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# CEMIG DISTRIBUIÇÃO S.A.

## 2014 TARIFF ADJUSTMENT

FINANCIAL AND ECONOMIC REGULATION DEPARTMENT  
(RE)  
TARIFF MANAGEMENT OFFICE  
(RE/TF)

APRIL 7, 2014



This presentation is based on the result of the 2014 tariff adjustment of Cemig D (Distribution) – published yesterday, Monday April 7 – and also partly on some of Cemig’s own internal data.

A few slides from some of our previous material are included to show the mechanisms involved. The source material for these slides is exclusively from the Brazilian regulator – Aneel – itself.

The same information can be extracted from:

<http://www.aneel.gov.br>

<http://www.aneel.gov.br/arquivos/pdf/caderno4capa.pdf>



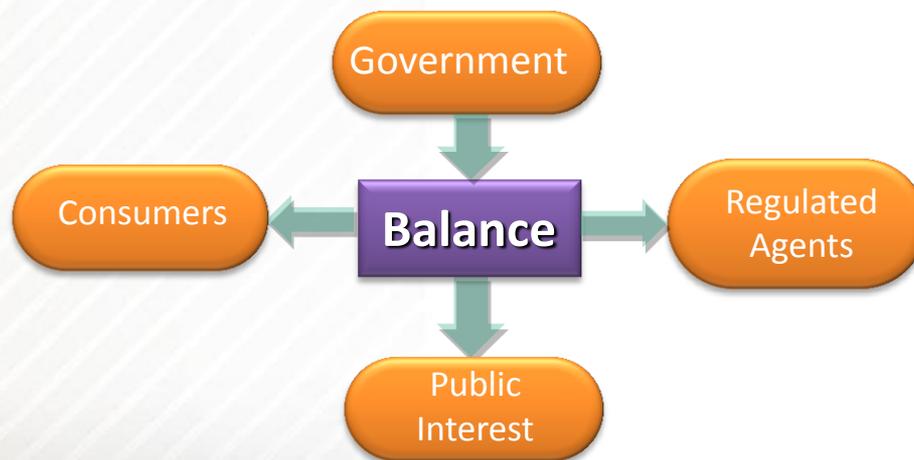
## ABOUT BRAZIL'S ELECTRICITY REGULATOR, ANEEL

The mission of Aneel is: to provide favorable conditions for the electricity market to develop, with a proper balance between the interests of the agents operating in the sector, to the benefit of society.

Rates charged for retail electricity supply are set by Aneel, under Decree 2335 of Oct. 6, 1997, which created Aneel, and states its remit in Appendix I, Chapter II, Section I, Article 4:

