



Methodology

*Rating Portuguese Electricity Tariff
Securitisations*

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Insight beyond the rating.

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Rating Portuguese Electricity Tariff Securitisations

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Introduction

This methodology is narrowly defined as Portuguese Electricity Tariff Methodology, but is based on a financial technology which has been in use for almost 20 years in Europe and over 12 years in the United States. Creation and imposition of a special tariff on the basic necessity of electricity has proved to be a powerful financial tool which has served as the basis for several highly rated secured transactions. In the US this technology has been used by utilities since 1998 to issue over \$40 billion of securities which aided in the management of deregulation, environmental and storm recovery costs. For example, two Louisiana utilities were able to use utility tariff secured triple-A rated storm recovery bonds following the devastation of Hurricane Katrina to recover emergency and infrastructure repair expenses (as well as create storm recovery funds for future storm recovery).

For most tariff methodologies, the Legal and Regulatory framework aspect comprises a significant portion of the methodological issues, with the other key rating variable being credit risk. In Portuguese tariff transactions, there is no traditional credit risk. There is however, a potential timing difference, or liquidity risk, whereby the acting distribution grid operator (DGO) is made whole but must absorb the adjustments over a two year period. The methodology focuses predominately on the legal and regulatory framework as it is this framework that drives the assignment of ratings with a discussion on the liquidity risks within a transaction and the parties responsible for mitigating those risks.

Although this methodology concentrates on the aforementioned framework with respect to Portuguese Electricity Tariffs, the basic tenets with respect to the legal aspect of the framework can generally be applied across regions. The regulatory review is specific to the Portuguese national electricity system (SEN). This methodology also reviews the potential risks related to collection amounts which could affect the timing of bond payments. Due to the inability to quantify the potential for occurrence, one item that is expressly excluded from consideration is the potential for legal change. While it may be remote, under this methodology, DBRS does not address the change in law risk and its potential impact on rated notes.

Summary

BACKGROUND

The Portuguese Energy Services Regulatory Authority (*Entidade Reguladora dos Serviços Energéticos* or “ERSE”) strives to promote a stable fee for all Portuguese electricity consumers. Portuguese electricity consumers pay for electricity based on projections which are adjusted yearly based on actual usage. Thus, the Portuguese electricity consumer is constantly paying a set fee that is an estimate. Adjustments (or “true-ups”) to suppliers of electricity and the DGO occur over a two year period. The suppliers and the DGO are made whole based on this ‘true up’.

The impetus for utility tariff transactions typically arises from some extraordinary cost or event. For Portugal, the wholesale cost of electricity in 2007, 2008, and 2009 skyrocketed and thus there were ‘extraordinary deviations’. These deviations would have had a significant impact on the electricity tariffs if absorbed over the normal two year period. Therefore, ERSE proposed that the government securitise the extraordinary deviations over the course of 15 years. The government, by decree law, did so.

The last recourse electricity supplier in Portugal was paid a purchase price to sell their Credit Rights¹ (which includes the right to collect the tariff) to a special purpose vehicle (SPV) who issued the tariff notes to investors.

Legal and Regulatory Framework

GENERAL

A relatively unique feature of tariff securitisations is that the tariff itself is typically established under legislative or regulatory authority. It is important to highlight that while the legislation and regulatory authority create the framework for the collection of amounts needed to cover the bond repayment and related costs (the tariff), it does not create an obligation on the part of any government entity to repay the related securities. The obligations of the DGO are ones of duty to the system as nominee of ERSE, not corporate obligations. Furthermore, the tariff is designed under the law (or regulatory authority) to be an amount sufficient to repay the related securities. Perhaps most importantly, the law/regulations provide that the acting DGO is made whole via a dynamic adjustment. This dynamic adjustment, or true up, results in the utility taking on liquidity risk.

Unique to Portuguese tariff securitisations relative to 'typical' utility tariff securitisations is that most utility tariff securitisations are based on future flows and have a large element of credit risk. In the case of the Portuguese tariff, however, the tariff is designed for recovery of electricity that has already been consumed, but which has not yet be paid for by customers.

The current Portuguese tariff securitisations place the identifiable liquidity risks on the DGO under the legal and regulatory framework. The obligation of the DGO is to remit the full tariff amount, which would be an amount necessary to pay all interest and principal obligation and related costs of the rated bonds. Due to this obligation, the risk is binary in that either the DGO, as an agent of the SEN, complies with the law (pays the issuer of tariff notes) or does not. Moreover, the cash flows are *owed* by the consumer for services already rendered, thus calling them 'future flows' is not exactly accurate.

