11th ENERGY INDUSTRY MEETING

¿QUO VADIS, EUROPE? SHEDDING LIGHT ON AN ENERGY POLICY BEYOND THE ELECTRICAL SECTOR REFORM

Madrid, February 13, 2014

ACADEMIC SUMMARY

IESE Business School
University of Navarra

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PRESENTATION

The 11th Energy Industry Meeting was held on February 13, 2014 under the theme "Quo Vadis, Europe? Shedding Light on the Energy Policy Beyond the Electrical Reform." Organized by IESE Business School and Deloitte, the meeting featured the expertise of leading industry players on key topics such as the new energy policy, the electrical reform, the future of renewable energy and the boom in non-conventional energy sources, as well as forecasts for Europe and Spain. Business leaders, academics, financiers and energy-policy regulators, among other thought leaders, presented their cases and shared their knowledge on the current situation[1].

The outline of this academic summary[2] aims to offer an overview of the distinct viewpoints and debates that arose during the meeting. Without wishing to detract from the important role of the speakers, the summary centers mainly on capturing the concepts and ideas that were generated rather than their specific source. Moreover, the experts' contributions are complemented by additional information from other sources and sectorial reports that reinforce and expand on the ideas presented during the summit.

1 For a detailed analysis on the issues and challenges of the energy sector in 2013, consult the International Energy Agency's annual report *World Energy Outlook 2013*, International Energy Agency, November 12, 2013.

2 Supervised by Prof. Juan Luis López Cardenete, Meeting Academic Director, and prepared by Júlia Gifra, Research Associate of IESE Business School Department of Industry Meetings. Our thanks to Estrella Jara for her valuable notes and contributions. Document last reviewed on February 28, 2014.

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INTRODUCTION

The significant reform in the energy system, announced by the Spanish government in July 2013, aspires to correct the serious economic imbalances that currently affect all facets of society, from consumers, taxpayers and investors, to operators and lenders. Unfortunately, the grave significance of these decisions – and the late date at which they were made – undermine their future success, and spark the need for a serious discussion and debate of the trade-offs and objectives of the reform.

The urgency of this reform, as well as the severity of its impact, cannot – and should not – overshadow the importance of a solid future-proof energy policy that is above all sustainable, sound, prudent, realistic and competitive in its approach.

The international energy sector will undergo a paradigm shift over the next 15 years, with the emergence of "unconventional energy" (at least in the United States and Canada); the likely gasification of the transportation sector; and the consolidation of wind and photovoltaic energies. Additional factors, such as the divergent national energy policies across the European Union; the silent advance of energy efficiency as the sixth source of fuel; a reframing of distribution networks; and the growing role of consumers in energy innovation, will also contribute to reshaping the global energy sector.

Other concerns loom on the horizon: China's voracious appetite for energy and the potential international withdrawal of the U.S., with its energy bonanza, strategic commitment and economic motives all weighing in. These developments, taken together with Europe's increasing dependence on foreign energy, leave the region in a vulnerable position that has both diplomatic and military ramifications. At the same time, the international community has yet to reach a consensus on climate change that fills the void left by the Kyoto Accord.

Prof. Juan Luis López Cardenete
Academic Director, IESE Business School

Prof. Juan Luis López Cardenete, Academic Director, IESE Business School

CURRENT STATE OF AFFAIRS

Comments on Energy Geo-Politics

The global energy sector is in the process of reexamining several of its traditional foundations. The surge in non-conventional resources such as oil and shale gas, among others, and the emergence of new technologies that permit a better exploration and exploitation of current resources, is driving a shift in the current energy geo-political situation.

"Petroleum won't come from Brazil, Angola or Russia in the coming years, it will come from the United States, and this is a major shift, a revolution.", Pedro Antonio Merino, Director of Economic Studies, Repsol.

Countries that until recently were energy importers are on their way to becoming exporters and much less dependent. The influence of the Middle East and OPEC (Organization of the Oil Exporting Countries) has been offset by the growing protaganism of other powers including the United States, Canada and Brazil, in addition to increased demand in emerging markets such as China and India, which together have set the stage for a new global energy scenario. In fact, forecasts predict that the U.S. oil and shale-gas revolution will lead the country to become the worldwide producer of petroleum and gas between 2015 and 2020. If so, not only would Saudi Arabia and Russia will lose footing, but the U.S. could potentially become energy self-sufficient in net terms. Comparable, and perhaps even better, forecasts have been made about Canada, where oil and shale gas reserves in certain provinces may surpass existing reserves in the United States, which would bolster Canada's current position in the production of non-conventional petroleum extracted from tar sands.

