

INSIDE THE ENERGY BILL

ELETRÓPAULO

INSIDE THE ELECTRIC BILL BY

ELETROPAULO

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Who is ELETROPAULO?

The Eletropaulo Metropolitana Eletricidade de São Paulo S/A (ELETROPAULO) distributor was founded in 1899, when the then Canadian foundation, The São Paulo Tramway, Light and Power Co. Ltd. Was granted authorization to operate in Brazil. It currently serves nearly half the 5.6 million residential consumer units of an approximate total of 6 million consumer units. The Utility service territory is 4.5 thousand Km² wide and it encompasses São Paulo (city) and 23 other townships in the São Paulo metropolitan region, with a population of about 16.6 million inhabitants. The company's annual market is for 40 thousand GWh.

Concession Contract no. 162/1998, signed between the Union, through ANEEL, and ELETROPAULO was signed on June 15, 1998, for a period of 30 years, and renewable for an equal period. The document is available on ANEEL's home page (www.aneel.bov.br) in "Informações Técnicas", clicking on the "Contratos de Concessão" icon,

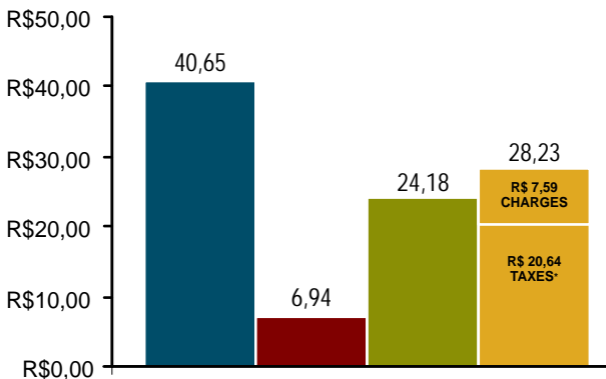
ELETROPAULO places two free customer service call centers at the disposal of consumers. General service is handled by calling 0800 7272120. For emergencies, simply call 0800 7272196. Both phones function 24 hours. The consumer can also access the company's web site (www.eletropaulo.com.br).

According to Law no. 8.631, of 1993, the distributor maintains the Eletropaulo Eletricidade de São Paulo S/A Consumer Board. Residential consumers are represented by Marco Antônio Costa. The Board operates at Lourenço Marques,

158, in the district of Vila Olímpia, São Paulo (SP), ZIP Code 04547-100, and it can also be contacted by phone (11) 2195-2225 and e-mail:

conselhodeconsumidores@eletropaulo.com.br

The approved tariff for an ELETROPAULO residential consumer (B1) for the period from July 4, 2007 to July 3, 2008, as a result of the second Periodic Tariff Revision Process, is R\$ 0.24606 kWh. The graph below illustrates how much this consumer will pay per component (generation, transmission, distribution, charges and taxes) if its bill is R\$ 100.00.



*Tax values refer to "outside" collections, as explained in Part 1 of this handout.

■ Generation ■ Transmission ■ Distribution ■ Charges and Taxes

HOW MUCH DOES THE ELETROPAULO CONSUMER PAY IN CHARGES IN ITS ELECTRIC BILL?

The table below shows the projected sectorial charges by ELETROPAULO in 2007. In Part 1 of this handout you will find the definitions for each of these charges.

Charge	How much will ELETROPAULO collect in 2007 R\$ Million
CCC Fuel Consumption Account	297,94
RGR Global Reversal Reserve	54,3
TFSEE Electric Energy Service Inspection Fee	19,1
CDE Energy Development Account	329,3
Proinfra	71,8
P&D Research and Development and Energy Efficiency	66,9
ONS National Electrical System Operator	0,36
ESS System Service Charge	6

ELETROPAULO will collect about R\$ 845.7 million in charges in 2007

Besides the sectorial charges, the ELETROPAULO consumer incurs taxes. In São Paulo, as stipulated by legislation set down by the state in Decree 45.490/2000, the ICMS rate, one of the taxes on electric energy bills, varies between 12 and 25%.