The Legal and Regulatory framework section of this methodology focuses on the specific Portuguese legal and regulatory framework, ownership rights, the utility review, the issuer bankruptcy review, irrevocability of law issues, bypass risk, liquidity risk and the considerations with respect to legal opinions.

As this report is specific to Portugal, some parts of this methodology are very specific to the Portuguese system, namely, the Legal and Regulatory Framework Review below.

PORTUGUESE LEGAL AND REGULATORY FRAMEWORK REVIEW

The DGO, as the operator of the National Distribution Grid is the sole low and medium voltage electricity delivery network in Portugal. It plays a fundamental role in the Portuguese National Electricity System (SEN). ERSE is charged with assuring its operation and is required to take measures to guarantee the continuity of service. The activities conducted by the DGO are fully regulated activities and the Company that acts as DGO is closely monitored by both the concession grantor (the Portuguese State) and the regulator (ERSE).

1. **Credit Rights** are a legal entitlement arising from Decree-Law no. 165/2008, of 21 August, Ministerial Order no. 27677/2008, of 19 September, and Ministerial Order no. 5579-A/2009, of 16 February. This Decree-Law (together with the applicable regulations and ministerial or administrative decisions) recognizes that the entities affected by it (or respective assignees) are entitled to fully recover the Extraordinary Deviations, together with interest thereon, through the Global Use of System Tariff (the "UGS Tariff")



The Credit Rights as a cost of the Portuguese National Electricity System (SEN) are paid by all Portuguese consumers of electricity through its inclusion in the tariffs on a permanent basis as a component of the UGS Tariff. It is important to note that the extra tariff dedicated to these extraordinary deviations presently amounts to 2.365% of the average electricity invoice.

The DGO is legally obligated by decree law to pay the issuer of the tariff notes the set fee.

The law further imposes a specific duty on ERSE. According to Ministerial Order 27677/2008 and to Decree-Law 165/2008, ERSE has a general obligation to take immediate action to adopt any measures (in particular, regulatory measures), to ensure the timely delivery of the credit rights amounts to their owner until full repayment. Further, there is also a direct claim over the relevant DGO in its capacity to make the monthly payments required to the owner of the credit rights irrespective of receipt of the same from any other party of the SEN (the Portuguese national electricity system).

Pursuant to article 78 of the Commercial Relations Regulation as published by ERSE, the monthly deliveries with respect to the Credit Rights to their owner are to be made by the DGO (i.e. the entity that holds the concession to operate the National Distribution Grid), which is also entitled to receive/collect such amounts in the tariff it charges to the suppliers for the use of the National Distribution Grid.

To the extent that there are differences between the payments the DGO makes to the issuer and the tariff the DGO collects from suppliers, the DGO is entitled by law to collect such via adjustment within the next two years.

In making the monthly deliveries to the owner of the Credit Rights, the DGO will be acting as agent of the (SEN), as, by law, the payments with respect to the Credit Rights are a system obligation of the SEN. Although the DGO is legally obligated to pay the issuer the set amount, this obligation is not a corporate obligation of the corporate entity. Rather, it is the obligation of the DGO as the DGO within the SEN, to make the monthly deliveries to the owner of the Credit Rights. Therefore, the obligation to pay is not from any one company, but is dispersed to all electricity users in Portugal. The DGO is under obligation, by law, to pass the payments through.

If the DGO had to be replaced very rapidly, with no time to negotiate with several potential parties, DBRS is aware that a potential solution available to ERSE to avoid any disruption in the functions of the DGO would be for the Portuguese Transmission System Operator (the TSO) to take over the functions of DGO. With respect to the Credit Rights, the TSO could be nominated by the ERSE to take over administration if the current DGO failed to remit the required amount (thus in short order restoring administration of the Credit Rights in contemplated in the transaction documents).

The Portuguese TSO is the company that operates, also under a concession granted by the Portuguese State, the Portuguese National Electricity Transportation Grid (i.e. the grid for transportation of electricity in very high tension, such grid being central infrastructure of the SEN, being the sole transportation grid in mainland Portugal and allowing for the “connection” (i.e. the transportation of electricity) between each of the generator’s plants and the Distribution Grid so that it is then supplied to consumers). The current TSO is REN – Redes Energéticas Nacionais. REN has always been the Portuguese TSO and it should also be very “acquainted” with the operation of the National Distribution Grid which is interconnected to the National Transportation Grid it manages. Further, up to the year 2000, prior to the unbundling of the transmission activity of the Portuguese electricity system, REN was a part of the EDP Group, when the transmission grid and the distribution grid were managed together.