In their analysis of this shift, some experts mention a likely withdrawal in the United States' prevalent role in the Middle East and other regions in Central Asia. Nonetheless, others believe that energy self-sufficiency in the U.S. won't lessen its dependence in the face of developments in the Middle East and other energy markets.

"Even if it were self-sufficient, the United States will continue to be connected to the global and fungible petroleum market.", Gonzalo Escribano, Energy Program Director, Elcano Royal Institute.

In other words, the non-conventional revolution in the U.S. doesn't diminish the importance of the Middle East, nor the global nature of crude oil prices and their repercussion in many countries, even if these aren't importers[3]. This vantage point would suggest that the United States isn't withdrawing, since it understands that it has a series of obligations to fulfill.

"The transportation sector will account for the greatest demand for petroleum in the coming years.", José Luis López de Silanes, President, CLH.

In this new global equation, experts stress the role of Europe and its dependence on foreign energy sources. The main challenge should be reducing the vulnerability of the EU and that of some of its member states in terms of its imports, interruptions, possible energy crises, and uncertainty in an exceptionally imbalanced and ever-changing environment, while also bearing in mind the extreme dependence that might exist with respect to a single supplier of gas. The political crisis in the Ukraine and Russia's involvement in the process reopens this debate in a very palpable manner, since the country's geographical location

3 Escribano, G. "La crisis siria reafirma la centralidad energética de Oriente Medio" [The Syrian Crisis Reaffirms the Energy Centrality of the Middle East], *Comentario Elcano* 53/2013 (September 11, 2013).

make it critical in transporting Russian gas imports. Moreover, the tenuous state of other regions such as the Middle East, Northern Africa and Central Asia add to the instability.

As a result, there is a widely held view that the EU should prioritize the external dimension of its energy policy and reinitiate its efforts toward a solid Common Security and Defense Policy (CSDP). This isn't a new concern by any means: the Commission's Green Book, published in 2000, and subsequent documents,[4] underlined the need for foreign energy policy to manage geo-political energy challenges.

"Energy will continue to limit economic growth if we persist in our high structural dependency on foreign oil.", José Folgado, Chairman and CEO, Red Eléctrica de España.

Some international experts believe that one of the problems in Europe is that it doesn't prioritize its neighbor relations in the ambit of security – unlike the United States – but rather sustains a worldview that is much more pragmatic from a commercial standpoint.

"Europe sees the world as one big export market.", HE Jorge Dezcallar, Ambassador of Spain.

This outlook can pose a risk in the current international context, in which identifying alliances and distinguishing threats, both real and probable, is a daunting task.

"Geo-politics were much simpler during the Cold War when everyone knew who their enemies were. Today you don't know who your friends and enemies are.", HE Jorge Dezcallar, Ambassador of Spain.

4 *Green Paper: A European Strategy for Sustainable, Competitive and Secure Energy*, November 29, 2000, European Commission, Brussels, November 29, 2000; *Green Paper: A European Strategy for Sustainable, Competitive and Secure Energy*, European Commission, Brussels, March 8, 2006.

Gonzalo Escribano, Energy Program Director, Elcano Royal Institute

José Luis López de Silanes, President, CLH

José Folgado, Chairman and CEO, Red Eléctrica de España

Excmo. Sr. D. Jorge Dezcallar, Ambassador of Spain

Along the same lines, another important challenge for Europe is attaining greater energy competitiveness. Some experts argue that the paradigm shift under way is not derived solely from the shale-gas revolution, but also from technological leadership and industrial competitiveness, and consequently entreat Europe to place greater emphasis on technological developments and securing new sources of non-conventional energy. Europe must continue its industrial transition. From this vantage point, they consider the possibility of researching and exploring sites, and implanting fracking technology in Europe. But where to start? Experience has shown that countries and regions with a tradition of exploiting convention resources are a better starting point to explore sources of non-conventional energy:

"The best places to look for non-conventional resources are regions where conventional resources already exist. It's very difficult to enter new emerging regions which don't have conventional resources, or which still have to demonstrate that they work.", Robin Mann, Partner, Resource Evaluation & Advisory Services, Deloitte Canada.

However, this endeavor requires technological and human capital, which in turn entails political will. This isn't to suggest that the U.S. shale-gas revolution can be extrapolated to Europe, but rather that Europe may have reserves that could be exploited, and that this possibility warrants further consideration.

