



## 3.2 Networks

### Regulatory environment



#### Spain

- 1 January 2020 saw the beginning of the second regulatory period (2020-2025) for the activity of electricity distribution, which establishes a remuneration rate for the distribution activity at 6.003% for 2020 and 5.58% for the remaining years.
- The CNMC has approved the value of the 2020 Global Ratios Index (IGR) for companies engaged in the transmission and distribution of electrical energy. The IGR measures the financial prudence of regulated activities, weighting 5 financial ratios. i-DE broadly meets all ratios, so the 2020 IGR is 1.
- Royal Decree 23/2020 was published in 2020, increasing the investment limit from 0.13% to 0.14% of GDP for the period 2020-2022.



#### United Kingdom

- In December 2020 a final decision on the new RIIO-T2 regulatory framework was approved for transmission activities, and will enter into effect from April 2021 until March 2026. It establishes a cost of equity of 4.25%, a cost of debt of 1.82% and an annual TOTEX of £1,433 million (nominal). Companies may appeal this decision to the Competition Market Authority in the 20 working days following publication of the terms of the new license on 4 February.
- Ofgem continues the process of designing the RIIO-ED2 regulatory framework for transmission, which will be applicable from 2023.
- During 2020, SP Transmission Ltd. as well as SPD Ltd. and SPM Plc continued to do business under the RIIO-T1 and RIIO-D1 tariff frameworks, complying with all investment and quality goals agreed with Ofgem.



#### United States

- New tariff conditions entered into force in February 2020 for the electricity distribution company CMP (Maine), with a recognised ROE of 9.25% (with a temporary adjustment based on four customer service metrics) and an equity percentage of 50%.
- In November 2020 new tariff conditions were approved for the distributors in New York state (NYSEG and RG&E), with retroactive effect to 17 April 2020 and valid until 30 April 2023. A ROE of 8.8%, an equity percentage of 48% and a \$4,275 million four-year investment plan were recognised.
- The Federal Energy Regulatory Commission (FERC) approved changes to the formula for the recovery of New England transmission providers costs in tariffs (Formula Rate). This represents significant improvements in the automatic recovery of costs, such as the elimination of volume risk for transmission companies. The changes will take effect for tariffs as from 1 January 2022.



#### Brazil

- In March 2020 ANEEL approved the new methodology for the annual definition of the regulatory distribution WACC.
- There was a regular annual readjustment in April for Coelba, Cosern and Celpe, the application of which was postponed until the end of June in order to avoid increasing rates during the COVID-19 pandemic, with a tariff asset being created to be recovered at the next tariff revision. The increase in tariffs mainly reflects the change in the General Price Index and recognises the improvement in supply quality. The Elektro readjustment was carried out in August as normal.



## Objectives, risks and principal activities

### Objectives

- Zero accidents.
- Offer our customers excellent service based on the quality of supply and information regarding the network.
- Maximise efficiency in system operations through operational excellence and the digitalisation of our assets.
- Lead the energy transition towards a cleaner model favouring a more efficient integration of renewable energy (centralised and distributed) and the deployment of electric vehicles and heat pumps, through the use of smart grids.

### Significant risks

- Operational risks: impacts on supply as a result of meteorological events and work-related and third-party accidents at owned facilities.
- Technological and cybersecurity risks affecting the security of the facilities and service to our customers.

### Principal activities 2020

- **Spain:** Investments are planned to meet the decarbonisation and electrification targets of *the Integrated National Energy and Climate Plan*, with a focus on digitalising the Low Voltage network.
- **United Kingdom:** Implementation of investments set out in RIIO-T1 and RIIO ED1. Joined the *Low Carbon Strategic Partnership*, focused on the role of electricity networks in favouring the energy transition. Progress on projects under the *Green Economy Fund* in Scotland to favour decarbonisation and accelerate the deployment of electric vehicle recharging infrastructure.
- **United States:** Permits for the *New England Clean Energy Connect (NECEC)* project awarded in 2018 have been obtained, with a planned investment of \$950 million, for the construction of a 233 kilometre transmission line between Canada and New England, which will allow for the supply of 1,200 MW of 100% hydroelectric power to Massachusetts beginning in 2023.
- **Brazil:** In December 2020 Neoenergia was awarded lot 2, with 2,000 million reais of investment, in the auction by the Brazilian regulator ANEEL for the construction of a 1,000 km transmission line and a substation in the states of Bahia, Espírito Santo y Minas Gerais. This brings the total won by Neoenergia in auctions since 2017 to 12 projects with a total investment of approximately 10,000 million reais. The acquisition of licences and construction of these projects is proceeding according to plan, with the placement into service of the first sections of the lot 4 line from the April 2017 auction during 2020.

