

# QUESTIONS AND ANSWERS ABOUT ELECTRICITY DISTRIBUTORS' TARIFFS







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# PRESENTATION



Electricity is essential to society's daily life, whether it is in residences or in the several economic segments. Turning on the light switch, an industrial machine or the fridge in a restaurant are common and habitual actions made by the customers, although essential for the country's development.

In order to make such actions possible, such as turning the switch on, there is a whole structure of generation, transmission, distribution and commercialization of electricity to guarantee energy supply with continuity and mainly, quality.

The guarantee of supply, costs for the generation and transport of electricity are charged through tariffs. Customers pay the tariffs to the distributors for energy supplying services. The concession contracts, signed by the suppliers with the Union – represented by the Brazilian Electricity Regulatory Agency (ANEEL) – establish the composition of tariffs and the annual adjustment formulas and require periodical tariff adjustments.

ANEEL has the duty of fixing electricity tariffs in order to promote tariff moderateness in defense of the public interest and economic-financial balance of agents which provide energy services. And periodical tariff adjustment is fundamental to meet such commitments.

In this publication there are the most common doubts regarding electricity tariffs and the tariff adjustment process in 17 questions and answers.



# FOR UNDERSTANDING TARIFFS

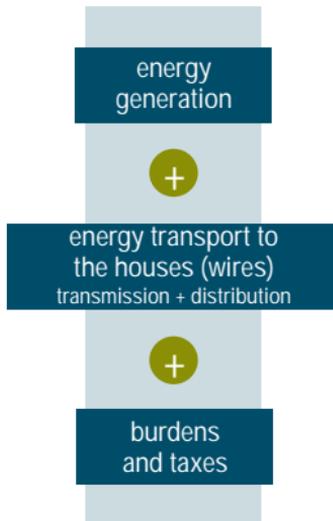
## 1- What is electricity tariff?

Electricity tariff is the composition of evaluated costs which represents each part of the investments and technical operations performed by the chain of production agents and the structure necessary for the energy to be consumed by the customer.

The tariff represents, thus, the sum of all the components in the industrial process of generation, transport (transmission and distribution) and commercialization of electricity. Finally, charges driven by public policies are added.

Tax and charges are related in the electricity bill.

## WHAT IS INCLUDED IN THE ENERGY COSTS THAT IS CHARGED TO THE RESIDENCIES?





## 2-Does tariff mean the same price of the energy paid in the monthly electricity bill?

No. Each customer's electricity bill contains the final price, which is the tariff defined by Aneel, plus taxes not included in electricity costs, such as ICMS, PIS and COFINS.

## 3-What is the adequate value for the electricity tariff?

The tariff must be sufficient for guaranteeing energy supply, assuring sufficient funds for the service providers to cover efficient operational costs, remunerating appropriately the prudent investments for the expansion of capacity and guaranteeing high quality services.

## 4-What is the difference between periodic tariff review, extraordinary review and tariff readjustment?

Readjustment and reviews are mechanisms by which electricity tariffs may be altered. They are determined in the concession contracts and allow the maintenance of the utilities' economic-financial balance, according to the law.

Annual tariff readjustment has the objective of transferring uncontrollable costs and updating controllable costs. The readjustment happens annually, on the "anniversary" date of the concession contract (see table on the last page).

Periodic tariff review occurs around each four years, with the objective of preserving the economic-financial balance of the concession.

Extraordinary reviews may occur at any time, regardless of the readjustments and periodic reviews previously mentioned, if



significant changes in the utility's costs and/or modification or extinction of taxes and charges posterior to the contract subscription and their impact on the company's costs are proved.

## 5- In the tariff review year, does the tariff readjustment also occur?

No. Annual tariff readjustments only occur in years between periodic tariff reviews. In the periodic tariff review year, a repositioning of tariffs is made, based on rules that differ from those applied to the tariff readjustment.

## 6- What is Tariff Review?

It is the process of review the tariffs charged to the customers by the electricity distribution utilities. The value of such tariffs may be increased or decreased by ANEEL. That should depend of changes which occur in the costs and the companies' markets, comparison between them and other similar companies' tariffs abroad, the company's efficiency, the need for fairer tariffs and appropriate return to shareholders.