Below we show a practical example of the tax burden on the energy bill for a residential consumer in São Paulo (SP):

1. Average rate applied for PIS: **1,53%**
2. Quantity of kWh consumed: **156 kWh**
3. Average rate applied for COFINS: **7,11%**
4. ICMS rate applied to the residential consumer: **12%**
5. kWh value established by Aneel Resolution no. 500 of July 4, 2007, for a consumer classified as residential: **R\$ 0,24606 por kWh**

FIRST STEP: Include in the kWh value published by the Aneel Resolution PIS, COFINS and ICMS taxes

Value to be charged to the Consumer

$$= \frac{\text{Tariff value published by ANEEL}}{1-(\text{PIS} + \text{COFINS} + \text{ICMS})}$$

Value to be charged to the Consumer

$$= \frac{0,24606 \text{ R\$/kWh}}{1-(1,53 + 7,11 + 12\%)}$$

Value to be charged to the Consumer =

$$\frac{0,24606 \text{ R\$/kWh}}{1-(0,0153 + 0,0711 + 0,12)} = 0,309979 \text{ R\$/kWh}$$

SECOND STEP: multiply the kWh value with taxes included (PIS, COFINS and ICMS) by the quantity consumed.

$$0,309979 \times 156 \text{ kWh} = \text{R\$ } 48,35$$

THIRD STEP: Include the Public Illumination Contribution (PIC) in the above calculated value.. In the case of São Paulo, SP, this contribution and its calculation formula are governed by Municipal Law no. 13.479, of December 30, 2002. In this example the PIC is R\$ 3.50 and it should be added to the value obtained previously.

Total of the bill to be paid by the Consumer:

$$48,35 + 3,50 = \text{R\$ } 51,85$$

If the taxes and PIC were not included in the electric energy tariff, the ELETROPAULO consumer considered in the example would pay R\$ 38.38, in other words, he would save R\$ 13.47.

Besides that, as can be observed, the as taxes are based on gross revenue, in reality the impact of simultaneously charging ICMS and PIS/CONFINS rates are not simply their sum (20.64%), but by law they end up higher and in practice become a rate of about 26%.

In 2007 alone, according to financial statements, ELETROPAULO collected nearly R\$ 2.9 billion in PIS/COFINS and ICMS.

What happened in the 2007 review?

ELETROPAULO has already undergone two Periodic Tariff Review processes (RTP). The first occurred on July 3, 2003 and the second on July 3, 2007. The tariff revision is stipulated by law (§2 of art. 9 and item V, art. 29 of Law 8.987/1995) and in the seventh clause of the public utility concession contract for electric energy distribution signed between the Government and ELETROPAULO.

In the Tariff Review, the utility's economic-financial equilibrium is analyzed, defining efficient operational costs and investments made with prudence by the company, items that comprise component B of the utility's revenues.

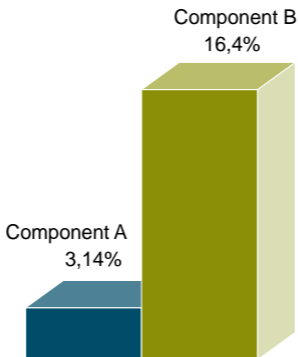
In 2003, using methodologies that are not based solely on information supplied by the distributor, ANEEL defined the

efficient operating costs and appropriate remuneration for prudent investments made by ELETROPAULO. Thus, after analyses and calculations, an 11.65% tariff repositioning index was defined for ELETROPAULO.

In 2007, after evaluating the contributions sent by agents and society in general within the scope of Public Hearing no. 014/2007, the approved index was -7.92%. The table below shows the variation in Components A (3.14%) and B (16.4%), part of company revenues from 2006 to 2007.

The main cause for uncontrollable cost variation (Component A) was the 7.14% growth in purchased energy value, which had a 1.08% impact on the company's tariff repositioning.

