

INSIDE THE ELECTRIC BILL BY

COSEBA

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COSERN

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WHO IS COMPANHIA ENERGÉTICA DO RIO GRANDE DO NORTE (COSERN)?

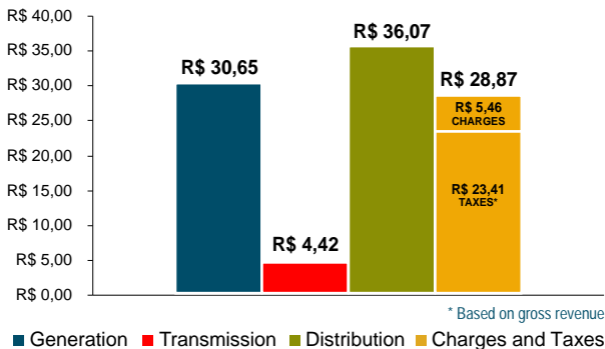
Companhia Energética do Rio Grande do Norte (COSERN), created in August 1962, serves 917.7 thousand consumer units. Currently, it is responsible for supplying 284.5 thousand MWh/year of energy to the 167 municipalities in Rio Grande do Norte. Concession Contract nº 008/1997 between the Union, through ANEEL, and COSERN was signed on December 31, 1997, with validity until December 2027, a deadline which is postponable for 30 years. The document is available on ANEEL's internet page (www.aneel.gov.br), at the link "Informações Técnicas/Contratos de Concessão/Permissão".

COSERN makes available to the consumers a toll free telephone service center with the number 116, which is available 24h. Besides this, the consumer can access its website (www.cosern.com.br). Company headquarters are located at Rua Mermoz, 150, Baldo neighborhood, Natal (RN), Zip Code 59.025-250.

According to Law nº 8.631, dated 1993, COSERN maintains the Consumers Council, presided by Afonso de Ligório Marques de Araújo, which can be contacted by telephone at (84)3215-6135 or by the executive secretary's e-mail eberth.mastroiani@cosern.com.br. The council functions at COSERN headquarters.

The tariff in effect for COSERN's residential consumers (B1) for the period of April 22, 2007 to April 21, 2008 is R\$ 0.28797/kWh. The following graphic shows how much

this consumer will pay per component (generation, transmission, distribution, charges and taxes), if their bill is R\$ 100.00. The value of taxes presented is based on gross revenue, according to the explanation in Part 1 of this orientation.



WHAT DOES THE RIO GRANDE DO NORTE CONSUMER PAY IN CHARGES ON THEIR ELECTRIC BILL?

The table below presents the forecast of collection of sector charges by COSERN, in the year of 2007. Remember that in Part 1 of this publication you will find the definitions of each one of these charges.

Charge	How much COSERN will collect in 2007 R\$ million
^{CCC} Fuel Consumption Bill	28,21
^{RGR} Global Reversal Reserve	7,93
^{TFSEE} Electric Energy Service Inspection Fee	2,0
^{CDE} Energetic Development Account	6,86
^{Proinfra}	6,45
^{P&D} - Research and Development and Energetic Efficiency	7,16
^{ONS} National Electrical System Operator	0,046

COSERN will collect R\$ 58.6 million in charges in the year 2007

Besides the sector charges, the COSERN consumer pays the taxes. In Rio Grande do Norte, as foreseen in the legislation established by the State (Decree 1.364/97), the ICMS rate, one of the taxes on electricity, can be zero, 17% or 25%.

Below, we present a practical example of taxes on the electric bill of a residential consumer from Natal/RN:

1. Average aliquot of PIS applied: 1,14 %
2. Quantity of kWh consumed: 134 kWh
3. Average aliquot of COFINS applied: 5,25 %
4. ICMS aliquot applied to residential consumer : 17 %
5. kWh Value established by ANEEL Resolution nº 454, dated April 20, 2007, for a consumer classified as residential: R\$ 0,28797 por kWh

FIRST STEP: include in the value per kWh, published by ANEEL Order, PIS, COFINS and ICMS taxes.