To date, shale gas has triggered a revolution for the U.S., leading to the gasification of its energy mix, low gas prices and a displacement of coal toward other markets. It has represented a transformation for Europe, whose impact, in the immediate short term, has been a sharp increase in coal imports. Moreover, another obvious effect is the enhanced competitive advantage of the North

Robin Mann, Partner, Resource Evaluation & Advisory Services, Deloitte Canada

Pedro Antonio Merino, Director of the Economic Studies Department, Repsol

Rafael Villaseca, CEO, Gas Natural Fenosa

Miguel Antoñanzas, President and CEO, E.ON Spain

American manufacturing industry against its main European competitors:

"The competitive advantage that Europe and its industrial sector should leverage with respect to its U.S. counterpart is energy efficiency. Despite the fact that the U.S. pays much lower prices, its energy efficiency is much worse.", Maite Costa, Former President, CNE.

In sum, experts speak not only of a paradigm shift due to the advent of non-conventional energy and the technological revolution, but also of a shift in the geopolitical center of gravity that places the United States in a position of dominance and energy self-sufficiency, and underscores Europe's dependence on a fragile geopolitical context, hence the importance for Europe to exploit its own resources like renewable energies and non-conventional fuels:

"The world needs more non-conventional thought, as well as non-conventional energy. Progress is needed on both fronts.", Pedro Antonio Merino, Director of the Economic Studies Department, Repsol.

Energy and the Environment: The 2015 Paris Summit on Climate Change

Europe is therefore faced with several dilemmas: on one hand, it should ensure the security of supply in its neighbor relations, and on the other, it should reinforce – and perhaps redirect – its energy policy to make it more competitive in view of the shale-gas revolution. Some analysts question the EU energy policy, since thus far it seems to be guided purely on environmental concerns. Furthermore, the emissions market doesn't condition energy investments in Europe, and some indicate the need of a CO2 price to support these investments.

"Until now, renewable energy and the environment have been the only drivers of the European energy policy.", Rafael Villaseca, CEO, Gas Natural Fenosa.

There is little doubt that climate change and the reduction of CO2 emissions should remain cornerstones of this policy, but they believe that there are other issues that are just as important, or more so, that haven't received proper attention, such as the development of interconnection infrastructures, competitiveness and price differentials among countries.

"We believe in renewable energies, and that they'll be the protagonists of all future investment, but conventional technologies are the best complement to these renewables.", Miguel Antoñanzas, President and CEO, E.ON Spain.

Indeed, Europe has been particularly sensitive to the environmental argument, and thus spearheads a global agenda to combat climate change through a solid strategy of renewable energies, energy efficiency and emissions trading. The threefold aim of 20-20-20 for 2020 – 20% drop in CO2, 20% increase in energy efficiency and 20% of EU energy from renewable sources – may be understood in this context.

Today, nonetheless, the political and regulatory frameworks reflected in the Kyoto Protocol are at a delicate juncture in both Europe and abroad. Several analysts deem the Kyoto Accord ineffective since the major emitting countries are absent, and the only countries that did commit represent a mere 15% of worldwide emissions.

The next United Nations Climate Change Conference is scheduled to take place in Paris in 2015. On the summit's agenda, among other priorities, is to achieve a greater commitment from countries that are more significant in terms of emissions, and attain

Susana Magro, General Manager, Spanish Office of Climate Change, Ministry of Agriculture, Food and Environmental Protection

Pedro Mejía, President, OMEL

Luis Atienza, Former Presiden, Red Eléctrica de España

a new legally binding accord with new objectives, such as not exceeding a 2-degree Celsius increase in global warming in 2050.

The position of the EU and its member states suggests maintaining the same current environmental commitments, as well as its policies and decisions in this area.

"The European Union doesn't have to give up the fight for climate change. It is the only one that can summon its collective determination.", Susana Magro, General Manager, Spanish Office of Climate Change, Ministry of Agriculture, Food and Environmental Protection.

Even so, several analysts question the extensive efforts of the EU and the risks posed for the competitiveness of its industrial base.

"The emissions market has hardly worked, and pricing and compensation methods over market prices have been deemed excessive, although this doesn't mean that the objectives have been abandoned.", Pedro Mejía, President, OMEL.

These analysts question the role of the Union and the repercussions on industry from both a cost and a geo-political perspective, since they believe that this is a global problem that demands more explicit commitments from countries with a much greater impact, like China and the United States.

"To what extent can the European Union maintain unilateral support in the fight against climate change? Is it compatible with its industry?", Luis Atienza, Former President, Red Eléctrica de España.

They indicate the need for the European energy policy to rebalance priorities to include not only sustainability, greenhouse gas emissions and renewable energies, but also other conventional sources, security of supply and import dependence, not to mention competitiveness and achieving an internal energy market.

