



Investor Relations Direction

## MESSAGE FROM ENAGÁS

1. On Saturday December 30, 2006, the Official Gazette published Ministerial Orders which set the remuneration of the regulated activities of the gas sector, as well as the rates, tolls and fees applicable to consumers of natural gas and the users of gas facilities. (Ministerial Orders ITC/3992/2006 to ITC/3996/2006).
2. The content of these Orders directly affects the activities of Enagás; that is to say, the transportation of gas by pipeline, regasification, underground storage, management of rate-based purchases and sales of gas intended for the market as well as the technical management of the system.
3. As is our practice each year, we will closely examine the impact of these Ministerial Orders on the Company and will evaluate the revenues permitted by regulation that the Orders have set for fiscal 2007.



**Investor Relations Direction**

4. Nevertheless, recent events and the Company's customary policy of transparency recommend that we submit some first conclusions drawn from a more immediate process of analysis than in prior years. As an annex to this report we attach a presentation of the main changes contained in the Orders.
5. Compared with the previous regulatory framework, the scenario established by the legislator in the new Orders presupposes a far-reaching change, which has taken the agents of the gas system by surprise, and which has been imposed with no prior discussion between the various parties involved.
6. The Orders determine the revenues that Enagás is permitted by regulation to receive from the conduct of its business in fiscal 2007. There is little difference between the resulting amount and the Company's initial estimates at the time when the regulatory updates for 2006 came into force. The increase over the last revenue forecast for 2006 is approximately 8%.



**Investor Relations Direction**

7. The new regulatory framework presupposes a change in the criteria for the calculation of profitability of new investments. Enagás is not in a position today to make a close evaluation of the impact that the new measures may have on the expected return on its portfolio of investment projects. Accordingly, the company will take the time for reflection and analysis, the conclusions of which we will report in due course.
  
8. Enagás will continue to pursue a policy of the utmost transparency in its relationship and communications with its investors, to whom we will report as soon as we have any important news on the subject to pass on. Accordingly today, Tuesday January 2, 2007 we will hold a conference call at 5:00 PM (Spanish continental time) in which the Company's chairman will inform you of our initial conclusions.

Conference call data: In Spain, dial: +34 91 789 51 25; in the UK: +44(0) 207 10 70 685; in USA : 866 305 91 04

Madrid, January 2, 2007

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**SUMMARY OF THE MAIN CHANGES  
INCLUDED IN THE MINISTERIAL ORDERS  
RESPECTING THE REMUNERATION, TOLLS,  
FEES AND TARIFFS OF THE GAS SECTOR  
FOR 2007**

January 2, 2007

## Index

- 1. Introduction.**
- 2. Most important changes.**
- 3. Remuneration: transportation**  
(ITC/3993/2006).
- 4. Remuneration: regasification**  
(ITC/3994/2006).
- 5. Remuneration: storage** (ITC/3995/2006).
- 6. Tolls and fees** (ITC/3996/2006).
- 7. Tariffs** (ITC/3992/2006).

# 1 Introduction

## 1. Introduction

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1. On Saturday December 30, 2006, the Official Gazette published Ministerial Orders which set the remuneration of the regulated activities of the gas sector, as well as the tariffs, tolls and fees applicable to consumers of natural gas and the users of gas facilities. (Ministerial Orders ITC/3992/2006 to ITC/3996/2006).
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## **2 Most important changes**

### **2. Most important changes**

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- 1. New regulations for transportation, regasification and underground storage facilities.**
- 2. A new philosophy aimed at ensuring the return on investments in regasification and underground storage (WACC plus a differential)..**
- 3. 100% return on investments in vaporization, regardless of the rate of utilization of the facilities.**
- 4. Increase in the provisional remuneration, up to a ceiling equal to 80% of definitive, in the case of transportation and plant facilities.**

## 2. Most important changes



5. Introduction of a financial rebalancing mechanism designed to reconcile recognized remuneration and revenues derived from direct billing. This will operate on a monthly basis.
- 6. Revision of standard costs of investment in transportation and regasification and the introduction of a new inflation adjustment formula.**
7. Introduction of a new formula for the annual inflation adjustment of operating costs and review every four years.

7

## 2. Most important changes



8. Assignment of new tasks, functions and responsibilities at CNE, related to calculation of return on facilities, calculation of the facility owners' costs of capital and the preparation of operating cost reviews.
9. Purchasing of carriers' gas requirements will be by public tender, with reimbursement at cost.