Tariff Review - 2007



We underscore that within the tariff review process, ANEEL holds public hearings to gather subsidies and additional information to improve the regulatory acts responsible for approval of the tariff reviews. In 2003, for example, at ELETROPAULO's first tariff review, ANEEL held Public Hearing no. 019/2003, in São Paulo (SP), on June 18 of that year. In the 2007 TRP, Public Hearing no. 014/2007, also in the city of São Paulo, was held on June 14, 2007. The results of these hearings, as well as the technical notes that instructed ELETROPAULO's tariff reviews, are public and can be accessed on ANEEL's home page, in Consumer Space, clicking on the "Audiências/consultas/Fórum" icon.

HOW DID 2006'S READJUSTMENT TAKE PLACE?

In July 2006, ANEEL once again applied the annual tariff readjustment according to the Third Subclause of the Seventh Clause in Concession Contract no. 162/1998, signed between the Federal Government and ELETROPAULO, and which stipulates the annual periodicity for readjusting the distribution company's electric energy tariffs using a specific formula. This annual readjustment is only not applied during the year of the company's Periodic Tariff Review, as occurred in 2003 and 2007.

In order to apply the 2006 readjustment, ANEEL calculated all ELETROPAULO's uncontrollable costs (component A) that were transferred to the tariff and corrected the constant costs in Parcel B by the IGP-M, subtracting the X Factor defined in the Tariff Review held in 2003. The result of the referred to calculations was approved by ANEEL Order no. 356, of July 3,

2007, when the index for the second RTP was disclosed. Besides the order that approved the tariff readjustment result, ANEEL's home page also makes the technical notes, Commissioner-Reporter vote and readjustment calculation spreadsheets available in the "Espaço do Consumidor" section, clicking on the "Tarifas finais do consumidor", icon.

Although ELETROPAULO requested a tariff readjustment of 18.08% from ANEEL, the Agency approved one of 11.45%. However, this percentage represents the average increase in the utility's revenues. For low voltage consumers, such as residences, tariffs were readjusted at -1.91%.

Component A (uncontrollable costs ELETROPAULO simply passes on to the tariff) increased 11.41% from 2005 to 2006. The main cause was the 28.96% growth in sector charges, including the 31.38% increase in CCC and 21% in CDE, and inclusion of the Proinfra value. However, purchased energy, with a significant weight in the tariff revision increased 11.19% between 2005 and 2006, representing 4.79% of the 11.45% tariff readjustment.

WHAT IS THE UNIVERSALIZATION OF ELECTRIC ENERGY SERVICES?

The universalization of energy access and use was instituted by Law no. 10.438/02, with the objective of taking energy to every domicile in the country (urban and rural). According to legislation, ANEEL was responsible for setting the steps and deadlines to achieve universalization, which occurred with the publication of Order no. 223/03. It established the general conditions for elaborating Electric Energy Universalization Plans for energy utilities, aimed at serving new residential consumer units with installed loads of up to 50 kW in low voltage.

With the Order, ANEEL regulated the law that instituted universalization and any subsequent amendments found in Laws no. 10.762/2003 and no. 10.848/2004. The order also set electric energy distribution public utility responsibilities.

Universalization costs are the distributor's responsibility and are reflected in energy tariffs. The initial goal was to conclude universalization in 2015, a deadline which was anticipated to 2008 with the creation of the Luz Para Todos Program at the end of 2003.

What Is the Luz para Todos Program?