"Competitiveness and climate change, yes, but in the following order of priorities: first, energy efficiency; second, energy costs; and third, a decrease in emissions.", Jorge Lanza, President, BP Spain and Portugal.

Jorge Lanza, Presidente, President, BP Spain and Portugal

The Challenge of Financing Energy Companies

Financing is another important challenge that the global energy sector faces, both companies and infrastructures. There are several factors to consider in this matter that prompt a wider debate on the global financial crisis and its impact on the sector: the role of the U.S. Federal Reserve, the role of the European Central Bank, and banking supervision and regulation in the wake of the financial crisis, among others.

Antonio Basagoiti, Chairman, Santander Totta

"Over the past years, things have become very complicated for this sector. I'm particularly concerned about the matter of its financing.", Antonio Basagoiti, Chairman, Santander Totta.

Experts agree that the sector needs investment, and at the same time concur that there is money to invest. Nonetheless, pre-conditions must be in place before current needs can find financing, and this is where the outlook isn't as optimistic:

"The money is out there. Credit is out there. What we don't have are financing conditions.", João Manso Netto, CEO, EDP Renováveis.

João Manso Netto, CEO, EDP Renováveis


Prof. José Manuel Campa, Financial Management, IESE Business School


Carlos J. Álvarez Fernández, CFO, Gas Natural Fenosa


Emiliano López Atxurra, Partner, EF International & Strategy

Experts believe that the necessary investment conditions aren't met for three main reasons: the mentality of the players involved, financial regulation, and the poor regulation of the sector in general. On the other hand, some analysts warn that the deleveraging process has yet to begin, and that the growth rate of credit forecasts should be prudent for the coming years.

"Deleveraging hasn't occurred yet in any country in the Western world.", Prof. José Manuel Campa, Dirección Financiera, IESE Business School.

They in turn recommend breaking away from what they term an excessive dependence on bank financing, especially in Europe, which is characterized by extensive fragmentation.

"We have changed the financing model, practically forced by the crisis, but it's been a positive change. Currently only 20% of our debt is bank debt.", Carlos José Álvarez Fernández, CFO, Gas Natural Fenosa.

EUROPE: THE NEED FOR GUIDANCE

The Cost of Discord

Today it can be asserted that the EU has yet to reach a well-defined energy policy. Analysts seem to agree on the need to accelerate the Europeanization of the energy policy in order to unify divergent national strategies and effectively achieve a single market and cohesive national policies and regulations. The challenge of attaining an internal market remains a core issue:

"The fragmentation of the logistical infrastructure and the accompanying regulatory fragmentation are serious barriers to attaining an internal energy market.", Prof. Juan Luis López Cardenete, Academic Director, IESE Business School.

There seems to be consensus that the cost of discord is high and prevents attaining an internal energy market, which in turn affects prices, negatively impacts competitiveness in many industrial sectors, and increases supply insecurity. Some argue that this discord could be offset if there were sufficient investment in infrastructure to improve interconnections and cross-border energy trade, but this so far hasn't happened. The current interconnection capacity with France is around 1.2% from the demand side, which is far from the 10% figure recommended by the European Union.

Before the Treaty of Lisbon went into effect, the founding treaties of the EU didn't contemplate guidelines or provisions in this domain, despite the fact that energy issues form the origins of European Communities. It should be noted that the ECSC and Euratom Treaties oversaw coal and nuclear energy management. However, the Treaty of Rome in 1957 didn't establish a well-defined jurisdiction on energy matter for community bodies.

"The construction of Europe makes no sense without energy.", Emiliano López Atxurra, Partner, EF International & Strategy.

The Treaty on the Functioning of the EU incorporates a solid legal framework for energy issues in Article 194, which stipulates the following:

Article 194

1. In the context of the establishment and functioning of the internal market and with regard for the need to preserve and improve the environment, Union policy on energy shall aim, in a spirit of solidarity between member states, to:
(a) ensure the functioning of the energy market;
(b) ensure security of energy supply in the Union;
(c) promote energy efficiency and energy saving and the development of new and renewable forms of energy; and
(d) promote the interconnection of energy networks.

Energy is a shared competence within the EU and its member states in accordance with Article 4 of the Treaty of Functioning, and that means that the EU can legislate and adopt binding legal acts in this domain although it is subject to the principle of subsidiarity. In other words, the EU will intervene when its actions are justifiably more effective than individual member states.

