

09th December 2009

Ing Anthony Rizzo
Chief Executive Officer
Malta Resources Authority
Aldo Moro Road
Marsa

Dear



Enemalta's position in relation to MRA's deduction of €7.29 million tariff proposal

I refer to your letter dated 07th December 2009 wherein the Malta Resource Authority (MRA) is claiming that our proposal for electricity tariffs includes an increase of €7.29 million which it considers to be unjustifiable.

We are hereunder giving our reactions to the issues raised by the Malta Resources Authority. Your proposed amendments were the following:

1. **Part of increase in wages for 2010 not accepted by MRA as being reasonably justifiable - €0.50 million:** We have not been provided with a concrete explanation of these unacceptable wage increases (in terms of which component of wages have been refused and on which grounds) and so are not in a position to comment about MRA's position.
2. **Reduction in ROCE adjustment (ROCE being equivalent to total debt serving obligation) - €1.71 million:** We have been informed that the WACC methodology is not in dispute, although the MRA wishes to phase in the transition to a WACC-based computation of ROCE, and consequently, while the KPMG document will retain the WACC methodology, the MRA will consider also the debt-servicing approach in its report. In computing the debt-servicing approach, the MRA has accepted to include provision for a sinking fund. However, while the Corporation has opted to restrict the ROCE claimed in the target revenue to €34.363 million, the MRA is requesting a further reduction of €1.71 million. Since the methodology is not in dispute, no justification is being recognised from our part to support a further limiting of the claimed ROCE.

3. **Reduction in under-recovery of 2009 costs in line with MRA workings - €3.48 million:**
This is mainly driven by the MRA's reduction of €5.6 million, being equivalent to the amount deducted from the fuel cost in the March 2009 revision of tariffs. The MRA is arguing that this amount should not be recovered in recourse at this stage. While it is confirmed that in the March 2009 revision, the Corporation chose not to burden the tariff with the full extent of the fuel cost, it remains a fact that a cost needs to be financed, and the MRA was notionally sympathetic to the Corporation's position.
4. **Reversal of excess of wages over budget in 2009 – Excess not accepted by MRA - €0.71 million:** As with Item 1 above, we have not been provided with a concrete explanation of these excess wages (in terms of which component of wages have been refused and on which grounds) and so are not in a position to comment about MRA's position.
5. **Notional adjustment in respect of anticipated drop in consumption not factored into previous tariffs: €1.00 million:** This is a notional adjustment based on the argument, put forward in the March review, that consumption was not expected to decline further and that it might even recover in part. This was a key assumption underlying the reduction in tariffs in March 2009. The MRA is arguing that in holding on to this assumption following debate with the MRA, the Corporation assumed responsibility (and lost the possibility of subsequent recourse) for at least part of the subsequent drop. We hold the view that in avoiding making assumptions (which may at times be aggressive) about future changes in consumption, and relying on subsequent recourse, the Corporation is avoiding the risk of over or under-burdening the tariff with assumptions that may differ materially from actual results.
6. **Notional adjustment to cost based to reflect minimum cost / efficiency improvements demanded by MRA: €1.00 million:** It is unclear to us what cost/efficiency improvements that are at the discretion of the Corporation are being costed here.

Sub Total €8.40million

7. **Adjustment for understated anticipated over heads for 2010 - (Euro1.11 million):** This adjustment should actually read €3.6 million, being mainly made up of cost variances that were not reflected in the Corporation's estimates for 2010 but have been identified and discussed with the MRA's advisors.

Net adjustment €7.29 million

Enemalta Corporation believes that the underlying assumptions of all the adjustments proposed by the Malta Resources Authority are not admissible at law and specifically are contrary to the Enemalta Corporation Act, the Electricity regulations and normal European regulator practice. Consequently, if the final opinion that will eventually be published incorporates this reasoning, Enemalta will use its right at law to appeal on the interpretation of the principles involved.

Enemalta however considers that it is high time that the tariffs are finally established and in order to facilitate closure is VOLUNTARILY reducing the tariffs proposed on the 06th November in order to decrease its projected income by €7.29 million.

Enemalta is also proposing an innovative day and night tariff which includes a financial incentive provisionally calculated to cost at least €1.30 million. We stress the word "provisionally" because the net effect will only be known after all possible customers have been given enough time to decide whether or not to take up the new tariff. Consequently, the new tariff will be introduced on the clear understanding that MRA will grant the Corporation the right of recourse in the future to adjust to the appropriate figure once the real net effect is known.

I augur that our revised tariff proposal will be sanctioned by the Authority, therefore putting a close to this long drawn out process.

Yours faithfully



Antoine Galea
Chief Financial Officer

CC: Ing A J Tranter – Chairman
 Ing K Camilleri – Chief Executive Officer

Encl Proposed Electricity Meter Tariffs by KPMG