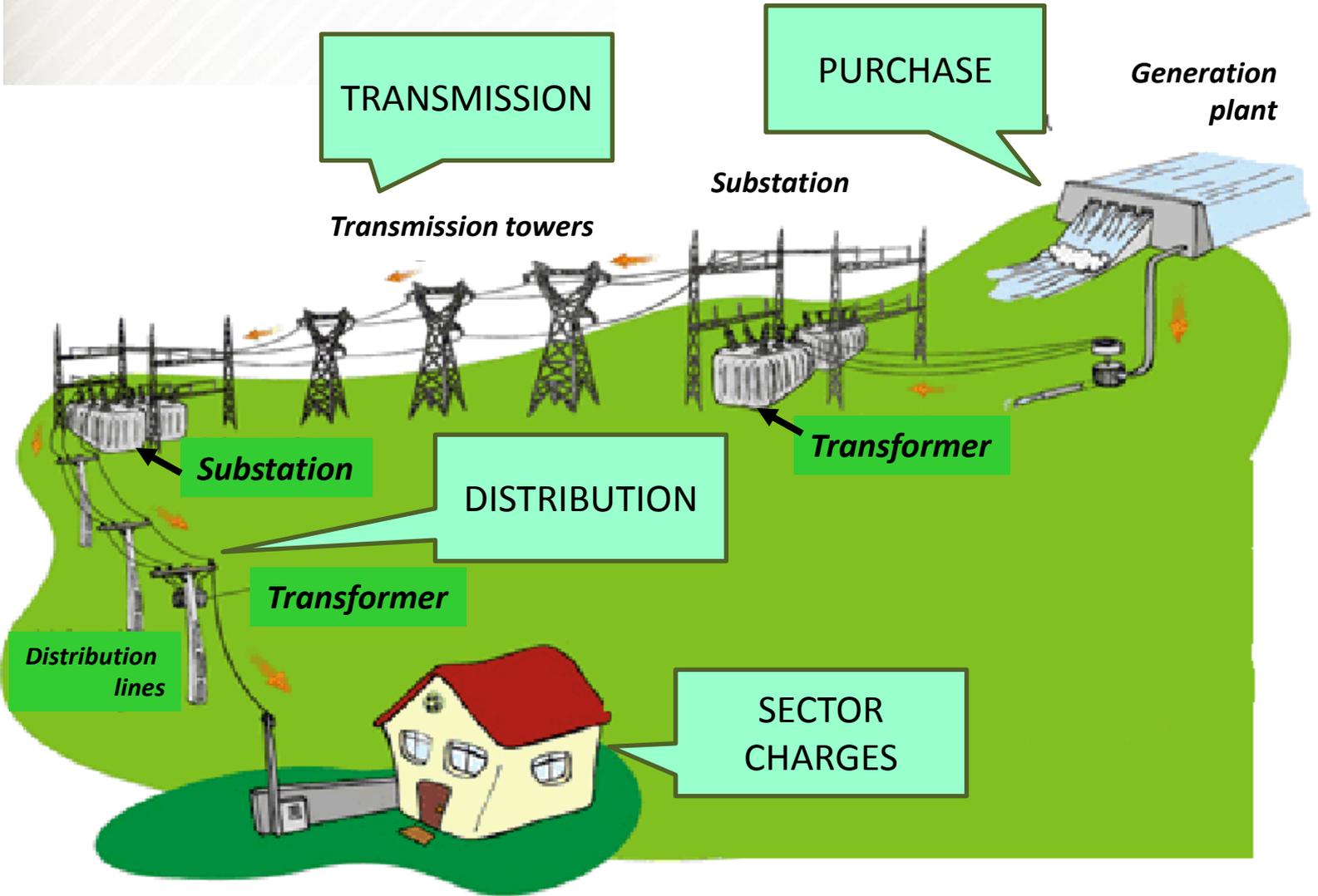
*“Article 4. ANEEL has the following attributions and powers:*

*X – To act, in accordance with law and contracts, in the processes of **setting and control of prices and tariffs**: it shall decide upon and formally approve their initial values, and those of their adjustment, and reviews, and create mechanisms for monitoring of prices.”*



# HOW ELECTRICITY REACHES THE CONSUMER

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# COMPONENTS OF THE ELECTRICITY TARIFF

