

As of 1 January 2008, the transmission tariffs will be set on a multiannual basis. The Royal Decree on the associated mechanism was published in the Belgian Official Gazette (*Moniteur belge/Belgisch Staatsblad*) on the morning of 29 June 2007. On the afternoon of the same day, Elia submitted a tariff proposal for the period 2008-2011 to the federal regulator CREG, the Commission for Electricity and Gas Regulation, which has the final say regarding tariffs.

The multiannual tariff system provides for a mechanism designed to encourage good governance, the so-called 'X-factor', which determines the efforts required by the company to lower its 'manageable' or 'controllable' costs, i.e. those costs directly under its control (see below). Should the actual reduction exceed the percentage fixed in advance, the proceeds that result will go to the company and its shareholders. Likewise, the company and its shareholders shall bear the consequences if the costs turn out to be higher.

At the time of writing, two documents are on the table:

- 1) a draft Royal Decree on the X-factor, drawn up by CREG and submitted to the minister responsible for energy matters, providing for an effort to be made to lower the controllable costs built up over a four-year period;
- 2) a CREG recommendation rejecting a significant percentage of the budget of controllable costs included in Elia's tariff proposal.

These two documents would have the combined effect of obliging Elia to make savings averaging 14% on its controllable costs over a 4-year period or even to conduct its business in 2011 for 18% less money. Please note that this saving has no impact on the regulated profits generated for our shareholders.

Whereas this will supposedly lower the invoices received by end users by €2 per family per year, the implications of this decrease imposed by the regulator are such as to prompt us to review most of our activities, and would limit our means of contributing swiftly and effectively to achieving the government's objectives, at a time when concerns about energy and the environment are dominating the debate.

Why? Controllable costs comprise roughly equal shares of personnel costs and purchases of goods and services. Accordingly, the savings imposed by the regulator would apply to these two areas.

Faced with this situation, Elia's management has taken several steps:

- it has submitted its remarks and counter-proposals to CREG;
- it put forward its views and arguments at a hearing with CREG's Management Committee;
- it has informed its works council;
- it is continuing its negotiations with CREG, knowing full well that that latter has to submit an adjusted tariff proposal to Elia within the next few days.

Elia hopes that the resources made available to it on the basis of that decision will enable the company to continue playing its full role in serving the market and the general public via its initiatives aimed at further opening up the market, easing access for new entrants, connecting generation facilities to sources of renewable energy and also refurbishing those facilities.

Elia will be notified of the regulator's final decision by the end of December.