$$\begin{array}{r} \text{Value to be charged to the Consumer} \\ = \\ \text{Tariff value published by ANEEL} \\ \hline 1-(\text{PIS} + \text{COFINS} + \text{ICMS}) \end{array} \qquad \begin{array}{r} \text{Value to be charged to the Consumer} \\ = \\ \hline 0,28797 \text{ R\$/kWh} \\ \hline 1-(1,14\% + 5,25\% + 17\%) \end{array}$$

Value to be charged to the Consumer =

$$\frac{0,28797 \text{ R\$/kWh}}{1-(0,0114 + 0,0525 + 0,17)} = 0,37589 \text{ R\$/kWh}$$

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

$$134 \times 0,37589 = \text{R\$ } 50,37$$

THIRD STEP: INCLUDE IN THE VALUE CALCULATED ABOVE THE Contribution for Public Lighting (CIP). In the case of Natal/RN, the contribution instituted by Complementary Municipal Law nº 47/2.002 represents R\$ 6.27, value to be added to the electricity bill.

Total Bill to be paid by the Consumer:

$$50,37 + 6,27 = \text{R\$ } 56,64$$

If the taxes and CIP were not included in the electricity tariffs, the COSERN consumer considered in the example would pay a bill of R\$ 38.58, or in other words, would save R\$ 18.06.

Besides that, as can be observed, as taxes are based on gross revenue, the impact of simultaneously charging ICMS and PIS/CONFINS is not simply their sum (23.39%), but ends up, by force of law, increased in a real rate of 30.55% in practice.

In 2005, according to financial demonstrations, COSERN collected approximately R\$ 266.37 million of PIS/COFINS and ICMS.

WHAT HAPPENED IN THE 2003 REVIEW?

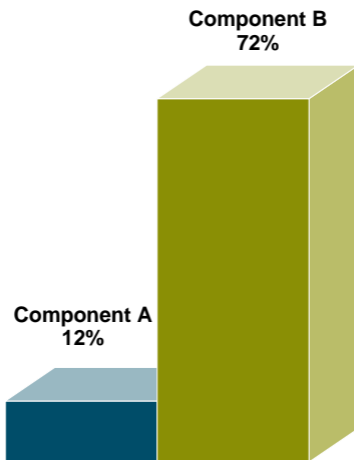
The forecast of carrying out a tariff review is in Law nº 8.987/1995 and in the seventh clause of Concession Contract nº 008/1997. In April 2003, the COSERN Tariff Review was carried out, when the utility's financial-economic balance was analyzed for the first time. Thus efficient operational costs were established and the prudent investments carried out by the company, items which compose the component B of the distribution company revenue.

On the occasion, the values requested by COSERN to cover its operational costs, return on equity and depreciation of investments held out would result in the tariff increase of 41.38% after its review. But ANEEL didn't simply use the information provided by the distribution company in the definition of these costs. The Agency carries out its own assessment to avoid transferring undue values and investments to the tariff. This way, after analysis and calculations, a temporary tariff repositioning index was defined

for COSERN at 12.06%, for the distribution company's Rate Base had not yet been validated by ANEEL. For this reason, the distribution company's tariff review results could not be established definitively in 2003. Only in 2005, with the validation of the Asset Base, was COSERN repositioning tariff calculated definitively and changed to 14.99%.

The box below shows the variation of Components A (12%) and B (72%), integrants of COSERN's revenue, from 2002 to 2003.

Tariff Review - 2003



We highlight that, in the scope of the tariff review process, ANEEL holds public hearings to collect subsidies and additional information for the improvement of the regulatory acts responsible for the homologation of tariff reviews. In 2003, for example, when there was the first COSERN tariff review, ANEEL held Public Hearing nº 012/2003, in Natal (RN), on March 25. The results of this hearing, as well as the technical notes which instructed the first COSERN tariff review, are public and can be obtained on ANEEL's page on the Internet, at "Espaço do Consumidor/Audiências/Consultas/Fórum".

WHY DID COMPONENT B HAVE A SHARP INCREASE IN THE 2003 TARIFF REVIEW?

Because it was the first economic-financial balance analysis that ANEEL held at COSERN, when it certified that the utility was operating below the economic-financial balance level.