Due to the fundamental role REN also plays in the SEN – both the TSO and the DGO are key players in the Portuguese electricity system – REN is also highly regulated and supervised by ERSE and by the Portuguese State, as concession grantor.



OWNERSHIP RIGHTS

It is vital that the tariff rights have been legally conveyed in such a way that the owner owns all the collection rights without exception. DBRS analyses the documentation for four primary areas in order to assess ownership rights. They are as follows:

Ownership of Credit Rights: The law or statute should clearly establish ownership. It should be clear that the rights no longer belong to the seller and that the seller has no claim to any part of the rights.

True Sale of Credit Rights: The assignment of the credit rights is a valid and a true sale of the receivables and is not capable of being declared void or re-characterised from a legal stand point and no creditor of the originator, namely in the context of its insolvency would be able to set aside such transfer.

Credit Rights are Valid, Perfected, Enforceable: DBRS reviews that the receivables of the Credit Rights to assess if they are valid, enforceable, and perfected by law.

Collection Procedures: DBRS reviews that the collection procedures are spelled out in the law.

DISTRIBUTION GRID OPERATOR (DGO) REVIEW

The DGO's ability to continue to operate is of vital importance with electricity today viewed as a basic necessity. DBRS believes that the most important factor mitigating a possible utility bankruptcy is the replacement of a successor utility and the strength of the regulatory support around this issue.

DBRS analyses four areas of a utility bankruptcy. They are as follows:

Replacement of the DGO

Specific to Portuguese Tariff transactions, due to the fundamental role the DGO plays in the electricity system, if any problem were to arise with the entity acting as DGO, that would result in an interruption of the payments, both the Portuguese State (as concession grantor) and ERSE (as regulator and pursuant to the legal duty described within this report) would take immediate measures including the substitution of the concessionaire and/or the appointment of another capable entity of the SEN to act as agent of the SEN in the making of the deliveries. It should be noted that this is direct application of the law. This effectively ensures that the Portuguese National Electric System (SEN) functions smoothly and the continuity of supply.

If the DGO had to be replaced very rapidly, with no time to negotiate with several potential parties, a potential solution available to ERSE to avoid any disruption in the functions of the DGO would be for the Portuguese Transmission System Operator (the TSO) to take over the functions of then DGO. In compliance with ERSE's legal obligation to take all the necessary measures to ensure that the deliveries of the Credit Rights amounts are maintained and made in a timely manner, ERSE could "nominate" another entity in the SEN to act as agent of the SEN in respect of the monthly deliveries of the Credit Rights to their owner. Thus, if ERSE perceived an issue with the DGO or an amount related to Credit Rights was not remitted, it could move administration of the Credit Rights to the TSO (or another entity in the SEN).

Liquidity upon DGO Bankruptcy

Upon a DGO bankruptcy, DBRS assesses the continuity of the system as well as the continuity of payments. DBRS specifically analyses the timeline in which payments are due from the DGO to the owner of the rights, the issuer, and the time the notes are due to the investors. DBRS expects that any non-payment from the DGO would be discovered immediately. After which, proper action and the power of the regulator, as well as duty, by the law or statute, are assessed. DBRS formulates a worse case liquidity scenario and expects that the liquidity in the transaction is commensurate with the rating sought. The provider of liquidity is expected to meet DBRS legal criteria for European securitisations to support the rating.



DGO Viability

DBRS assesses the likelihood that the DGO may become insolvent. The factors include but are not limited to:

- If the DGO is heavily regulated;
- If the DGO is entitled by law to collect any shortfalls and if so, the mechanics and timing of the adjustment; Also considered is the materiality of the tariff revenues relative to the total revenues of the DGO. This addresses the materiality of possible adjustments (shortfalls);
- The percentage of the tariff relative to entire electricity cost;
- Whether bypass risk is present (the risk that consumers can ‘bypass’ paying their electricity bills (covered later in this report);
- If the DGO is the sole provider.
- The regulator’s duty and power by law to ensure continual electricity;
- The variables of the revenues. In this case, the DGO’s revenues are connected to the distribution of electricity, not the he price of electricity.