Despite this legal provision and the discernible impulse on behalf of the European Commission and the rest of EU institutions to address the issue of energy policy, it should be noted that not all member states are equally receptive to their proposals. Lest we forget, the EU is a regional organization comprised of 28 States whose logics of coalitions and negotiations carry significant weight, and disparity exists among them. Some member states are in a better position to negotiate than others, with those in a less favorable position more likely to support collective action within the Union.

A Shift in Priorities in European Energy Policies?

On January 22, 2014, the European Commission presented a series of measures on energy policy and climate change to be debated in the European Council on March 20 and 21. The Commission's proposals take the objectives established for 2020 as a point of reference. The Commission's communication states that "The framework aims to drive continued progress towards a low-carbon economy and a competitive and secure energy system that ensures affordable energy for all consumers, increases the security of the EU's energy supplies, reduces our dependence on energy imports and creates new opportunities for growth and jobs, by taking into account potential price impacts on the longer term."[5]

The Commission's proposals seek to reconcile three fundamental hubs: energy, climate and competitiveness:

"The debate on energy policy can't take place in isolation without considering the global framework and competitiveness of our firms.", Daniel Calleja, Director-General of the Enterprise and Industry Directorate-General, European Commission.

Among the measures proposed, the most significant is a 40% reduction in greenhouse gas emissions with respect to 1990 levels. In second place, a binding objective to attain 27% of energy from renewables on a global EU scale, although without specifying individual goals for each member state to respect the differences in energy composition of each country. In third place, enhanced energy efficiency policies with the revision of the directive in this area.[6] In fourth place, a new governing system based on national plans for competitive, secure and sustainable energy. In fifth place, the incorporation of a series of indicators to guarantee a secure and competitive energy system. Among others, these indicators address energy price differentials with respect to main trading partners, the diversification of supply and indigenous energy sources, and interconnection capacity between member states, and should serve to assess progress and improvements to be raised in the future.

5 "2030 Climate and Energy Goals for a Competitive, Secure and Low-Carbon EU Economy" press release, European Commission, January 22, 2013.

6 2012/27/UE Directive of the European Parliament and Council on October 25, 2012 on energy efficiency, which modifies Directives 2009/125/EC and 2010/30/EU and ammends Directives 2004/8/EC and 2006/32/EC.

These proposals must logically dovetail with the measures adopted by the Commission in its industrial redevelopment plan, which establishes that 20% of the European GDP derive from industry by 2020.[7] But are decarbonizing industry and competitiveness compatible?

The first assessments of the Commission's measures seem favorable for the most part, in the sense that some analysts perceive them as a turning point, a new direction for EU objectives and strategies in energy policy, and the basis for a coherent conceptual framework. In their view, the EU seems to have realized that the fundamental need to balance environmental priorities and competitiveness, which they may have overlooked in previous years.

Nonetheless, other more critical voices are skeptical and raise concerns: on one hand, how to correct the collateral damage of a non-existent or misguided energy policy during preceding years, and on the other hand, how to overcome regulatory fragmentation and absence of a single market that uses an instrument – the energy policy – which the EU must share with its member states since it's not an exclusive jurisdiction.

THE ENERGY SECTOR IN SPAIN

In the case of Spain, the application of the Commission's measures highlights the friction that can arise when it comes to deadlines and community and state decisions. Although many of the objectives aren't at odds with the situation in Spain, the

7 "Competitiveness Report 2013: No Growth and Jobs Without Industry," press release, European Commission, Brussels, September 25, 2013.

country currently has more urgent priorities, such as addressing the reform of the electricity sector and improving energy taxation within the framework of a national policy that resolves these and other critical issues.

"The reform of the electricity system is a subject that affects everyone – consumers, electrical companies, renewables, non-renewables… but there is life after the reform, meaning that there are other important matters, such as the need for a European energy policy, the industrial recovery and the evolution of the U.S. energy sector, among others.", Jesús Navarro, Partner, Deloitte Spain.

The Reform of the Electricity Sector

Despite the latest regulations adopted by the central government, the tariff deficit and subsidy policy for renewable energies continue to be controversial issues.

"The Spanish energy sector has an enormous outstanding mortgage to pay.", José María Egea, General Manager of Energy Planning, Gas Natural Fenosa.

There is disagreement with regard to the source and motives that sparked the tariff deficit. Some experts point to a drop in demand during economic downturns.

"The deficit could have at least two root causes: weakened demand in electrical consumption because of the crisis, or an excess in installed generational capacity.", Jorge Sendagorta, President & CEO, SENER.

Others allude to renewable premiums and poor political planning. They criticize ineffective political decisions taken in the past, which today have yet to be corrected.