## NON MANAGEABLE COSTS

### PORTION A

R\$ 6.3 BILLION

PURCHASE OF  
ELECTRICITY

TRANSMISSION

SECTOR CHARGES

## MANAGEABLE COSTS

### PORTION B

R\$ 3.4 BILLION

OPERATIONAL  
COSTS

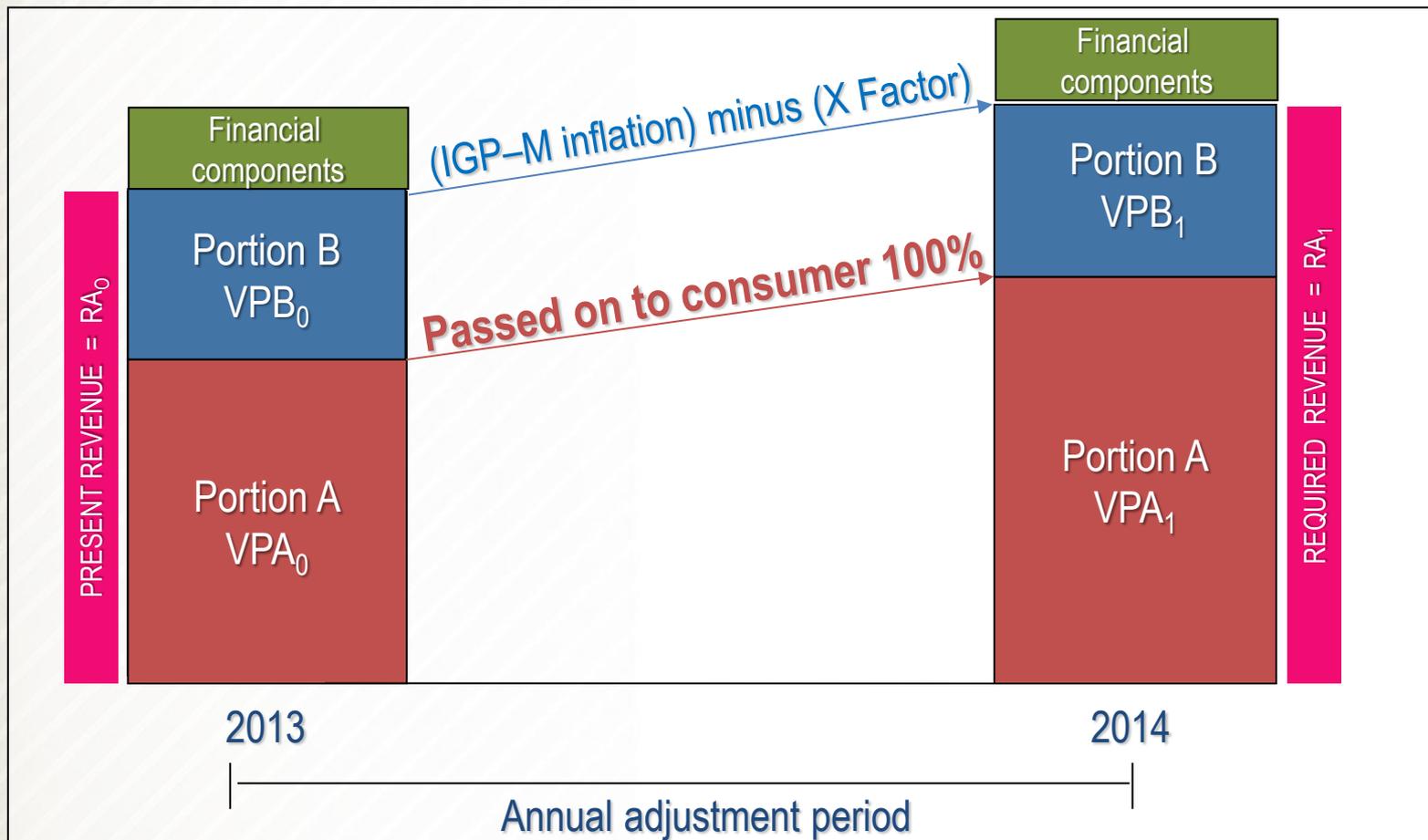
REMUNERATION OF  
INVESTMENT

DEPRECIATION OF  
INVESTMENT

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# THE ANNUAL TARIFF ADJUSTMENT



\* The 'financial components' are costs that the distribution company incurred in the last year not covered by tariffs. They are passed on to the consumer over the next 12 months.

