

Distribution: Periodic Tariff Review Methodology

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WACC

PARAMETERS	Third Periodic Tariff Review (2011 to 2014)	2015 to 2017
Capital structure: (Debt / Debt+Equity)	55%	48.76%
Risk free rate (r_f)	4.87%	5.64%
Expected market return (r_m)	10.96%	13.20%
Average levered beta (β)	0,74	0,70
Country risk premium (r_B)	4.25%	2.62%
Credit risk premium (r_C)	2.14%	3.37%
Nominal cost of own capital (K_e)	13.43%	13.57%
Nominal cost of third party capital (K_d)	11.26%	11.62%
Real cost of own capital after taxes (34%)	10.72%	10.90%
Real cost of third party capital after taxes (34%)	4.86%	5.14%
Real WACC after taxes	7.50% p.a.	8.09% p.a.

WACC required to offset NPV negative effect of Cemig D investments

	Exclusion:	WACC:
Investments made during 3rd Tariff Review Cycle	8%	10%
Valuation using Current Investments Rule made during 4th Tariff Review Cycle (Nov. 2012 – Apr. 2015)	(20)	12%
Valuation using 'Price Bank' Aneel Proposal for 3rd Phase Public Hearing 23/2014 Investments made during 4th Tariff Review Cycle (Nov. 2012 – Apr. 2015)	4%	9%

ASSET BASE REMUNERATION (BRR)

3rd Public Hearing Phase 23/2014

Aneel Proposal:

- Adoption of the regulatory values for items like COM (Minor Components) and CA (Additional Costs) that comprise investments.



Adoption of
Price Bank

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3rd Public Hearing Phase 23/2014

**Non-
standardization
of inspection**

**Unpredictability
of results**

**Need for more
transparency in
process**

ANEEL's reasons

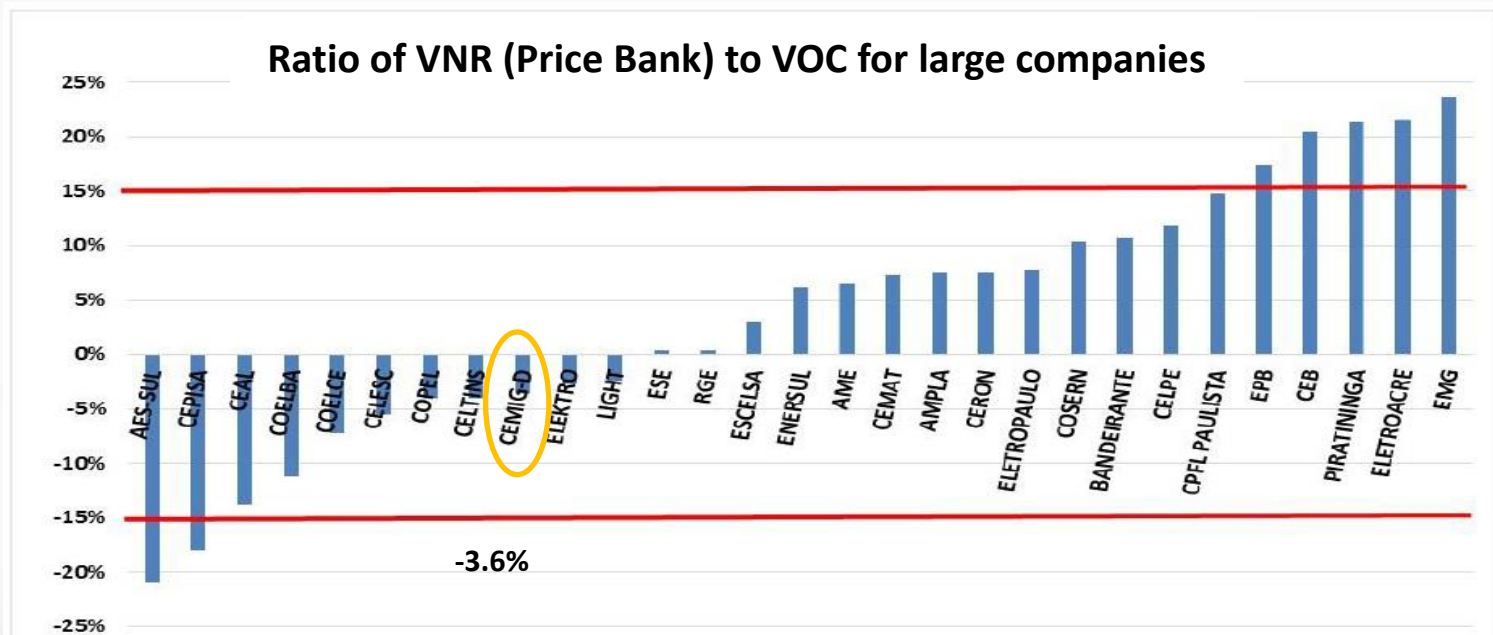
**There are no
comparative analysis
between companies**