Non-Consolidation of DGO and SPV

DBRS reviews if the DGO were to become insolvent, whether any consolidation of credit rights could occur. Portuguese law specifically states that upon the bankruptcy of the specific DGO, the amounts in their possession which result from the payments related to the Credit Rights will not form part of its estate (in other words, the Credit Rights are bankruptcy remote from any entity operating in the Portuguese National Electricity System).

ISSUER BANKRUPTCY REMOTENESS

DBRS expects that legal opinion establish the bankruptcy remoteness of the owner of the Credit Rights and issuing entity.

IRREVOCABILITY OF LAW

As is common with tariff future flow transactions, there is no state guarantee. However, sometimes the state can pledge it will not overturn, limit or alter the special tariff that has been set. This pledge is more prevalent in the United States than in Europe. Nonetheless, there is no such pledge by the Portuguese state. However, the Credit Rights are created by Decree-Law. While, the law is not irrevocable in the sense that there is the risk of change of law, DBRS understands that a pledge would not be in conformity with the hierarchy of legislative and governmental acts which is adopted by the Portuguese constitution.

Further, DBRS expects that if the law were overturned or altered, the owner of the rights would be entitled to plead for the State’s liability and claim damages accordingly. This is a mitigant only with respect that it may serve as a deterrent for the Portuguese government to change/alter the law if it knows it is likely liable for damages. Should a change occur, DBRS would review the change to determine the impact on the transaction’s rating.

BYPASS RISK

DBRS expects that the law or statute shall establish that all electricity consumers are subject to the tariff by law. DBRS assesses if there are any possible exceptions. This speaks to the viability of the utility, the DGO, in the case of Portugal.

LIQUIDITY RISK

There is no traditional credit risk with respect to Portuguese Electricity Tariff transactions. What would otherwise be defined as credit risk is imbedded in the legal and regulatory framework or borne out as liquidity risk. The current Portuguese tariff securitisations issued placed the identifiable liquidity risks on the DGO as the nominee of ERSE. The obligation of the DGO is to remit the full tariff amount, which would be an amount necessary to pay all interest and principal obligation and related costs of the rated bonds. Due to this legal obligation, the risk is essentially binary. Either the DGO will perform its legal obligation to deliver the tariff or it will not. If it does not remit the designated amount, it can be replaced by ERSE who not only is charged with the continuity of the delivery of electricity to Portugal, but who has a legal obligation to immediately take all necessary action to ensure the timely payment of the tariff bonds. Further, it should be noted that the obligations of the DGO are ones of duty to the system, not corporate obligations.

With respect to special tariff adjustments, each year the amount may be adjusted based on any shortfall to ensure the full payment of related amounts to suppliers and the DGO. Upon application of the true-up in a given year the suppliers and the DGO are made whole for any shortfall in the prior year. However, given that the DGO would need to cover any shortfalls between what was collected and what is remitted to the issuer SPV it is appropriate to examine collection variance from billing and the expected amount that the tariff would represent of the DGO (or any replacement party whom ERSE might nominate for collect the tariff).

In order to quantify the amount of potential support being provided by the administrator of the tariff DBRS reviews the collection variance. The table below sets forth the last nine years of billings and collections for the Portuguese DGO, as well as the transmission service operator (the TSO, who is also a regulated entity that could be nominated by ERSE to administer the Credit Rights):

All amounts in Euro million

Year	DGO			
	Allowed Revenues to be received in the year	Allowed Revenues billed in the year	Deviation in the year (Amount)	Deviation in year (% of [1])
	[1]	[2]	[2] - [1]	
2009	1.570	1.549	-21	-1,37%
2008	2.294	2.194	-101	-4,38%
2007	1.958	2.006	49	2,50%
2006	1.662	1.621	-41	-2,46%
2005	1.467	1.480	13	0,86%
2004	1.297	1.309	12	0,96%
2003	1.248	1.236	-12	-1,00%
2002	1.205	1.182	-23	-1,92%
2001	1.193	1.203	10	0,81%
Average of absolute deviations in period			31	1,81%
Median of absolute deviations in period			21	1,37%

All amounts in Euro million

Year	TSO			
	Allowed Revenues to be received in the year	Allowed Revenues billed in the year	Deviation in the year (Amount)	Deviation in year (% of [1])
	[1]	[2]	[2] - [1]	
2009	566	549	-18	-3,15%
2008	502	493	-9	-1,83%
2007	430	422	-8	-1,89%
2006	632	630	-2	-0,33%
2005	520	539	19	3,72%
2004	376	384	8	2,18%
2003	343	345	1	0,42%
2002	285	290	5	1,64%
2001	228	229	2	0,68%
Average of absolute deviations in period			8	1,76%
Median of absolute deviations in period			8	1,83%