HOW DID THE 2007 READJUSTMENT TAKE PLACE?

In April 2007, ANEEL applied, once again, the annual tariff readjustment mechanism, according to Concession Contract nº 008/1997 (seventh clause), which foresees the annual periodicity for the distribution company's electricity tariff readjustment, through the application of a specific formula.

For the application of the readjustment, ANEEL calculated all the uncontrollable costs COSERN has (component A) that were passed on to the tariff and adjusted the costs contained in component B by the IGP-M, subtracting the X Factor defined in

the Tariff Review held in 2003. The result of the calculations referred to was approved by ANEEL through Order nº 454, dated April 18, 2007. Besides the order, the technical notes and the vote of the commissioner in charge are available on ANEEL's Internet page, in "Espaço do Consumidor/Tarifas/Consumidores finais".

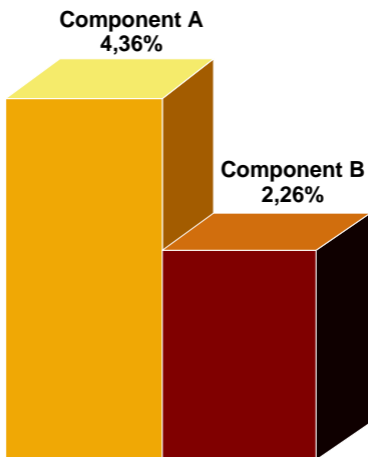
Although COSERN had requested from ANEEL a tariff readjustment of 8.74%, the Agency approved one of 5.51% and the new tariff went into effect starting April 22, 2007. This percentage, however, represents the average increase of the distribution company's revenue. For low tension consumers, such as residential, the tariffs were increased in 5.41%.

Component A (uncontrollable costs that COSERN just passes on to the tariff) increased 4.36% from 2006 to 2007. This variation was not greater especially due to the drop of 17.22% in sector charges, with a highlight to the reduction of the CCC in 40.27%, which contributed with an impact of -2.62% for the total readjustment index, although the CDE, PROINFA and RGR have increased 9.08%, 67.79% and 33.05%, with an impact on the index of 0.02%, 0.21% and 0.27%, respectively. It is worth pointing out that the elevation of the RGR is due mainly to the consideration of the investments of the Programa Luz para Todos (Universal Access program) in the distribution company's asset base, which is used as the base of calculation of this charge.

Besides the charges, the costs with energy transportation constitute another important item in the composition of Component A. The variation of this component, between 2006 and 2007, was 35.9%, with a participation of 2.1% in the distribution company's readjustment, and is due to the

investments carried out by Companhia Hidrelétrica do São Francisco (Chesf) to serve the increase of COSERN's electricity market.

Tariff Review - 2007



In the calculation of the Tariff Readjustment index it was also considered the percentage of 1.44% in reference to the impact of implementation of the National Program for Universalization of Electricity Access (explained later).

WHAT IS THE UNIVERSALIZATION OF ELECTRICITY SERVICES?

The universalization of energy access and use was instituted by Law n° 10.438/2002, with the purpose of taking energy to all households in the country (urban and rural).

By the legislation, it was up to ANEEL to carry out the role of establishing steps and deadlines for reaching universalization, which took place with the publication of Order n° 223/2003. It establishes the general conditions for the elaboration of the energy distribution company's Electricity Universalization Plans seeking the service to new residential consumer units with installed loads of up to 50 kW, served in low tension.

With the Order, ANEEL regulated the law which institutes the universalization, as well as its later alterations contained in laws n° 10.762/2003 and n° 10.848/2004. The order also set the distribution companies responsibilities.

The universalization costs are the distributor's responsibility, with reflexes on the energy tariffs. At first the goal was to conclude the universalization in 2015, deadline anticipated to 2008 with the creation of the Luz para Todos Program, at the end of 2003.

What is Programa Luz para Todos?

The Federal Government created, through Decree nº 4873 dated 2003, the Luz para Todos Program, with the purpose of taking energy to the low income rural population. Coordinated by the Ministry of Mines and Energy (MME), the program anticipated from 2015 to 2008 the goals for supplying electricity to the part of the Brazilian rural population that still didn't have access to this public service.

