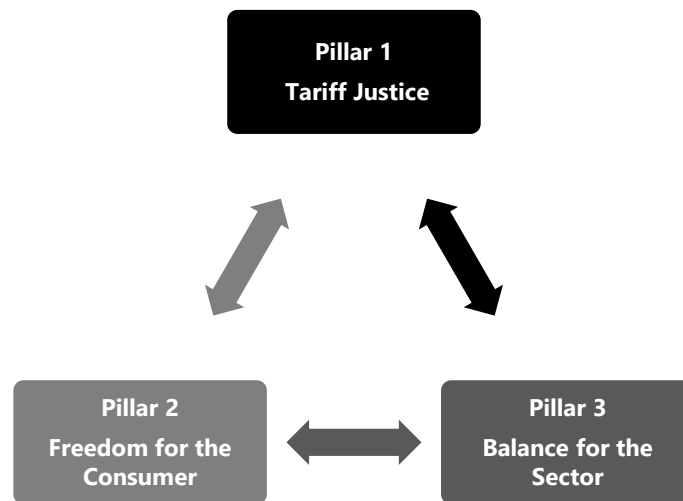


GUIDE TO THE REFORM OF BRAZIL'S ENERGY SECTOR

On May 21, 2025, Provisional Measure No. 1,300/2025 ("Provisional Measure" or "MP"), also known as the Power Sector Reform MP, was published in the *Federal Official Gazette*. This initiative of the Ministry of Mines and Energy ("MME") was structured around three main pillars, as designated by the government:



Processing of the Provisional Measure

Most provisions of the MP come into force immediately and remain in force for 60 days, and which may be extended once for an equal period. However, there are exceptions: (i) provisions related to the Social Tariff will come into force 45 days after the publication of the MP; and (ii) the funding by the Energy Development Account ("CDE") of tariff components of distributed generation not remunerated by the generating consumer will come into force as of January 1, 2026.

The Provisional Measure's legislative process begins in the joint committee of the National Congress, formed by deputies and senators responsible for issuing an opinion on the Provisional Measure. If the text is amended, the MP proceeds as a conversion bill.

Once approved in the joint committee, the proposal is submitted to a vote in the Plenary of the Chamber and the Senate. If the Provisional Measure is approved without any changes, it is promulgated directly by Congress, and becomes a law. If there are changes, the text will move for presidential sanction, with a deadline of up to 15 business days for total or partial veto. Accounting for

the maximum term of the MP and the suspension of this term during parliamentary recess, its conversion into law must occur by October 1, 2025.

The main aspects of each pillars of the proposal are:

PILLAR 1

1. SOCIAL TARIFF AND CDE EXEMPTION:

Consumers classified as Low-Income Residential Subclass, indigenous and quilombola families, registered with the Single Registry for Social Programs ("CadÚnico"), will receive a 100% discount on up to 80 kWh/month. The full tariff applies to consumption beyond 80 kWh/month.

Previous Rule:

<u>Consumption</u>	<u>Discount</u>
up to 30kWh/month	65%
between 31kWh/month and 100kWh/month	40%
between 101kWh/mês and 220kWh month	10%
above 220 kWh/month	0%
Indigenous and <i>quilombola</i> families already had exemption up to 50 kWh/month	

New Rule:

<u>Consumption</u>	<u>Discount</u>
up to 80kWh/month	100%
above 80kWh/month	0%

Creation of an Intermediate Tariff: From January 1, 2026, families with a per capita monthly income between ½ and 1 minimum wage, registered in CadÚnico, who, with some exceptions, do not have the right to the Social Tariff, will be exempt for a single-consumer unit from paying the CDE for consumption up to 120 kWh.

Families entitled to the Social Tariff remain exempt from the CDE.

PILLAR 2

1. MARKETING OPENING

A The Provisional Measure provides for the complete opening of the free energy market, so that consumers served at low voltage can freely choose their electricity supplier.

The opening will be divided into two stages:

- **From August 1, 2026** → Open for all industrial and commercial consumers.
- **From December 1, 2027** → Open for all consumers.

