
Pension Recovery	Separate submission requested CER 'not minded to allow'	€449m (real, 2014) recovered as additional opex allowance over 13.5 years	Not recovered (paid post-determination)
Asset Life	Unchanged Commitment to review in PR5	Transmission – reduction to 45 years Distribution – 45 years	Transmission – 50 years Distribution – 45 years

Summary

Summary

- Solid Determination which delivers majority of what was requested
- Gives clarity for the next five years
- Initiatives to be undertaken to meet challenges
- Confident of PR4 delivery

Appendix

PR4 - Financial Information

ESB Networks – PR4 Determination



Revenue (real, 2014) (€'000m)

	2016	2017	2018	2019	2020	Total
DSO	737	817	836	858	883	4,131
TAO	209	211	234	260	289	1,202
TOTAL	946	1,028	1,070	1,117	1,172	5,333

Net Capex (real, 2014) (€'000m)

	2016	2017	2018	2019	2020	Total
DSO	375	369	362	361	369	1,837
TAO	203	184	194	212	191	984
TOTAL	578	553	557	573	560	2,821

RAB (real, 2014) (€'000m)

	2016	2017	2018	2019	2020	
DSO	5,520	5,675	5,797	5,893	5,983	
TAO	2,243	2,367	2,498	2,643	2,762	
TOTAL	7,762	8,042	8,295	8,536	8,745	

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