8

# 3 Remuneration: transportation (ITC/3993/2006)

## 3. Remuneration: transportation

1. Introduction of **new standard unit values for investment**. For **pipelines**, we include an **adjustment formula** that takes their length into account. For **compression stations**, the new plan contemplates separate values according to **two grades of power**.
2. **Investments with costs of 20% above standard could be recognised**, even though without special technical characteristics, depending on the overall return on the applicant's assets.
3. The parameters for **return** on **secondary** transportation facilities are increased, maintaining the preferred status of those facilities that were excluded from the retroactive effect of ECO/31/2004.



# Remuneration: 4 regasification (ITC/3994/2006)

## 4. Remuneration: regasification

1. **A new system of remuneration**, in which the **financial return** is calculated on the basis of **net assets**.
2. The permitted **rate of financial return** is the **10 year treasury bond rate, plus 350 basis points**, which will be maintained throughout the useful life of the facilities. For existing assets it will be **7.21%**.
3. The **financial return and regulated depreciation** will not be adjusted according to an inflation indicator.
4. **Standard investment values** have increased, except for vaporizers. The intention is to **allow for increments in efficiency**, which **will be shared equally between operators and consumers** and **enable profitability to be increased**.

## 4. Remuneration: regasification



5. We see the prospect that depreciated assets or those that need to be replaced for technical reasons may be included in the **remuneration** regime for **investment in** capital equipment **replacement**.
6. **New incentive** for the extension of the **useful life** of assets.
7. **Standard operating costs** have increased, in order to allow for **efficiency gains**, and also to make possible an **increase in profitability**.
8. **It is introduced a new philosophy for the review of unit values of investment and operating costs**, with the aim of assuring facility owners of a nominal **internal rate of return** after taxes of **their reference financing costs plus 200 basic points**.

13

## 5 Remuneration: storage (ITC/3995/2006)



14

## 5. Remuneration: storage



1. **A new system of remuneration** in which the **financial return** is calculated on the **basis of net assets**.
2. **The rate of financial return to be applied is the 10-year treasury bond rate plus 350 basic points**. This will be maintained throughout the useful life of the facility. For existing assets, it will be **7.21%**
3. **The regulated financial return and depreciation** will not **change** on the basis of an inflation indicator.
4. **Investment costs**, associated with both **research and development and exploration** and **facilities and gas reserves** are recognized **at their audited book value**.

15

## 5. Remuneration: storage



5. **Operating and maintenance costs will be adjusted** to the parameters of **each facility**.
6. We see the prospect that depreciated assets or those that need to be replaced for technical reasons may be included in the **remuneration** regime for **investment** in capital equipment **replacement**.
7. **A new incentive** for the **extension** of the **useful** life of assets.
8. **It is introduced a new philosophy for the review of unit values of investment and operating costs**, designed to **assure** facility owners of a **nominal internal rate of return** after taxes equal to **their average reference financing costs plus 300 basis points**.

16

## 5. Remuneration: storage



10. The **return on existing facilities is provisional**, subject to a specific audit within 3 months.

**10. Enagás will have to amend its service contracts to adapt them** to the requirements of the new **Order**.

11. The useful life of the assets is reduced to 10 years.

17

## 6 Tolls and fees (ITC/3996/2006)



18

## 6. Tolls and fees



- 1. The structure and unit values of existing tolls remain unchanged, with some adaptations to improve the cost allocation mechanism.**
- 2. Increase in coefficients for tolls charged for services of less than one year's duration.**
- 3. 10% increase in transit tolls, and the inclusion of new points in the entries / exits matrix.**
- 4. Specific changes in transportation tolls:**
  - a. Imposition of a temporary toll applicable to users paying the raw materials rate.**
  - b. Imposition of a toll referred to as 3.5, applicable to users<sup>9</sup>**

## 6. Tolls and fees



- 5. Specific changes in regasification tolls.**
  - a. Imposition of a zone-based toll for the unloading of ships.**
  - b. 50% increase in LNG tank storage fees and the introduction of a formula designed to ensure a 20% annual increase over the next few years.**
  - c. 20% increase in cistern loading toll.**

# 7 Tariffs (ITC/3992/2006)

## 7. Rates

1. **Average increase of 2.2%** in rates, due to the increase in **raw material cost** resulting from the **inclusion** of a higher proportion of **spot LNG** in the respective formula.
2. **Elimination of rates 2.1 to 2.4 on July 1, 2007.**
3. Tighter **regulation at the retail level**, associated with **telemetry** of consumption.