## 7- What is the main objective of the readjustment?

It is to guarantee a fair tariff both for the customers and the investors and encourage improvements in efficiency and quality of electricity supply services.

## 8- Does the readjustment bring any kind of benefit for the customers?

Yes, because it has mechanisms which encourage the utilities to reduce costs and be more efficient in providing services. The gains in productivity obtained by the company during the



period between reviews are transferred to the customers in the subsequent tariff review. Besides, the companies' gains in productivity expected for the period between the adjustments, resulting from the increase in energy consumption, are shared with the customers.

## 9- Is tariff review mandatory?

Yes. It is determined by law and in the concession contracts signed by the distributors and the Union.

## 10- Must all distribution companies go through this process?

Yes. In the first tariff review cycle, 17 utilities were submitted to the process in 2003, plus 27 in 2004, 16 in 2005 and the last one concluded it at the beginning of 2006.

The second tariff review cycle was initiated in 2007, with seven utilities. See the table on the last page.

## 11- How is the tariff review made?

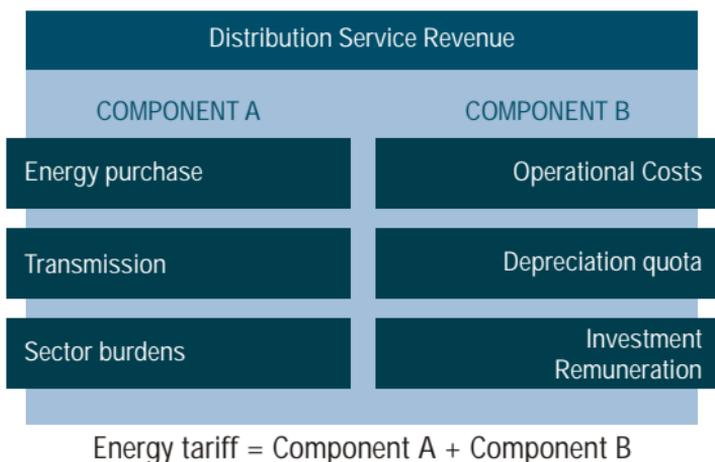
In the adjustment, two types of calculation are made: the first consists in verifying the *tariff repositioning* value, with the objective of determining a level of tariff which allows the utility to cover uncontrollable costs and efficient operational costs, besides providing an appropriate remuneration for prudent investments made. The second calculation consists in defining the *X factor* (See question no. 13).



## 12- What are the distributor's controllable and uncontrollable costs?

*Controllable costs* are related to the services provided directly by the utilities like energy distribution, network maintenance, charging of bills, support centrals and remuneration of investments. The portion of controllable costs is named Component B in the concession contracts and corresponds to about 25% of the distributor's revenue. In order to calculate this portion, the concept of Efficient Company, which is a model company with efficient operational costs, is applied and prudent investments are defined, limited by ANEEL's calculations.

*Uncontrollable costs* are, in turn, the ones regarding energy generation and transmission services contracted by the distributors and the payment of sector obligations. That portion is named Component A in the concession contracts and corresponds to about 75% of the utilities' revenues.



## 13- What is the X factor?

It is an index determined by ANEEL during the tariff review



period. It has the function of transferring to the customer the utility's estimated gains in productivity resulting from increases in the market and the consumption by existing clients. That way, the mechanism contributes to tariff moderateness.

#### 14- And how are those gains in productivity transferred to the customers?

By the application of the *X factor* in periodical tariff adjustment calculations. The *X factor* works, most of the times, as a reducer of adjustments in tariffs charged to the customers. It is a percentage to be deducted from the IGP-M\* (index defined in the concession contracts for monetary update of manageable costs) in the annual tariff readjustments posterior to the periodic review.

**Example:** in 2006, the *X factor* of a company was calculated in 1.26%. That percentage was deducted from the IGP-M used in the company's tariff readjustment in November, 2006, which, in the occasion, reached 3.13%. With the deduction of the *X factor*, the Component B update index was reduced to 1.87% (3.13% - 1.26%). In this example, the application of the *X factor* resulted in a reduction of 0.45% in the company's final readjustment index, which ended up in 11.69% (without the *X factor*, the final index would have been 12.14%).