# VARIATION IN NON-MANAGEABLE COSTS

## Portion A: 15.33%

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| NON-MANAGEABLE ITEMS - PORTION A                   | 2013      | 2014      | Change, 2013-14 | Weight in the adjustment |
|--|-----------|-----------|-----------------|--------------------------|
| <b>SECTOR CHARGES</b>                              | R\$ 653   | R\$ 742   | 13.61%          | 1.02%                    |
| Global Reversion Reserve (RGR)                     | R\$ -     | R\$ -     |                 |                          |
| Fuel Consumption Account (CCC)                     | R\$ -     | R\$ -     |                 |                          |
| Service Inspection Charge (TFSEE)                  | R\$ 20    | R\$ 12    | -37.84%         | -0.09%                   |
| Energy Development Account (CDE)                   | R\$ 125   | R\$ 194   | 55.90%          | 0.80%                    |
| Royalties for use of water resources (CFURH)       | R\$ -     | R\$ -     |                 |                          |
| System Service Charge (ESS) + Energy Reserve (EER) | R\$ 163   | R\$ 173   | 6.04%           | 0.11%                    |
| Proinfa (Alternative Sources) Program              | R\$ 261   | R\$ 263   | 0.70%           | 0.02%                    |
| R&D, Efficiency, Reimb. Isolated-systems ICMS tax  | R\$ 83    | R\$ 98    | 18.16%          | 0.17%                    |
| ONS (National System Operator)                     | R\$ 0     | R\$ 0     | -11.52%         | 0.00%                    |
| <b>TRANSPORT OF ELECTRICITY – TRANSMISSION</b>     | R\$ 359   | R\$ 432   | 20.08%          | 0.83%                    |
| National grid                                      | R\$ 203   | R\$ 247   | 21.81%          | 0.51%                    |
| Frontier grid                                      | R\$ 49    | R\$ 70    | 43.16%          | 0.24%                    |
| ONS – Basic grid (A2)                              | R\$ 7     | R\$ 8     | 11.27%          | 0.01%                    |
| National grid – Export (A2)                        | R\$ -     | R\$ 0     |                 | 0.00%                    |
| Itaipu volume charge                               | R\$ 54    | R\$ 58    | 6.35%           | 0.04%                    |
| Transport from Itaipu                              | R\$ 25    | R\$ 26    | 2.53%           | 0.01%                    |
| Connection   | R\$ 18    | R\$ 20    | 12.88%          | 0.03%                    |
| Use of the distribution system                     | R\$ 2     | R\$ 2     | 0.00%           | 0.01%                    |
| <b>PURCHASE OF ELECTRICITY</b>                     | R\$ 4,466 | R\$ 5,145 | 15.20%          | 7.80%                    |
| <b>NON-MANAGEABLE COSTS – TOTAL</b>                | R\$ 5,479 | R\$ 6,318 | 15.33%          | 9.65%                    |

The non-manageable costs account for 9.65 percentage points of the economic adjustment of 11.91% – i.e. they account for 81% of the tariff increase.

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## COST OF PURCHASE OF ELECTRICITY ROSE 15% – accounts for 53% of Cemig D's costs

| PURCHASE OF ELECTRICITY | 2013       | 2014       |
|-------------------------|------------|------------|
| Volume - MWh            | 32,237,945 | 32,049,162 |
| Expense - R\$ MM        | R\$ 4,466  | R\$ 5,145  |
| Price - R\$/MWh         | R\$ 138.54 | R\$ 160.53 |

| Type of contract              | MWh               | % of 100%     | R\$ million  | % of 100%     | R\$/MWh       |
|-------------------------------|-------------------|---------------|--------------|---------------|---------------|
| Hydroelectric - CCEAR         | 5,763,044         | 17.98%        | 870          | 16.91%        | 150.93        |
| Itaipu                        | 6,374,034         | 19.89%        | 837          | 16.27%        | 131.30        |
| Quotas                        | 7,367,692         | 22.99%        | 242          | 4.71%         | 32.89         |
| <b>Thermal plants</b>         | <b>8,967,694</b>  | <b>27.98%</b> | <b>2,742</b> | <b>53.29%</b> | <b>305.75</b> |
| Other                         | 1,233,358         | 3.85%         | 133          | 2.58%         | 107.82        |
| Proinfa (alternative sources) | 640,383           | 2.00%         | -            | 0.00%         | 0.00          |
| 'Bilateral' contracts         | 1,702,958         | 5.31%         | 321          | 6.24%         | 0.00          |
| <b>Total passed through</b>   | <b>32,049,162</b> | <b>100%</b>   | <b>5,145</b> | <b>100%</b>   | <b>160.53</b> |

Factors in the change in total cost of electricity purchased:

- Termination of some 'existing energy' contracts (hydroelectric – CCEAR contracts).
- Participation of 'availability contracts' (thermal).
- Updating of prices of electricity from Itaipu and Angra (nuclear).
- Outcome of spot price forecasts (different from Cemig D's forecast).