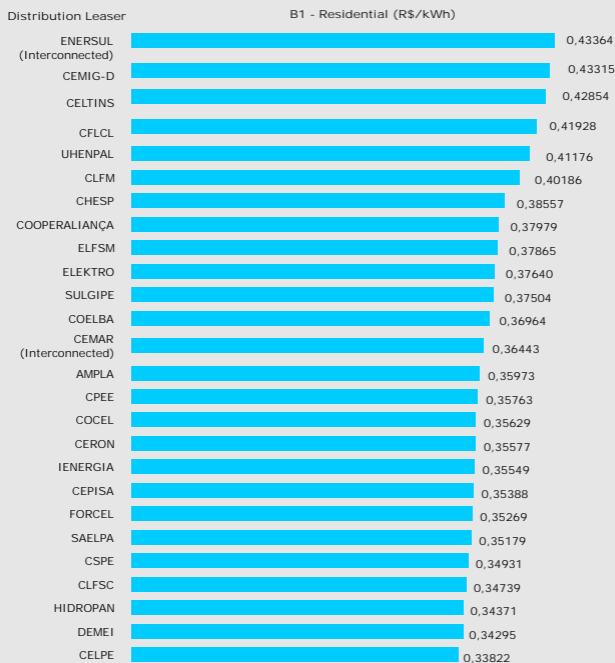
As a result, Agreement Terms were signed between the distribution companies and MME. Due to this, ANEEL, with Order nº 175/2005, anticipated the universalization goals in a general manner.

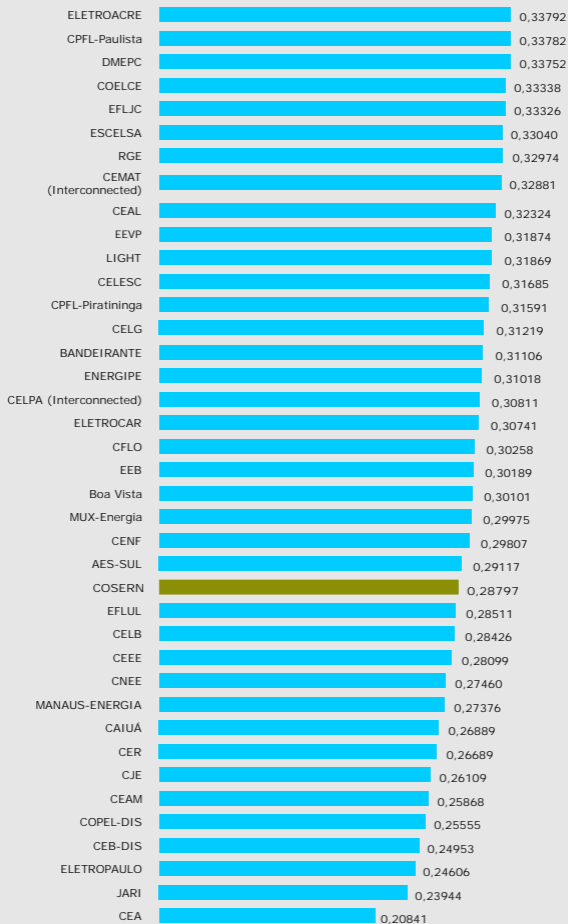
For the implementation and financing of the Electricity Universalization Plans for energy distribution companies in the scope of Luz para Todos Program the allocation of Federal Government resources was foreseen, coming from the Energetic Development Account (CDE), in the form of subvention, from the Global Reversal Reserve (RGR), in the form of financing, from the state governments and from the distribution companies' own resources.

In the case of the COSERN utility's service territory, according to the contract signed with Eletrobrás, 50% of the Luz para Todos Program investment is done with CDE resources, 15% with RGR resources, 20% as contribution from the state of Rio Grande do Norte, while 15% is invested by the company itself.

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

The energy tariff value applied to the consumers is altered according to the characteristics of each utility service territory. Check, in the illustration below, the country's distribution companies residential tariffs, in effect on July 25, 2007.