\*IGP-M: General Index of Market Prices by the Getúlio Vargas Foundation (FGV)

#### 15- Is the *X factor* the same for all companies?

No. As the distributors' costs structures and markets differ from one to another, ANEEL calculates a distinct *X factor* for each one of them.



## 16- How are the distribution companies remunerated?

By a percentage calculated by ANEEL, currently in 9.95%, which is reflected on the company's *remuneration base*. This base consists in the amount of investments executed by the distribution company, in services rendered, which will be covered by tariffs charged to the customers. The definition of *remuneration base* is fundamental both for the preservation of investments in the electricity distribution public service and the protection of customers against unfair prices..

## 17-What is the methodology adopted by ANEEL for the remuneration base calculation and why was it chosen?

ANEEL considered the repositioning cost method on market value the most appropriate for the regulatory principles, particularly regarding the balance in the relation between utilities and customers. The main factor in ANEEL's choice was the coherence of costs with the investments strictly necessary for rendering services, named prudent investments, which should be remunerated by the tariff. According to this methodology, the definition of remuneration base considers only the value of the utilities' actives which are effectively rendering services to the customer (substations, distribution lines, buildings etc). According to what is determined in the ANEEL Resolution no. 234/2006, that value will be compared to referential models established by the Agency, specific for each company, and which reflect the economic and geographic conditions of their respective concession areas and the efficiency levels in services rendered. The objective of this methodology is to avoid investment in assets above the necessary for the appropriate services remunerated in the tariffs charged to customers.



## PERIODICAL TARIFF REVIEW ELECTRICITY DISTRIBUTION UTILITIES

### 2007

DATE	UTILITY	DATE	UTILITY
Apr/22	COELCE (CE)	Aug/07	ESCELSA-D (ES)
Jul/04	ELETROPAULO (SP)	Aug/27	ELEKTRO (SP)
Aug/07	CELPA (PA)	Oct/23	BANDEIRANTE (SP), PIRATININGA (SP)

### 2008

DATE	UTILITY	DATE	UTILITY
Feb/03	CSPE (SP), CPEE (SP), SANTA CRUZ (SP), MOCOCA (SP), JAGUARI (SP), OESTE (PR)	Jun/18	CATAGUAZES (MG), CENF (RJ)
Feb/07	SANTA MARIA (ES)	Jun/24	COPEL (PR)
Mar/30	COCEL (PR), URUSSANGA (SC), JOÃO CESA (SC)	Jun/28	DME (MG)
Apr/08	ENERSUL (MS), CEMAT (MT), CPFL (SP), CEMIG (MG)	Jul/04	CELTINS (TO)
Apr/19	RGE (RS), AES-SUL (RS)	Aug/07	CELESC (SC), IENERGIA (SC)
Apr/22	COELBA (BA), COSERN (RN), ENERGIPE (SE)	Aug/26	CEB (DF), FORCEL (PR)
May/10	V. PARANAPANEMA (SP), CAIUÁ (SP), NACIONAL (SP), BRAGANTINA (SP)	Sep/12	CHESP (GO)
		Oct/25	CEEE-D (RS)
		Nov/07	LIGHT (RJ)
		Dec/14	SULGIPE (SE)

### 2009

DATE	UTILITY	DATE	UTILITY
Feb/04	CELB (PB)	Aug/28	CEAL (AL), CEPISA (PI), CEMAR (MA), Saelpa (PB)
Mar/15	AMPLA (RJ)	Sep/12	CELG (GO)
Apr/29	CELPE (PE)	Nov/01	BOA VISTA (RR), MANAUS ENERGIA (AM)
Jun/29	ELETROCAR (RS), MUXFELDT (RS), DEMEI-IJUI (RS), PANAMBI (RS)	Nov/30	ELETROACRE (AC), CERON (RO)
		Dec/28	NOVA PALMA (TO)

### 2010

DATE	UTILITY	DATE	UTILITY
Feb/07	COOPERALIANÇA (SC)	Aug/07	ESCELSA-D (ES)

### TOTAL

YEAR	TOTAL - UTILITY	YEAR	TOTAL - UTILITY
2007	7	2009	17
2008	36	2010	1

# ANEEL'S MISSION

Providing favorable conditions for the electricity market to develop with balance between the agents and on behalf of the society

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