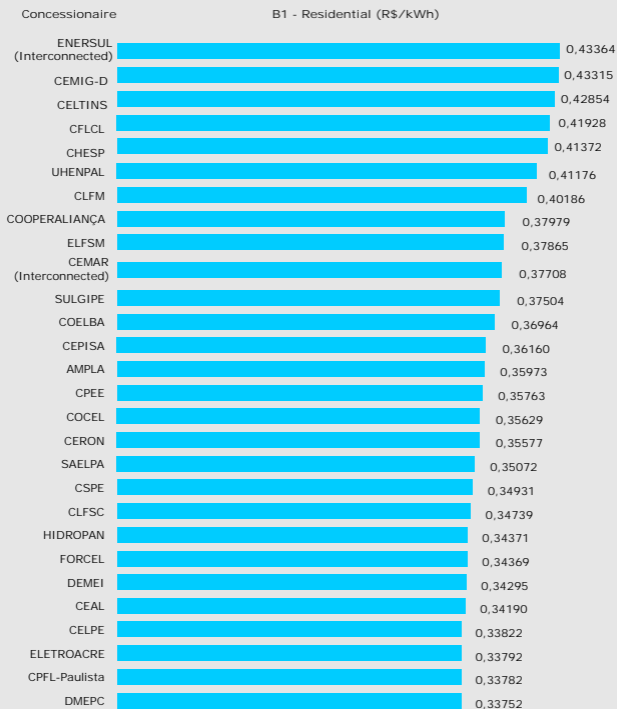
The Federal Government created the Luz Para Todos Program with Decree no. 4873 of 2003, with the objective of taking energy to the low-income rural population. Coordinated by the Ministry of Mines and Energy (MME), the program anticipated the goals for supplying electric energy to Brazil's rural population who still did not have access to this public service from 2015 to 2008.

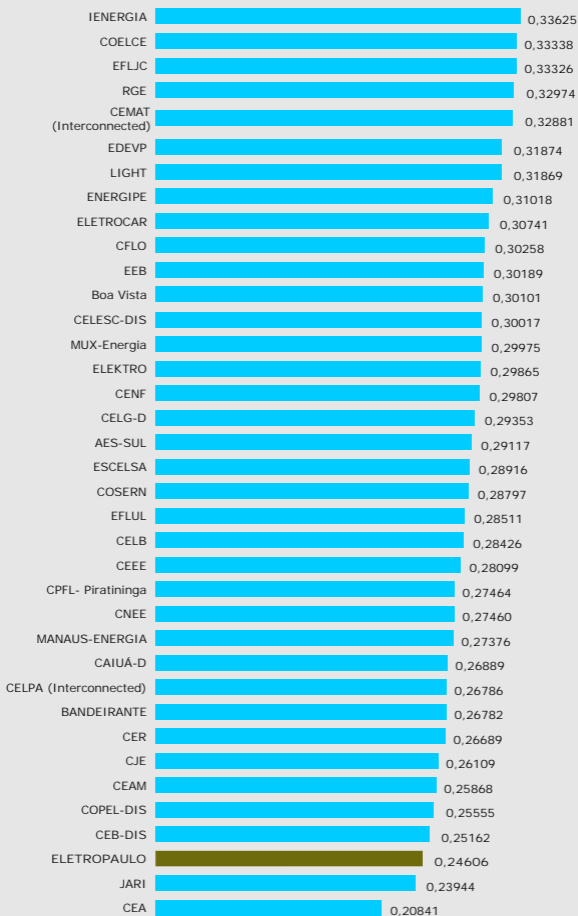
As a result, Terms of Commitment were signed between the energy distribution companies and the MME. For that reason, through Order no. 175/2005, ANEEL anticipated the universalization goals in general, that is, for both urban and rural consumers.

In order to implement and fund the Electric Energy Universalization Plans of energy utilities in the Luz Para Todos Program, it was determined to allocate resources by the Federal Government from the Energy Development Account (CDE), in the form of a subsidy, from the Global Reversal Reserve (RGR), in the form of financing and from state governments as well as the distribution companies' own resources.

IS ELETROPAULO'S ENERGY MORE EXPENSIVE THAN THE REST OF BRAZIL?

The energy tariff value applied to consumers is altered according to the characteristics of each Utility service territories. Check the residential tariffs for the country's distribution companies in effect on October 24, 2007 below.



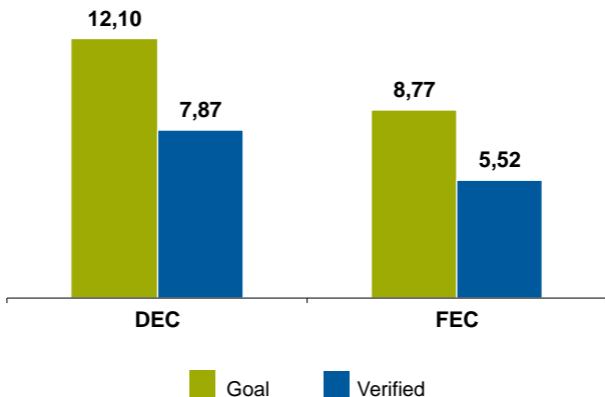


The above values refer to the tariffs approved by ANEEL, and therefore do not include taxes.