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# VARIATION IN DISTRIBUTOR'S COSTS:

Manageable costs: 6.11%

## Tariff adjustment index – and impact

| Application of X Factor  |              |
|--------------------------|--------------|
| IGP–M inflation index    | 7.30%        |
| X Factor                 | 1.19%        |
| <b>(IGPM – X Factor)</b> | <b>6.11%</b> |

| Components of Revenue (R\$ MM) | 2013         | 2014         | Change, YoY   | Weight in the adjustment | % of 100% in 2013 | % of 100% in 2014 |
|--------------------------------|--------------|--------------|---------------|--------------------------|-------------------|-------------------|
| Portion A                      | 5,479        | 6,318        | 15.33%        | 9.65%                    | 63%               | 65%               |
| Portion B                      | 3,226        | 3,423        | 6.11%         | 2.26%                    | 37%               | 35%               |
| <b>Total revenue</b>           | <b>8,705</b> | <b>9,742</b> | <b>11.91%</b> | <b>11.91%</b>            | <b>100%</b>       | <b>100%</b>       |

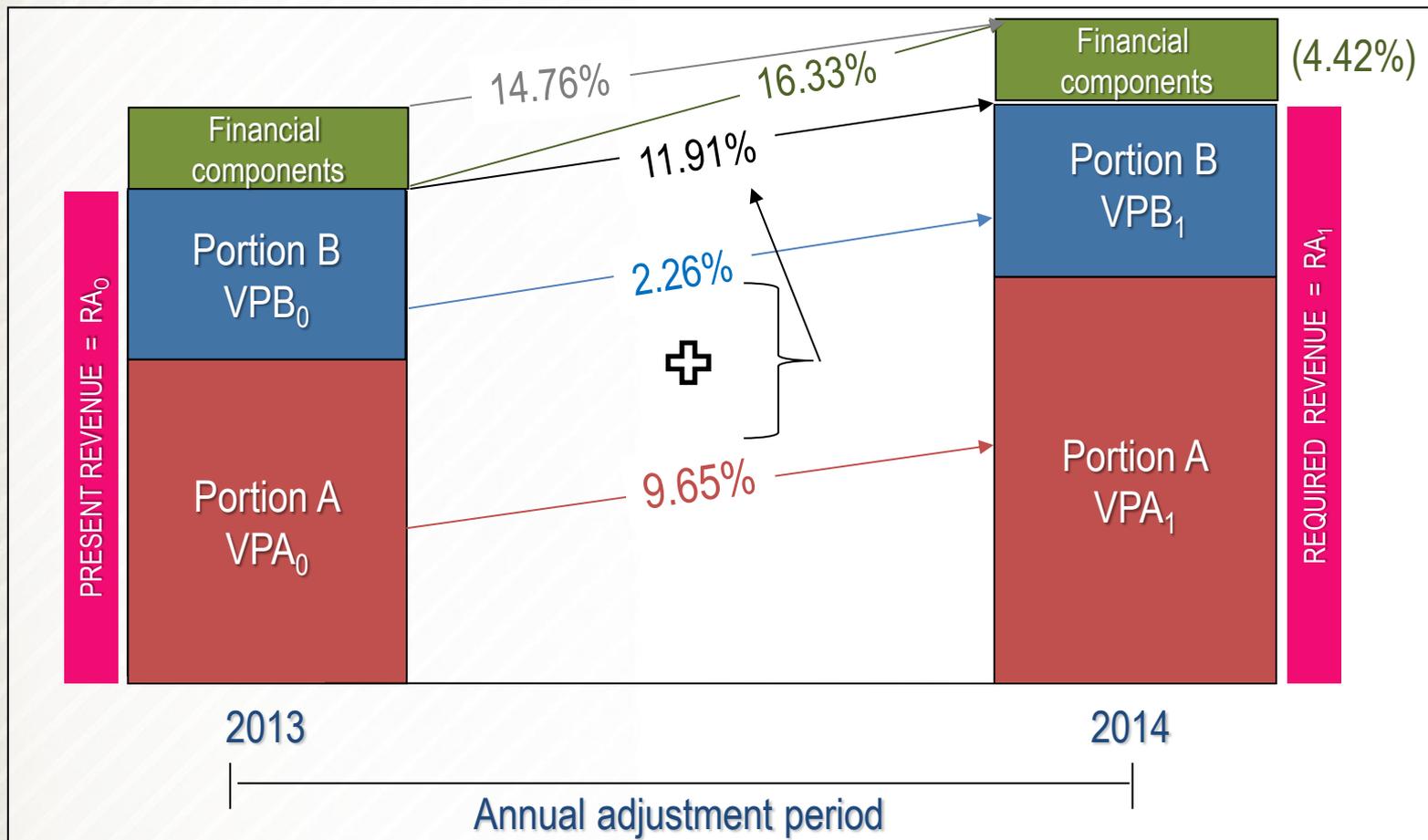
|  |               |
|--|---------------|
| New revenue (2014) – R\$ MM                                  | R\$ 9,742     |
| Prior revenue (2013) – R\$ MM                                | R\$ 8,705     |
| Index of adjustment (economic components)                    | 11.91%        |
| Financial components – 2014                                  | 4.41%         |
| Adjustment index including financial items (tariffs applied) | 16.33%        |
| Financial components prior year and Review appeal, 2013      | -1.57%        |
| <b>AVERAGE IMPACT</b>  | <b>14.76%</b> |