As demonstrated in the table above, variance related to collections for the DGO has been between 0.81% and 4.38%. Consequently, based on the *pari passu* nature of the Credit Rights and this variance experience, it would not be expected that the DGO would need to support more of these variances pursuant to its obligations to remit the full tariff amount. For further illustration, in 2010 tariff charges were



€154mm which represented approximately 6% of the approximately €2.6 billion revenues of the DGO. Although variance information for 2010 is not yet available, applying the highest experienced variance of 4.38% (from 2008 the year of the “extraordinary deviations”) would result in the DGO remitting approximately €6,745,200 to the issuer SPV which it had not collected. While this amount would be included in the next year’s annual true-up DBRS examines the potential stress such payments could impose on the tariff administrator. In this example, the €6,745,300 remitted would represent 0.26% for 2010, 0.44% for 2009 or 0.31% for 2008 of DGO revenues.

TIMING RISK

DBRS considers the reserve of cash in the transaction and the time that may be required in times of turmoil to replace a defaulting DGO. The replacement mechanics of the DGO, the reconstitution of payments, and the viability and willingness of potential DGO candidates, are all risks that could be exacerbated in periods of stress. Stressful scenarios are reviewed, in consultation with DBRS Sovereign Group, to assess this risk on the transaction level.

Mitigating factors include the fact that the present DGO is highly regulated and ERSE has a legal obligation to adopt any necessary measures required to ensure full monthly payments. DBRS believes ERSE has the power, ability and legal duty to ensure the continuity of electricity and the payments of the Eon notes well before any default occurs.

SOVEREIGN AND COUNTRY RISK

DBRS has considered the long-term local currency rating on the Republic of Portugal, as well as related country risks. Due to a perceived linkage between the rating of the sovereign and the rating of debt issued in a tariff securitisation, DBRS concluded that rated securities in a Portuguese tariff securitisation be limited to a three notch increase above the sovereign rating of Portugal.

However, DBRS believes that both sovereign and country risks are mitigated in the determination of ratings in part because of the following:

- The securities to be rated with this methodology are not general obligations of the Portuguese government, nor do they provide an implied or explicit guarantee. The financial burden related to the Credit Rights is the ultimate and exclusive responsibility of all consumers of electricity through the tariffs. Should macroeconomic country risk factors, such as a prolonged recession, higher unemployment or financial sector credit constraints, result in lower consumer consumption of electricity, the ERSE and the SEN have the responsibility to continue providing electricity services and the flexibility to adjust tariffs across the entire universe of Portuguese electricity consumers.
- The SEN is self sustainable, as the mechanisms in place for the setting of its revenues (i.e. the tariffs) ensure the full coverage of its costs, without reliance on any external sources, such as funds transferred from the Portuguese government budget. Although a small likelihood exists that the central government could modify the responsibilities of SEN and the ERSE, the incentives to do so are counter to the provision of electricity in Portugal – a basic public good.
- ERSE is an independent regulator – empowered by the central government – that performs a public function. Although the Portuguese government defines the global legal framework of the SEN (in compliance with European Union Directives and in accordance with the National Strategy for the Energy Sector) and grants the necessary licenses (in the case of generators and of suppliers) and concessions (in the case of the natural monopolies of transmission and of distribution) to the operators of the sector, the regulation and the functioning of the sector is ensured by ERSE, not the Portuguese government.



- ERSE's annual budget is not funded by the Portuguese government but by the SEN (through the inclusion of the amounts in the tariffs).
- ERSE's responsibilities include, inter alia, the annual setting of the regulated tariffs (including the Access Tariff payable by the suppliers for using the grid) which ERSE does in accordance with a set of pre-defined rules set in the Tariff Regulation (as approved by ERSE) and with no interference and/or need for approval from the Portuguese government.

The payments by the DGO are not dependent on the Portuguese government, as the SEN has the ability and the obligation to generate the necessary amounts to fully pay its costs, including the Credit Rights. In a theoretical scenario of Portugal turning to the European Financial Stability Facility and International Monetary Fund for emergency loans, DBRS believes that it is reasonable to expect that the SEN would continue generating the necessary amounts to pay for its costs, including those related to the Credit Rights, which will keep on being collected and delivered to the Transaction by the DGO or, if the DGO would prove unable to do such deliveries in accordance with the law, by any other agent of the SEN as appointed by ERSE.