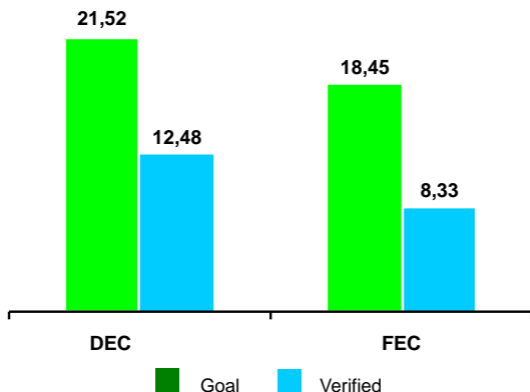




HOW IS THE QUALITY OF THE ELECTRICITY SERVICE PROVIDED BY COSERN?

The box below presents the quality indicators of services provided by COSERN, concerning continuity (DEC and FEC), verified in the year of 2006, versus the goal established by ANEEL, which is the maximum allowed value for service providing. When not fulfilled, it can result in a fine for the utility. In COSERN's case, the duration of interruptions in supply (DEC) was 12.48 hours in 2006, a value 42% below the goal of 21.52 hours established by ANEEL for the company. Regarding frequency (FEC), the number verified was 8.33 interruptions in supply, a value 54.9% below the goal of 18.45 interruptions determined by the Agency.

DEC e FEC COSERN - 2006



HAS ANEEL ALREADY INSPECTED COSERN?

To verify the quality of electricity distribution service provided, ANEEL and the Regulating Agency of Public Services of the State of Rio Grande do Norte (ARSEP) carried out 34 inspections at COSERN, since 1999. These inspections resulted in the emission of seven infraction records, with the application of fines in a total of R\$ 1 million, in nominal values.

ANEEL also carried out 14 inspections in the company, since 1999, to assess the utility's economic-financial situation, with the issuing of three violation reports, with the application of fines in the sum of R\$ 1 million, in nominal values.

The consumer can contribute to the improvement of COSERN's inspection by presenting suggestions during the specific public hearing, held in the state to discuss the Distribution company's Annual Inspection Program, by participating in the annual survey for Índice ANEEL de Satisfação do Consumidor (IASC – ANEEL Customer Satisfaction Index) and by filing the complaints with ANEEL's Ombudsman or at the state agency delegated by ANEEL, in this case ARSEP. The inspection reports are public and can be found on ANEEL's internet page.

DOES ANEEL HAVE REPRESENTATION IN RN?

Yes. In Rio Grande do Norte, COSERN's consumers count on the support of the Regulating Agency of Public Services of the State of Rio Grande do Norte (ARSEP), ANEEL's delegate to carry out the company's economic and financial inspection activities and also of the services provided, to verify and solve the consumers' demands and to mediate conflicts coming from the relationship between the distribution company and the consumer. Besides this, the delegate agency should also support the regulatory process and approvals, carry out institutional, educational and social communication actions, as well as to encourage the organization and functioning of Consumer Councils.

The beginning of decentralization of activities in public administration is stipulated in Decree 200/1967. However, Law nº 9.427/96, created by the Agency, authorizes the Union to decentralize complementary activities of regulation, control and inspection of services and installations of energy in ANEEL'S competence. This delegation should be done through a pact with federative units that have competent technical and administrative services for carrying out the tasks. The pact between the Agency and Aneel was signed in 1999, renewed in January 2004 and shall be in effect until 2009.

The state agency can be contacted through the Ombudsman, which takes calls at 0800 84 1009 and is able to collaborate with information and participate in the COSERN inspection process. ARSEP is in the State Administrative Center, on BR 101, Km 0, Lagoa Nova, Natal (RN). The agency's e-mail is arsep@rn.gov.br. The electronic page can be accessed at the address www.arsep.rn.gov.br.



**REGULATING AGENCY OF PUBLIC
SERVICES IN RIO GRANDE DO NORTE**

REGULATING AGENCY OF SERVICES OF RIO
GRANDE DO NORTE

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Electronic Address: www.arsep.rn.gov.br

President Director: Luiz Eduardo Bezerra de Farias

Accredited on 12/15/1999

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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