**Manageable costs account for only 2.26 percentage points of the economic adjustment of 11.91% – i.e. they account for 19% of the tariff increase.**

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# THE ANNUAL TARIFF ADJUSTMENT



11.91%: Economic adjustment to the tariff.

16.33%: Total adjustment (economic adjustment + financial components).

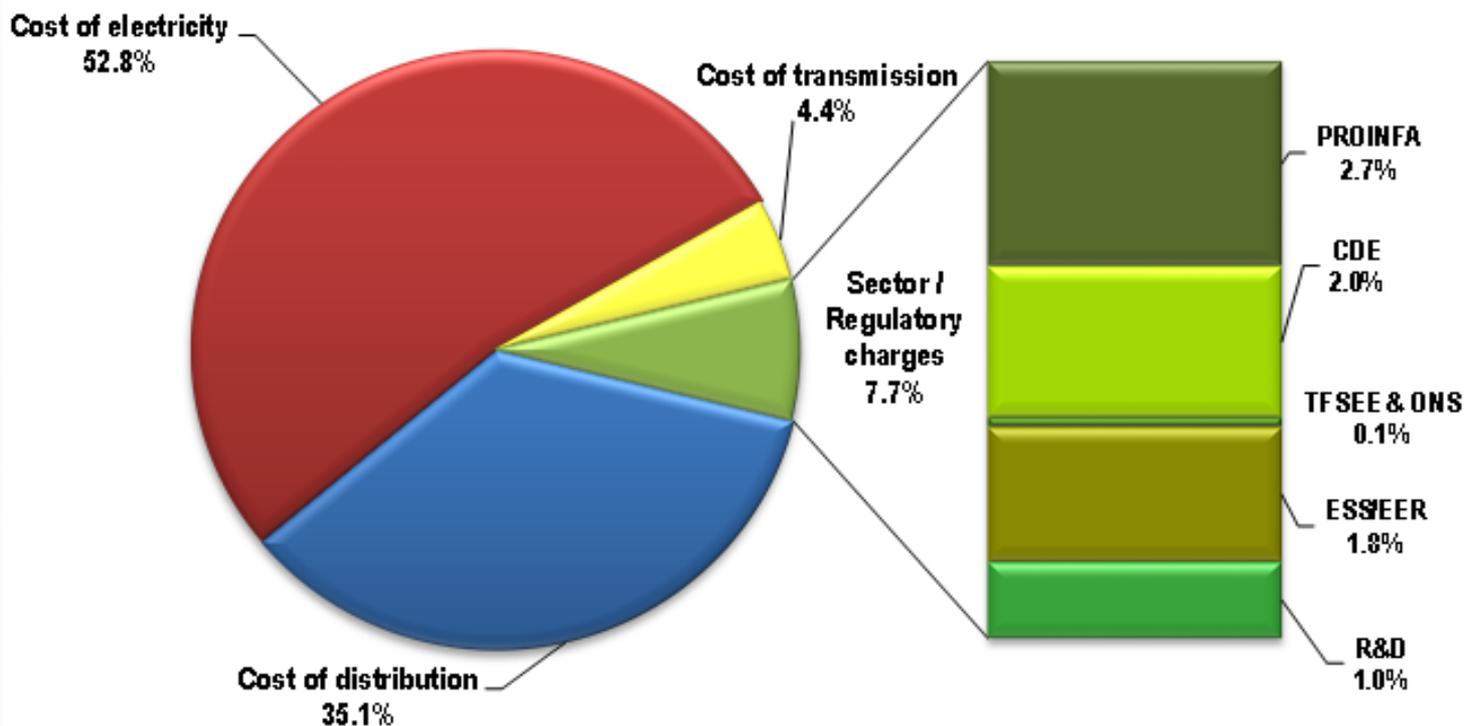
14.76%: Effect perceived by consumers.