In the event of a default by the Portuguese government, there is a low probability that there would be the political pressure or financial incentive for the Portuguese government to confiscate assets or take other actions that would impair the rated securities. DBRS believes the potential for this 'change in law' is remote for the following reasons:

- The Portuguese government is not entitled to directly receive revenues from the SEN and it is not liable to pay for its costs.
- A subsequent overturn or amendment of the special tariff resulting in the extinction of the Credit Rights or the reduction of their value would be:
 - under the doctrine of good faith, considered as an unlawful violation of the legitimate expectations of EDP SU or the issuer, and, as such, the seller of the Credit Rights or the issuer would have a legal claim of damages against the state; and
 - a claim that appropriate compensation should be paid to the expropriated entity, under the Portuguese legal and constitutional framework.
- The amounts in respect of the repayment of the Credit Rights represent a small cost to the SEN (in 2011, circa 2,365% of the SEN's total revenues).
- Portugal, in addition to being a democratic State under law, is a member state of the European Union. This makes any overturn or amendment of the special tariff that results in the extinction of the Creditor Rights or the reduction of their value even more remote.

DBRS reviews legal opinions which are expected to opine on all relevant legal matters.

Transaction Level Structural Review²

CREDIT RIGHTS

Credit Rights are a special tariff that will be collected from all Portuguese consumers of electricity. The tariff is a charge that will be applied to consumers' bills on a pari passu basis with other charges to the consumer. The relevant issue is that the DGO, who is nominated by the Portuguese regulator (ERSE), must pay the tariff by decree law.

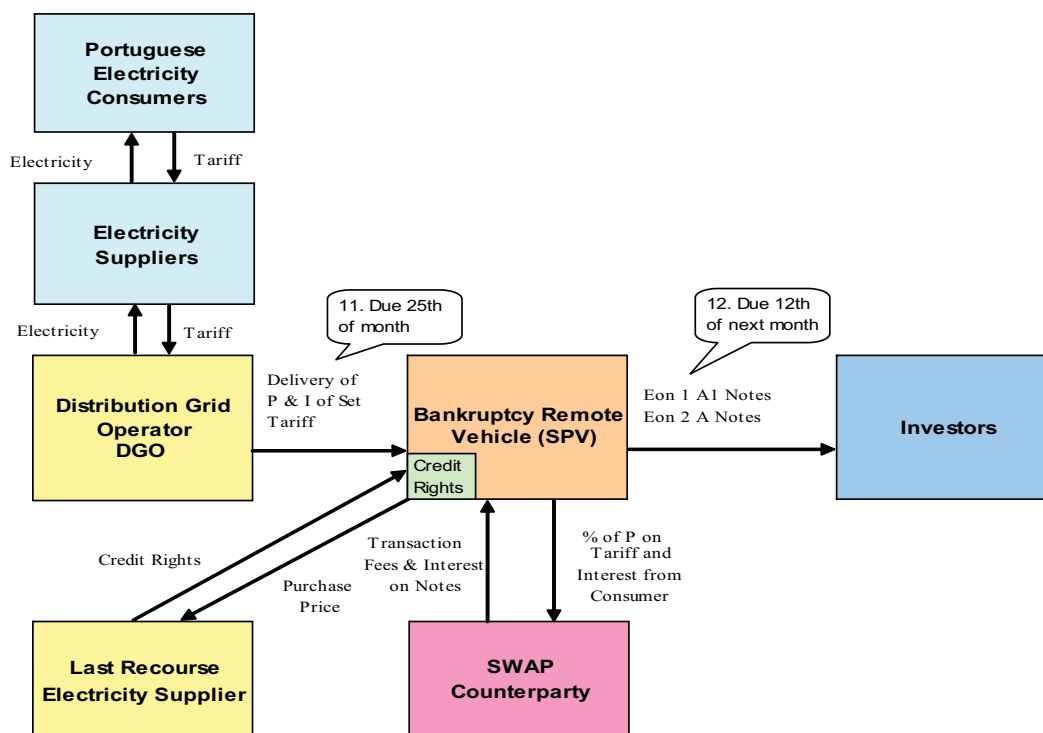
The DGO is heavily regulated as it is critically important to Portugal. Portugal needs a DGO to distribute electricity to Portuguese consumers. Thus, if the DGO were to become insolvent, which is highly unlikely, the ERSE would need to replace it immediately.