Daniel Calleja, Director-General of the Enterprise and Industry Directorate-General, European Commission

Jesús Navarro, Partner, Deloitte Spain

José María Egea, General Manager of Energy Planning, Gas Natural Fenosa

Jorge Sendagorta, President & CEO, SENER


José Casas, Executive Vice-President of Regulation and Environment, Endesa


Rafael Mateo, CEO, Acciona Energía


Graham Weale, Chief Economist Public Affairs, RWE


Eduardo Montes, President, UNESA

"We've ended up in this crisis by our own doing as a result of ineffective political decisions.", José Casas, Executive Vice-President of Regulation and Environment, Endesa.

Others argue that renewables are responsible for the deficit and underline poor regulation:

"Renewables aren't the culprit of everything, they are not responsible for the exorbitant cost of energy. We have get rid of the paradigm: renewables = high cost of energy = lack of competitiveness.", Rafael Mateo, CEO, Acciona Energía.

There is a general consensus that this is a state problem, and that one possible solution would be financing the deficit out of public budgets. Some suggest that a cost audit should be carried out beforehand to determine not only the extent of the deficit, but also, in an exercise in transparency, to determine the real cost of energy, networks and tolls (fees and other associated concepts), a problem that exists not only in Spain but in other countries like Germany.

"The pricing and the cost of the electric system is totally mismatch", Graham Weale, Chief Economist Public Affairs, RWE.

Furthermore, they suggest eliminating costs from electrical fees that have nothing to do with the sector.

"To boost competitiveness, all of the fiscal and parafiscal costs that are not required by the electrical system must be removed.", Eduardo Montes, President, UNESA.

The electricity-sector companies that have been most affected – the five incumbents – express their disagreement with what they consider unfair discrimination. They argue that the tariff deficit should be split evenly among all operators in the system (some 65,000) and not only among the five traditional generators in the electricity sector, since currently these are the only companies dealing with the tariff deficit.

"The sector can't hold on any longer.", Gonzalo Sáenz de Miera, Director of Regulatory Prospective, Iberdrola.

Moreover, they criticize that the confusion created by the regulatory policy impacts not only the end consumer, but the reputation of their firms as well.

The truth is that the deficit today is unsustainable (€4 billion en 2012 and again, more than €4 billion in 2013) and that the reform undertaken in the last regulations, in particular through Royal Decree 9/2013[8], doesn't appear to satisfy the operators of the sector as a whole:

"Measures have been adopted. Logically, not everyone likes them and they've had a very significant impact on the sector, but it was a necessary step to try to resolve the situation that existed in the system.", Fernando Ruiz, President, Deloitte Spain.

The government defends its decisions and claims that the current measures will keep the tariff deficit from further increasing and enable the new system to become more competitive and less burdensome for families.

Nevertheless, the cuts in renewable energies through the new retribution system and the new price mechanism for household consumers, which will replace quarterly auctions, have not been well received by the sector.

8 Royal Decree-Law 9/2013, of July 12, by which urgent measures are adopted to guarantee the financial stability of the electrical system.

Gonzalo Sáenz de Miera, Director of Regulatory Prospective, Iberdrola

Fernando Ruiz, President, Deloitte Spain


Andrea Brentan, CEO, Endesa


José Luis San Pedro, Executive Director and General Manager, Iberdrola

The electricity companies that have been most affected argue that the best solution would be an energy policy that produces less regulation and a more liberalized market.

"In the face of interventionism, more market.", Andrea Brentan, CEO, Endesa.

They are especially critical of what they perceive as excessive interventionism and believe that speaking of the market, when it is practically regulated, is a mistake.

"Last year 47% of the energy production in Spain was subsidized. What market is there to speak of if half of its production is subsidized?", Rafael Villaseca, CEO, Gas Natural Fenosa.

The forecasts of some analysts don't precisely point to less regulation, but to the contrary: they believe that if the priorities of the current policy aren't redrawn, the trend will be toward greater intervention.

"If the CO2 market doesn't work and we continue to give help to renewables, we're going to converge toward increasing levels of regulation in the energy sector.", José Luis San Pedro, Executive Director and General Manager, Iberdrola.

A New Energy Policy

The truth is that numerous measures and regulations have been adopted. Notwithstanding, experts question whether these are simply ad hoc solutions to resolve urgent problems, or the result of a long-term strategic vision. They understand the need to urgently address specific problems like the tariff deficit, but underscore the need for an energy policy that defends and guides the measures adopted, including those adopted to address urgent issues. In other words, they advocate a policy that combines both a short- and long-term view.