# STRUCTURE OF THE COMPONENTS OF CEMIG D'S REVENUE AFTER THE 2014 TARIFF ADJUSTMENT

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Cemig D - Components of revenue (excluding taxes)



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## Average effect perceived by consumers

| CONSUMER                          | IMPACT        | UNITS            |
|-----------------------------------|---------------|------------------|
| <b>CAPTIVE (AVERAGE)</b>          | <b>15.42%</b> | <b>7,762,643</b> |
| High voltage *                    | 12.41%        | 13,032           |
| Low voltage                       | 15.78%        | 7,749,611        |
| B1 – Residential                  | 14.30%        | 6,243,172        |
| B2 – Rural                        | 19.13%        | 659,130          |
| B3 – Others **                    | 17.13%        | 843,883          |
| B4 – Public illumination          | 19.13%        | 3,426            |
| <b>FREE CLIENTS (AVERAGE) ***</b> | <b>7.61%</b>  | <b>431</b>       |
| <b>OVERALL</b>                    | <b>14.76%</b> | <b>7,763,074</b> |

\* High voltage captive consumers are mainly industrial clients.

\*\* B3 – Others: includes *industrial* and *commercial* consumers, *public authorities*, and *public services*.

\*\*\* Free Clients: large number of industrial clients; and a smaller number of commercial clients.