BACKGROUND

- Portuguese Consumer always pay set estimate of electricity bill;
- ERSE, the Portuguese regulator, wants to keep the bills stable;
- 2007, 2008 and 2009 – produced extraordinary deviations;
- The Portuguese Government agreed to ERSE's proposal to pay off the last recourse supplier by financing these deviations over 15 years. The special tariffs amount to, at present, on average 3.26% of the electricity usage.

TRANSACTION SCHEMATIC

PORTUGUESE TARIFF DEALS



2. Presently Portugal has two transactions that securitise Credit Rights that arose from extraordinary deviations during the years 2007, 2008, and 2009. The Credit Rights have been sold from the last recourse electricity supplier to the issuer, Tagus who issued 15 year floating rate notes.



TRANSACTION PARTY REVIEW

Generally, DBRS reviews the design of the tariff and the experience of the parties charged with determining the tariff amount and its remittance. With respect to the determination of the annual tariff amount the sufficiency thereof is typically verified by a servicer. The servicer (usually a rated financial institution) will be responsible under a servicing agreement to service the tariff including:

1. Check if the amounts pertaining to (x) the start of year and end of year balances, (y) the balances applicable interest rate and (z) the amount of annuity calculated and included into the tariff (including corresponding monthly installment), all in relation to the Credit Rights, as calculated and published by ERSE, are correct and liaise with ERSE in connection therewith should there be a need; however, the Servicer shall not be under the obligation to have knowledge of the occurrence of an Eurosystem Event except to the extent that it has been previously notified of such an occurrence;
2. For purposes of confirming that the calculations of the annuity for every year have been made correctly the Servicer shall apply the formula contained in no. 5 of Ministerial Order no. 5579-A/2009, of 16 February 2009 the formula as set forth above.
3. Determine the Principal Component and Interest Component of the annuity and each of the monthly installments;
4. After reviewing the calculations of the annuity for every year, the Servicer shall promptly confirm to the Transaction Manager and to the Swap Counterparty that such calculations comply with the Formula and inform the Transaction Manager, the Swap Counterparty and the Rating Agencies about the monthly Interest Component and Principal Component expected to be received during the following tariff year, including such information in the following Monthly Servicing Report;
5. The Servicer shall promptly notify the Transaction Manager and the Swap Counterparty in writing of the occurrence of a Eurosystem Event to the extent it has been previously notified.

Furthermore, DBRS expects the priority of payments to ensure that it will pay the principal and interest on the notes before any unsized fees or contingent liabilities.

Cash Flow Analysis

CREDIT RIGHTS TARIFF:

The tariff is calculated by the ERSE annually according to a formula provided under the law and then provided to the DGO. The tariff is designed to pay interest and costs related to the issued securities and to retire the securities 15 years after the issuance. Consequently, the calculation is straightforward with the amount of a given annual period's tariff based on the amounts needed to pay interest, principal and costs of the issued securities. The following represents the calculation representing annual amount of the Credit Rights.

$$A_t = (B_t \times i_t) \div [1 - (1 + i_t)^{-T_t}]$$

In which:

A_t	Annuity calculated for year t
B_t	Outstanding amount of the Credits Rights, at the end of year t-1, this amount corresponding the outstanding amount of the Credits Rights



- on the term of year t-2, accrued of interest calculated for year t-1 and deducted of the amount effectively received out of the annuity calculated for year t-1
- it Applicable interest rate for calculation of the interest of year t, (determined pursuant to no. 4 of Ministerial Order no. 27.677/2008, of September 19, 2008, or to no. 1 of Ministerial Order no. 5579-A/2009, February 16, 2009, as the case may be) which is equal to three-month Euribor at June 30 on t-1 plus the applicable margin
- Tt Number of years between issuance and maturity of the related securities (ex. January 1st of year t and 31st December of 2024)

DBRS has reviewed the annuity calculation and the anticipated cash flows that would be generated during a full 15 year transaction using a three month forward curve. The following represents a summary of Credit Rights amortisation based on the formula described above:

Year	Principal Component	Credit Rights Amortization
		1,275,682,000
1	68,343,063	1,207,338,937
2	72,026,649	1,135,312,288
3	75,637,561	1,059,674,727
4	76,379,596	983,295,131
5	76,379,341	906,915,789
6	76,914,591	830,001,198
7	78,172,601	751,828,597
8	80,209,432	671,619,165
9	82,966,284	588,652,881
10	86,389,950	502,262,931
11	90,389,974	411,872,957
12	94,922,537	316,950,420
13	99,958,351	216,992,069
14	105,499,839	111,492,230
15	111,492,230	-
	<u>1,275,682,000</u>	

Each month the DGO is responsible for remitting 1/12 of the tariff to issuer SPV. For each annual period the DGO will seek to collect the tariff by allocating it to all electric consumers. The DGO is obligated to remit 1/12 of the tariff amount each month regardless of the amount collected. At the conclusion of each annual period, the DGO will determine any shortfall or over-collection and communicate that amount to the ERSE for inclusion in the true-up determination for the following year's tariff calculation.