"The energy policy has to have a long-term view, yet at the time be flexible enough to address short-term problems. It must have a strategic vision, not purely administrative vision.", Pedro Mielgo, Chairman, Nereo Green Capital.

From the government's perspective, all of the measures adopted in 2012 and 2013 aim to balance the different focal points that should form part of the energy policy.

"All of the decisions made over the last two years have been aimed to reduce the cost of energy, reduce the cost of regulated activities, reduce dependence, increase diversification and reduce emissions, as well as fulfill the commitments we've already enacted.", HE José Manuel Soria, Spanish Minister of Industry, Energy and Tourism.

It's clear that the definition of the energy policy in Spain has significant issues to resolve. To start with, as is the case in Europe, it should deal with quandary that exists between environmental targets and competitiveness. In this sense, several experts coincide in the importance of reconciling environmental concerns with reindustrialization and competitiveness. As mentioned earlier, they argue that the energy policy should be open to technological developments and securing new sources of non-conventional energy, and maintain that political power won't be possible without technological and industrial power. In the same way, the desirability of addressing security of supply and other structural matters is also at issue.

"The security of supply should be one of the pillars of any sensible energy policy.", Antonio Llardén, President, ENAGÁS.

Pedro Mielgo, Presidente, Nereo Green Capital

HE José Manuel Soria, Spanish Minister of Industry, Energy and Tourism

Antonio Llardén, President, ENAGÁS

Claudio Aranzandi, Former Minister of Industry and Energy

Luis María Cazorla, Professor of Financial and Tax Law, Rey Juan Carlos University

Antoni Peris, President, Sedigas

On the other hand, the energy policy should resolve problems relating to the need to introduce regulatory changes, while at the same time guarantee legal protection and stability. In an ideal world, norms would respond to previously defined legal objectives within an energy-policy framework:

"Regulation should respond to the objectives of the energy policy.", Claudio Aranzandi, Former Minister of Industry and Energy.

Nevertheless, the legislative acts adopted thus far seem unclear and ever-changing, and many experts criticize the excessive regulatory modifications implemented over the last years and their immense impact on the lack of planning and legal security in a sector – lest we forget – that is highly controlled and regulated.

One of the regulatory domains most in need of management is the fiscal area, which experts believe requires urgent reforms.

"The tax system is completely out of sync with the energy domain.", Luis María Cazorla, Professor of Financial and Tax Law, Rey Juan Carlos University.

They denounce the inconsistencies and contradictions of the taxation policy and ask the government to bring order to the complex regional and municipal tax schemes to simplify taxation as it pertains to the energy sector.

"The current taxation scheme and structure places businesses in a vulnerable position, with a series of taxes with no rhyme or reason.", Antoni Peris, President, Sedigas.

The regulatory risk not only applies to local firms, but to foreign investors as well, since they all are need to operate within a regulatory environment based on the principle of legal security and confidence (in other words, in a context that is predictable, and not arbitrary). In fact, Spain currently has several suits pending with the World Bank's International Centre for Settlement of Investment Disputes (ICSID).

Finally, the energy policy must resolve dilemmas with regard to supporting the sector and players involved, since if the changes to be undertaken are structural, they should be implemented after a good deal of dialogue and consensus.

"Do governments ever listen to them? This seems like witches' coven.", Prof. Gaspar Ariño.

Nevertheless, the real unrest arises from the need for a coherent energy policy combined with sensible legislative measures that are backed by the majority of industry players and consistent with the lines defined from Europe.

"As Senecia said 'If a man does not know to what port he is steering, no wind is favorable to him.' If we want Europe to be more competitive and sustainable, and we also want to ensure the security of supply, there are four things that are essential. In the first place, we need a stronger Europe, which is to say, an internal market and more interconnections. In second place, we need national energy policies that are better coordinated and which lead to a European energy mix. In the third place, we also need a stronger Europe, with more industrial integration in compliance with climate objectives. And if fourth place, we need a stronger Europe and an enhanced security of supply in trade agreements made with third countries.", Daniel Calleja, Director-General of the Enterprise and Industry Directorate-General, European Commission.