### Customer service

- In response to the COVID-19 pandemic, there have been additional inspections of the network and reinforcement of facilities using generators to ensure the supply of electricity to essential facilities, especially hospitals, in our distribution areas.
- The customer service channels have also been reinforced, disconnections of customers have been suspended and customers are being offered payment arrangements.
- Spain has seen the launch of the DATADIS online platform, which enables customers to use a common channel to access private information on the electricity consumption of all their supply points, even if they are from different distributors.
- In the United States, 2020 was a year with strong storms in all of our distribution areas, and restoration of supply required tremendous efforts. The distributors Avangrid CMP, NYSEG and UIL have received an award from the *Edison Electric Institute* in recognition for their response to some of the 2020 storms (Nor'easter and Isaias).
- i-DE has earned the ISO 10002:2018 certification, which recognises that it has an effective and efficient system for attending to complaints and claims.
- The roll-out of mobile apps for all our distributors in the United States has been completed. The apps improve the user experience, facilitating self-service and simplifying online processes.

### Operational excellence

- The adjusted evolution of operating expenses continues in order to maintain and improve efficiency ratios in all countries.
- New plans and models continue to be developed to end fraud in electricity consumption in Spain and Brazil, and also to comply with the parameters defined by the regulators. In addition, Iberdrola has been declared the winner of the *Big Data Talent Award 2020* for its project on the use of advanced data analysis for the identification and reduction of non-technical losses.

### Digitalisation of the network and Flexibility

- ScottishPower Networks has announced its biggest flexibility services auction to date, for the period between 2023 and 2028 (corresponding to the ED2 regulatory period), for 900 MW of active power and 38 MVar of reactive power in Scotland, England and North Wales.
- i-DE was a winner at the *2020 enerTIC Awards in the Smart Data Center* category, with the e-LVIS project, and in *Intelligent IT Infrastructures*, with the *Intelligent Transformation Centre* project.
- Iberdrola has announced the launch of the *Global Smartgrid Innovation Hub* (located in Bilbao), a global centre of innovation in smart grids to lead the energy transition. It will be inaugurated in mid-2021 and will bring together the innovative potential of over 200 professionals in the development of R&D projects related to the electricity networks of the future. Over 120 innovation projects have been identified, with a value of €110 million, related to digitalisation, data processing, new consumption models, electric mobility and self-consumption. The Hub has the support of the Biscay Provincial Government.



## Key figures of the Networks Business

Item	Unit	Spain		United Kingdom		United States		Brazil		Total	
		2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
<b>Gross margin</b>	€M	1,964	2,117	1,302	1,311	2,775	2,875	1,575	1,828	<b>7,615</b>	<b>8,131</b>
<b>EBITDA</b>	€M	1,612	1,711	1,000	987	1,087	1,330	1,079	1,234	<b>4,777</b>	<b>5,262</b>
<b>Distributed energy</b>	GWh	88,390	93,509	31,738	33,711	38,012	38,441	66,857	67,879	<b>224,998</b>	<b>233,541</b>
<b>Supply Points (Electricity)<sup>1</sup></b>	Millions	11.2	11.1	3.5	3.5	2.3	2.3	14.3	14.1	<b>31.3</b>	<b>31.0</b>
<b>Gas supply</b>	GWh	--	--	--	--	59,134	64,234	--	--	<b>59,134</b>	<b>64,234</b>
<b>Supply Points (Gas)</b>	Millions	--	--	--	--	1.0	1.0	--	--	<b>1.0</b>	<b>1.0</b>
<b>Gross investments</b>	€M	554	536	567	736	1,589	1,435	905	916	<b>3,614</b>	<b>3,624</b>
<b>Workforce</b>	No. of people	3,544	3,574	2,958	3,000	5,699	5,375	12,308	11,287	<b>24,509</b>	<b>23,236</b>

• IFRS 11 has been applied to the financial information.

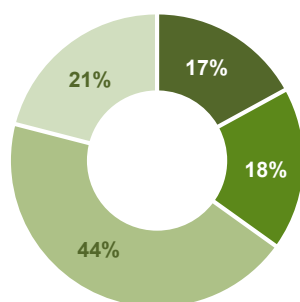
(1) Supply points in Spain include Conquense and other small distributors.

📍 Quarterly Results Report

## Outlook 2020 - 2025

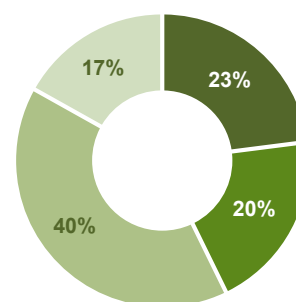
- Over the 2020-2025 period, investment will exceed €27,000 million (including PNM and awaiting the inclusion of CEB's investments in Brazil), laying the foundations for higher growth in every country, where approximately 90% of the investments are already assured.
- The spread of electric vehicles, the integration of distributed renewable generation, the electrification of the economy and the resilience and digitalisation plans in the United States and Brazil are vectors for growth.
- The supply quality target (-25% compared to 2017) was achieved two years ahead of schedule in 2020, while a new target for a further 10% improvement in the duration of power outages has been set for 2025, thus continuing to improve customer satisfaction.

Gross investment of €27,000 million between 2020 and 2025, with heavy investment in the United States



■ Spain ■ United Kingdom ■ United States ■ Brazil

Growth in asset base in all countries, to €47,000 million, by 2025



■ Spain ■ United Kingdom ■ United States ■ Brazil