# INVOICE OF A RESIDENTIAL CLIENT – BEFORE AND AFTER THE 2014 ANNUAL ADJUSTMENT

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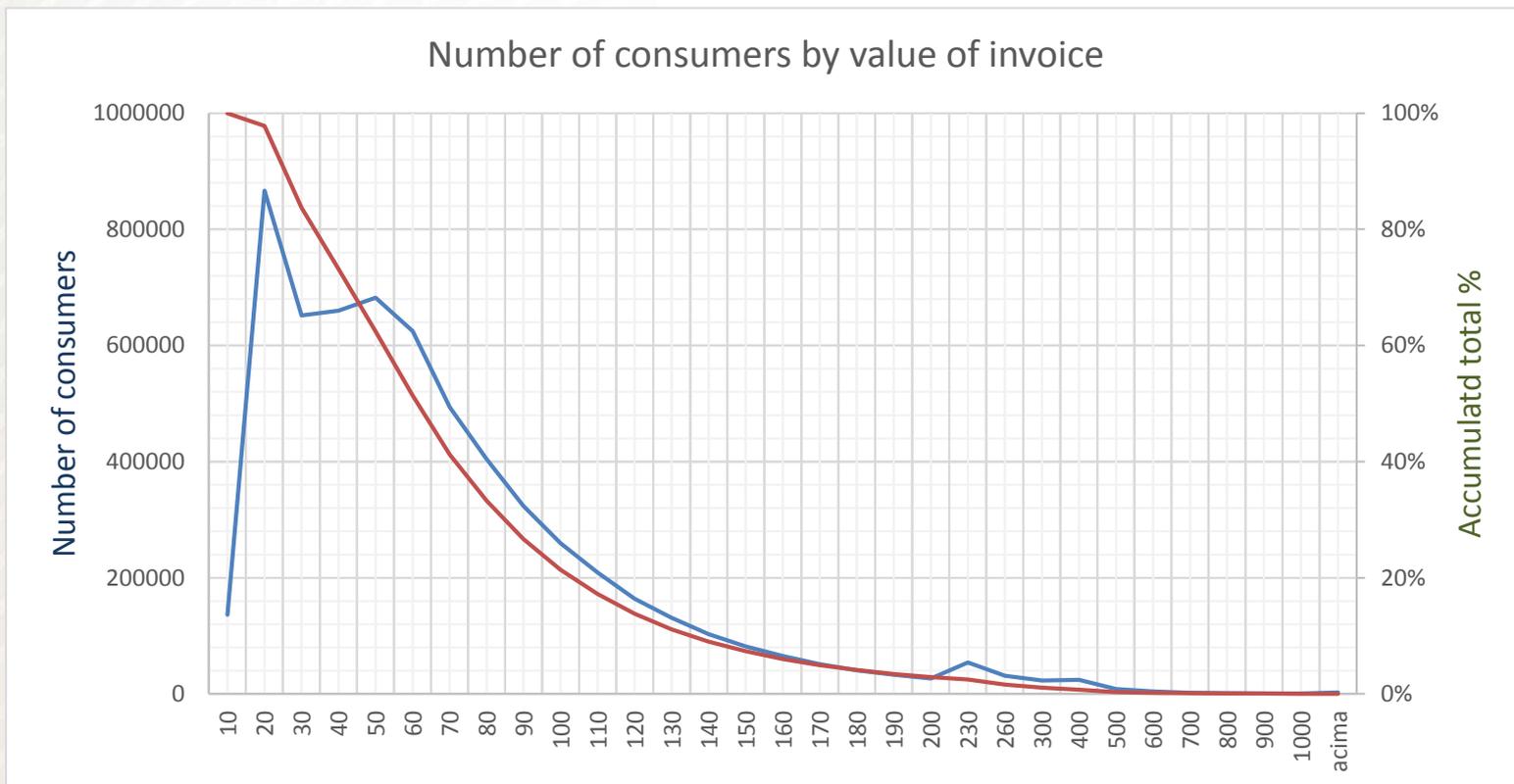
| Period                        | Invoice of a low-income residential consumer (R\$) |                                | Full residential consumer invoice (R\$) |                                |
|-------------------------------|--|--------------------------------|---|--------------------------------|
|                               | April 8, 2013 to April 7, 2014                     | April 8, 2014 to April 7, 2015 | April 8, 2013 to April 7, 2014          | April 8, 2014 to April 7, 2015 |
| <b>Consumption, kWh/month</b> | (Aneel Decision 1507/2013)                         | (Aneel Decision of 2014)       | (Aneel Decision 1507/2013)              | (Aneel Decision of 2014)       |
| 30                            | 3.56   | 4.09                           | 10.41                                   | 11.89                          |
| 66                            | 10.90  | 12.52                          | 22.90                                   | 26.16                          |
| 90                            | 15.79  | 18.13                          | 31.23                                   | 35.68                          |
| 100                           | 27.85  | 31.99                          | 54.22                                   | 61.94                          |
| <b>130</b>                    | <b>42.17</b>                                       | <b>48.44</b>                   | <b>70.48</b>                            | <b>80.52</b>                   |
| 220                           | 85.14  | 97.80                          | 119.28                                  | 136.27                         |
| 250                           | 101.06   | 116.08                         | 135.55                                  | 154.85                         |

\* For reference: The average consumption level of a residential client is 130 kWh/month.

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## Residential consumers: No. of consumers by value of invoice



In 2013, half of Cemig D's residential consumers were billed less than R\$ 60 per month – representing a total cost of less than R\$ 2 /day per household, for these families. The adjustment of April 8, 2014 will increase that monthly expense to approximately R\$ 68.50.

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## THE 2014 RETAIL TARIFF ADJUSTMENT

( THIS SPACE IS FOR YOUR QUESTIONS: )

**THANK YOU!**