APPENDICES

PROGRAM

Thursday, February 13, 2014

MEETING INTRODUCTION

• Prof. Juan Luis López Cardenete, IESE Business School
• Jesús Navarro, Partner, Deloitte Spain
• Maria Puig, Director of Industry Meetings, IESE Business School

THE "UNCONVENTIONAL ENERGY BONANZA": THE PRESENT AND FUTURE SCENARIO IN SPAIN AND EUROPE

• Robin C. Mann, Partner, Resource Evaluation & Advisory Services, Deloitte Canada
Moderator and speaker: Pedro Antonio Merino, Director of the Economic Studies Department, Repsol

THE U.S. FOREIGN WITHDRAWAL: EUROPE AND ITS DIPLOMATIC AND MILITARY RESPONSIBILITY

• HE Jorge Dezcallar, Ambassador of Spain
• Prof. Gonzalo Escribano, Energy Program Director, Elcano Royal Institute
Moderator and speaker: Emiliano López Atxurra, Partner, E.F. International Strategy

UPCOMING CLIMATE SUMMIT IN PARIS 2015: SCENARIO FOR POSSIBLE ACCORDS AND IMPACTS

• Miguel Antoñanzas, President & CEO, E.ON Spain
• Jorge Lanza, President & CEO, BP Iberia
• Susana Magro, General Manager, Spanish Office of Climate Change, Ministry of Agriculture, Food and Environmental Protection
Moderator and speaker: Luis Atienza, Former Chairman & CEO, Red Eléctrica de España

A SHIFT IN PRIORITIES IN EUROPEAN ENERGY POLICIES? STRATEGIC DIVERGENCE IN THE FACE OF REGULATORY CONVERGENCE

• Andrea Brentan, CEO, Endesa
• José Luis San Pedro, Executive Director and General Manager, Iberdrola
• Rafael Villaseca, CEO, Gas Natural Fenosa
• Graham Weale, Chief Economist, RWE AG
Moderator and speaker: Pedro Mejía, Chairman & CEO, OMEL

A NEW ENERGY POLICY? WHICH ONE?

• Claudio Aranzadi, Former Minister of Industry and Energy
• José María Egea, General Manager of Energy Planning, Gas Natural Fenosa
Moderator and speaker: Pedro Mielgo, Chairman, Nereo Green Capital

THE ELECTRICAL REFORM: EQUALITY, LEGALITY AND EFFECTS

- José Casas, Executive Vice-President of Regulation and Environment, Endesa
- Rafael Mateo, CEO, ACCIONA Energy
- Gonzalo Sáenz de Miera, Director of Regulatory Prospective, Iberdrola

Moderator: Jorge Sendagorta, President & CEO, SENER

FINANCING ENERGY COMPANIES IN THE MIDST OF QE3 REDUCTION IN THE U.S.: IMPACT ON THE FINANCIAL SYSTEM

- Carlos José Álvarez, CFO, Gas Natural Fenosa
- Prof. José Manuel Campa, Financial Management, IESE Business School
- João Manso Neto, CEO, EDP Renováveis

Moderator: Antonio Basagoiti, Chairman, Santander Totta

SECURITY OF SUPPLY IN EUROPE: THE COST OF DISCORD

- José Folgado, Chairman & CEO, Red Eléctrica de España
- José Luis López de Silanes, Chairman, CLH
- Antonio Llardén, Executive Chairman, Enagás

Moderator: Jesús Navarro, Partner, Deloitte

IS ENERGY TAXATION OFF-TRACK? MEANS AND ENDS

- Eduardo Montes, President, UNESA
- Antoni Peris, President, Sedigas

Moderator and speaker: Luis María Cazorla, Professor of Financial and Tax Law, Rey Juan Carlos University

QUO VADIS, EUROPE? SHEDDING LIGHT ON A NEW ENERGY POLICY

- Daniel Calleja, Director-General of the Enterprise and Industry Directorate-General, European Commission

Moderators: Prof. Juan Luis López Cardenete, IESE Business School and Jesús Navarro, Partner, Deloitte

CLOSING REMARKS

- Fernando Ruiz, President, Deloitte Spain
- Prof. Juan Luis López Cardenete, IESE Business School
- José Manuel Soria, Spanish Minister of Industry, Energy and Tourism


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Deloitte.
INFORMACIÓN PRÁCTICA DURANTE EL ENCUENTRO

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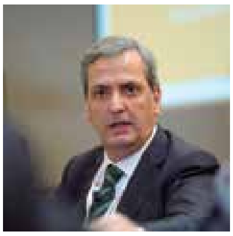
Co-Organizing Director

SPEAKERS



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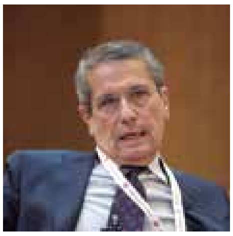

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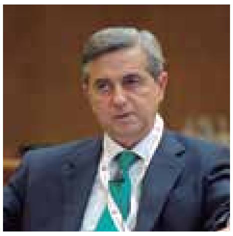

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