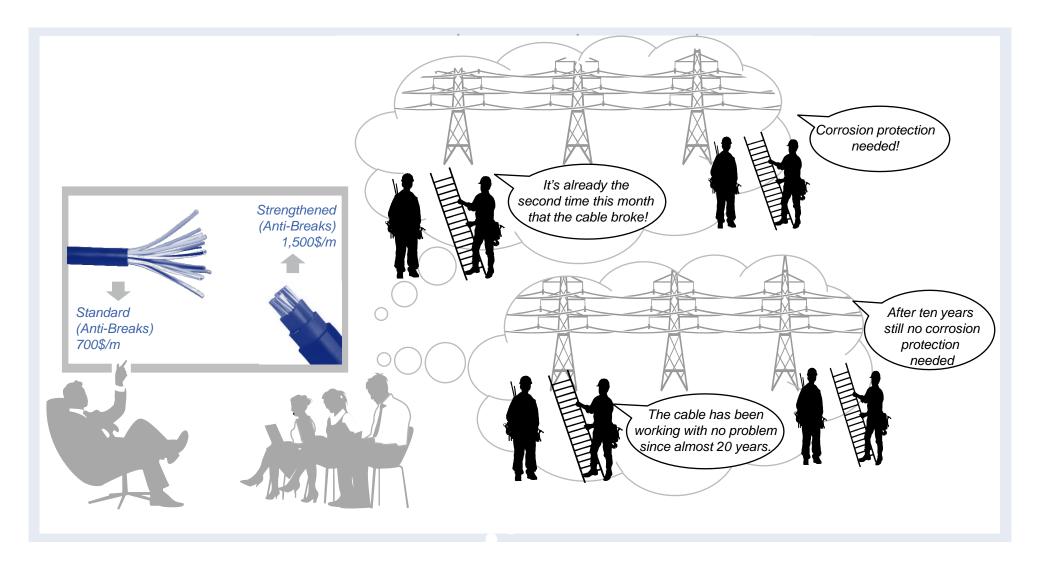


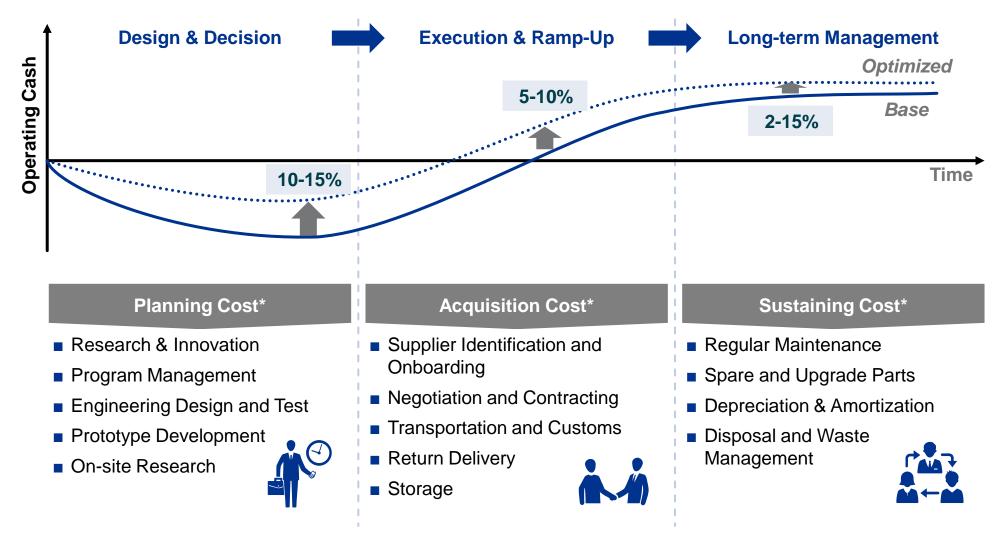


Case - Which network cable should I pick?





The biggest improvement in ROI for electric power infrastructure projects is achieved by focusing on challenging costs early in the process.



^{*} Exemplary cost positions



Innovation management is a strategic element within procurement.

Success stories of strategic procurement



Electricity transmission system operator

Underground cabling

- ✓ For the benefit of our stakeholders and the security of supply
- Complementing overhead lines with partial undergrounding cables







Expenditures within infrastructure procurement incurred mostly by ordering party for acquisition and upgrading physical assets.

	M
Infrastructure Procurement	Machinery • M • As • Re
	Equipment IT
	Vehicles • Tr

Classification	Examples	Typical Life Cycle [years]	Typical Buying Model (extract)
Tools	DrillsDiesLathes	1 – 2	Payment in installmentsAmortization
Machinery	Milling machinesAssemblyRobotic welding	5 – 10	
Equipment	IT ServersTest equipmentCompressor	1 – 3	Cash paymentCreditLeasingRental
Vehicles	TrucksVansTrailers	4 – 6	
Building	New buildExtensionRefurbishment	15 – 20	Cash investmentSigning financing agreements

The German Energy Act is the basis for the regulation of grid tariffs, which covers cost regulation and incentive regulation.

Incentive Regulation

More incentives for efficient

service provision

- - Introduction for two regulation periods (in total 10 years) for the time being

Yardstick Competition

- Currently no decision taken regarding the time after 2018; prolongation of incentive regulation expected
- Dominating issue for the future regime: sufficient incentives for investments

parts of the value chain

2009 to 2017/18

after 2017/18

Cost Regulation

Liberalization of electricity

Introduction of competition

Regulation of grids as natural monopolies necessary to enable competition in other

and gas markets



Ex-ante approval of an individual revenue cap for five years based on the costs of the photo-year provides incentive for operator is to reduce costs strongly in order to gain excess profits.

From Investment Loss... ...to Additional Profit ...via Productivity Improvement... LOSS PROFIT Influenceable Individual Cost-Cost-2014 2015 2016 2017 2014 2015 2016 2017 ineffective effective costs costs operator operator







The ROE on assets war significantly improved in an amount of 2 percentage points on average after introduction of this Incentive Regulation

Substantial determinants of revenue

Asset Book Value (based on historical and current cost calculation)

Investments Disinvestments

Life time and price index

Trade income tax

Accepted assets and liabilities (operationally necessary equity)

Cost of capital (debt and equity)

OPEX

(e.g. material, staff)

Imputed depreciation

Imputed trade income tax

Imputed return on equity

Other earnings (e.g. interests, dividends)

"cost basis" from photo year

Adjustments for external and sector-specific issues: inflation and productivity

Permanent not influenceable costs

Temporarily not influenceable costs

Influenceable costs

Volatile costs

Other company specific adjustments: factors for efficiency and quality

Revenue cap

Deviation towards real revenues

Regulatory account



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