**Information
uncertainty**

ASSET BASE REMUNERATION (BRR)

3rd Public Hearing Phase 23/2014

Aneel Price Bank vs. Initial Book Value [VOC]



TECHNICAL LOSSES

Public Hearing 26/2014

3rd Tariff Review Cycle Method

Regulatory Technical Losses



Single statistical model

Energy Balance

General data table



Does not reflect the real technical losses of the distributors' electricity system

4th Tariff Review Cycle Method

Regulatory Technical Losses



Network Simulation

Metering campaign

Geographical database



Tends to approximate the technical losses to the distributors' electricity system

NON-TECHNICAL LOSSES

3rd Tariff Review Cycle Method

12 econometric models to calculate the complexity index

Two complexity groups

Defining the loss of speed reduction per cluster for each complexity group

New methodology

3 econometric models to calculate complexity index

Single complexity group

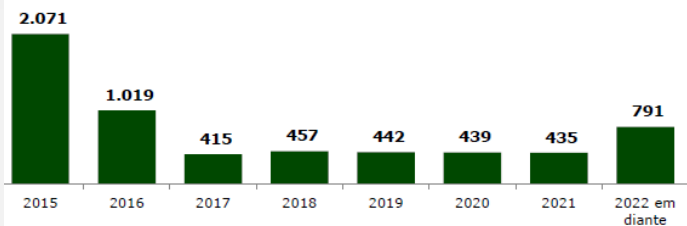
Defining the loss of speed reduction per new clusters using a single complexity group

Starting point for Cemig D: maximum value of 7.50% and lower value between regulatory target set by the 3rd Tariff Review Cycle (7.63%) and the average of non-technical losses in past 4 years.

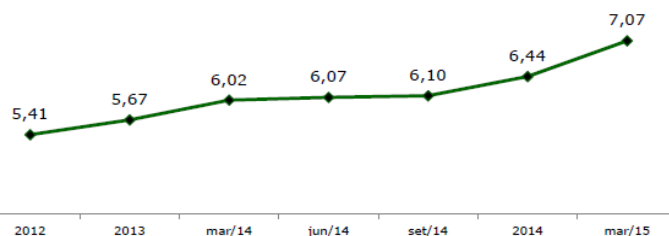
CEMIG D: DEBT PROFILE

Maturities timetable – Average tenor: 3.4 years

Total net debt: R\$ 5.8 billion

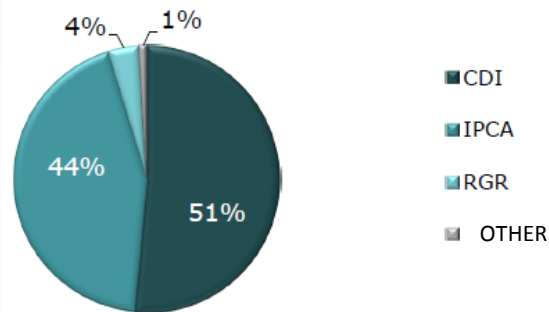


Average real cost of debt – %

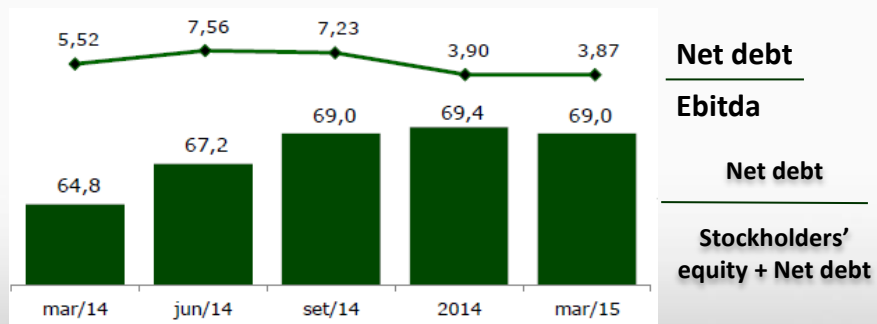


Source: www.cemig.com.br

Main indices



Leverage – %



OPERATIONAL COSTS

<u>CYCLE</u>		Lower limit	Middle band	Upper limit
3rd Tariff Review Cycle	Efficiency	48%	58%	68%
4th Tariff Review Cycle	Efficiency	65%	69%	73%
	Normalized Efficiency	85%	91%	96%

XX Encontro Anual
CEMIG-APIMEC

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