HOW IS THE QUALITY OF THE ELECTRIC ENERGY SERVICE PROVIDED BY ELETROPAULO?

The box below shows the quality indicators for the service provided by ELETROPAULO, under the continuity aspect (DEC and FEC), determined in 2006, compared to the goal established by ANEEL, which is the maximum admissible value for providing the service. Non-compliance can result in a fine for the utility. In the case of ELETROPAULO, the duration of supply interruptions (DEC) was 7.87 hours in 2006, 35% less than the goal of 12.10 hours stipulated by ANEEL for the company. With regard to frequency (FEC), the number determined for supply interruptions was 5.52, 37% less than the goal established by the Agency.

DEC FEC ELETROPAULO - 2006



HAS ANEEL ALREADY INSPECTED ELETROPAULO?

In order to verify the quality of electric energy distribution service, ANEEL and the Public Energy Service Commission (CSPE), a partner state agency, held 120 inspections at ELETROPAULO since 1999. These inspections resulted in 120 violation reports and the application of a total R\$ 22.3 million in fines, in nominal values.

ANEEL also held 25 inspections at the company since 1999 to assess the utility's economic-financial aspect, with the issuing of four violation reports and the application of fines totaling R\$ 21.17 million, in nominal values.

The consumer can contribute to the improvement of inspections at ELETROPAULO by presenting suggestions during the specific public consultation held in the state to discuss the Utility's Annual Inspection Program, participating in the annual survey for the ANEEL Consumer Satisfaction Index (IASC) and by registering complaints with the Agency's Ombudsman.

Inspection reports are public and can be found on ANEEL's home page.

DOES ANEEL HAVE REPRESENTATION IN SÃO PAULO?

Yes. ELETROPAULO consumers have the support of the Public Energy Service Commission (CSPE), ANEEL's partner in carrying out economic and financial inspection activities at companies, as well as of the services they provide, to determine and solve consumer demands and to mediate conflicts resulting from utility and consumer relations. Besides that, the delegate agency must also provide support to the regulatory process and approvals, carry out actions of an institutional, educational and social communication, as well as encourage the organization and operation of the Consumer Councils.

The beginning of activity decentralization in public administration is stipulated in Decree no. 200/1967. However, Law no. 9.427/96, which created the Agency, authorizes the Union to decentralize complementary activities for regulation, control and inspection of energy services and installations that are of ANEEL's competence. This delegation must be carried out through agreements with the states that have qualified technical and administrative services for performing these tasks.

ANEEL has an agreement with agencies in 11 other states. They are: Paraíba, Mato Grosso, Mato Grosso do Sul, Bahia, Pernambuco, Ceará, Rio Grande do Sul, Alagoas, Goiás, Pará and Rio Grande do Norte. The agreement with CSPE was signed in April 1998 and renewed in 2004.

The state agency can be contacted by the Ombudsman, at

phone number 0800 0555591, and is able to collaborate with information and participate in the ELETROPAULO inspection process. The CSPE operates at Rua Boa Vista, 170, 3rd and 4th floors, ZIP Code 010414-000. It can also be contacted by e-mail: cspe@sp.gov.br. The virtual address is www.cspe.sp.gov.br



Public Energy Service Commission

Call Center: +55 0800 84 1009

Web Site: www.cspe.sp.gov.br

General Commissioner: Aderbal de Arruda Penteadó Jr

Agreement signed on 4/15/1998

ANNEL'S MISSION:

“PROVIDE FAVORABLE CONDITIONS FOR
THE ELECTRICITY MARKET TO DEVELOP
WITH BALANCE BETWEEN AGENTS
AND IN BENEFIT OF SOCIETY”



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