HEDGING - SWAPS

General

For Portuguese Tariff bonds, an issuer may pay some principal on the notes to the swap counterparty to the swap counterparty as a premium for the swap counterparty taking basis risk and for the coverage of senior fees in the waterfall.

There are no atypical 'outs' for the swap. Essentially the only 'out' is the nonpayment for more than three months by the issuer of the interest component owed to the swap counterparty. Breakage fees in the case where the counterparty does not possess the commensurate rating to continue with the transaction will cover the mark to market replacement costs. Please refer to DBRS Swap Counterparty criteria for swap methodological matters and criteria.



Swap Cash Flow Expenses

Portuguese special tariff bonds often incorporate swap agreements to address potential basis risks between floating rates and to ensure amounts are available to pay expenses. The obligations of the swap counterparty are typically fixed at the inception of the swap agreement. DBRS reviews the cash flow application of amounts to be paid by the swap counterparty to determine that such amounts are sufficient to pay timely interest and senior expense obligations in the waterfall.

Swap Coverage of Liquidity Event

In the unlikely case of the DGO not performing its legal duty to remit payments related to the special tariff to the issuer timely, DBRS examines the effects of a liquidity event. The liquidity event entails the DGO not remitting its legal obligations to the issuer. The issuer would then defer its payments to the swap counterparty. The swap counterparty is obligated to make full payments of interest and, to the extent applicable, expenses (note: expenses are remitted for the year in the beginning of each year). DBRS examines the possible effects of a liquidity event. Moreover, DBRS specifically creates stressed penalty interest rate scenarios in order to compare the funds available in the funded cash reserve account to the possible expense.

COMMINGLING RISK

Commingling risk relates to the collections that could be lost in the case of the bankruptcy of a key party. As is the case with the mitigation of other risks with respect to Portuguese electricity tariff transactions, it is covered in the legal and regulatory framework.

- **Commingling between Multiple Sets of Credit Rights:**
No commingling can occur as a result of the segregation principle foreseen in the Securitisation Law. The Credit Rights and other related assets and amounts existing at a given moment for the benefit of purchaser and which are related to the issuance of the notes under each set of Credit Rights constitutes an autonomous and ring-fenced pool of assets which is exclusively allocated to the issuance of the notes.
- **Commingling between the Entities Involved in the Billing and Collection Activities in the SEN:**
According to the decree-law typically enacted, the collected amounts of the exceptional deviations and accrued interest thereon, (i) are to be used exclusively for the purpose of payment of the credit rights, (ii) must not be used for any other purpose, including payment of any debts incurred by entities involved in the billing and collection of electricity in Portugal and (iii) should be subject to accounting segregation by the entities that, at each time, hold such amounts or by their respective depositaries.

SET-OFF RISK

Set-off risk relates to a party within the system effectively netting any or all of the cash flows associated with the special tariff that is to be used to pay the investors of the tariff notes. DBRS analyses the degree to which the legal and regulatory framework protects the tariff collections.

In the case of the Portuguese Electricity Tariff collections, the tariff collections are protected by the legal and regulatory framework. The collections the DGO must pass on are essential to the payment of the bonds. The law states that the Credit Rights cannot be subject of any set-off, in case a positive deviation arises for the DGO, the DGO will not be able to conduct such set-off. Also, it is important that any party in the system cannot set off with respect to the tariff. As per the decree-law typically enacted, the Credit Rights are not capable of set off against other debts of any entities operating in the SEN.



Surveillance

DBRS monitors Portuguese Electricity Tariff securitisations in accordance with the Master European Structured Finance Surveillance Methodology. The risks associated with Portuguese Electricity Tariff transaction are largely legal and regulatory in nature. The servicer performs a thorough check on a number of key calculations, verifies various account information, confirms certain duties of primary parties, and ensures that the collections from the DGO to the issuer are paid in full and on time. The servicer prepares a monthly servicer report that is a component of the investor report.

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