The Provisional Measure provides for the complete opening of the free energy market, so that consumers served at low voltage can freely choose their electricity supplier.

Until the publication of the MP, only consumers classified as Group A could migrate to the free energy market (generally, consumers with a load above 75 kW served at high or medium voltage,

Classification of Industrial and Commercial Consumers:

It is possible that the criteria currently used by ANEEL to classify consumer units will not be the same as those adopted to define who can migrate to the free market in 2027.

Currently, the classification adopted by the National Electric Energy Agency ("ANEEL"), as established in ANEEL Normative Resolution No. 1,000/2021, considers the economic activity of the consumer unit, covering several subclasses within the "industrial" and "commercial" classes.

If these criteria are maintained, units classified as rural or public service would not be included in the migration to the free market until December 2027.

2. SUPPLIER OF LAST RESORT – SUI

With market opening, the MP establishes that the Granting Authority must regulate the last resort supply service by February 1, 2026.

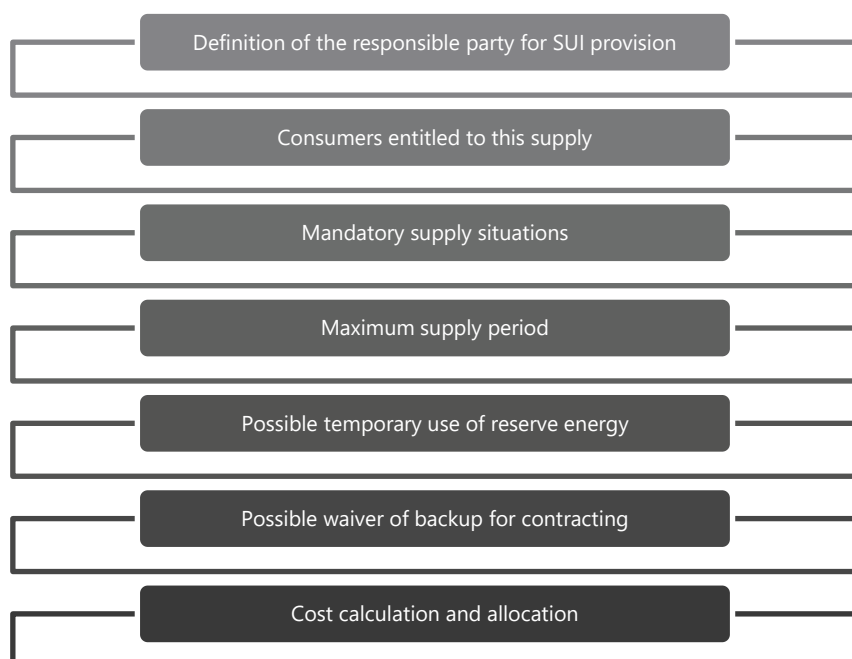
The supplier of last resort (“SUI”) is an agent designated as responsible for supplying electricity, on a case-by-case basis, to consumers who have been de-contracted by their initially contracted representative (e.g., a retail agent).

The MP determined that, at the discretion of the Granting Authority, the SUI activity will be carried out, with or without exclusivity, by power distribution companies, as defined by regulations. The designation of the distribution companies as SUIs reflects positions previously advocated by ANEEL and the Electric Energy Commercialization Chamber (“CCEE”).

SUI is an innovation in the Brazilian legal framework, since no agent has been formally established as SUI.

However, this designation already exists in other markets, such as the Provider of Last Resort (POLR) in the United States and the Supplier of Last Resort (SOLR) in Europe.

Issues awaiting regulation:



3. NEW TARIFF MODALITIES

The Provisional Measure introduced new tariffs applicable to the supply of electric energy, some of which were already provided for in other infralegal provisions:

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Tariff Modalities by the MP	Already Regulated?	Regulatory Provision
<i>I – differentiated tariffs based on hour;</i>	<u>Yes</u>	As provided for in REN ANEEL No. 1,000/2021. As a general rule, the tariff applicable to Group A is time-of-use. Currently, the automatically applicable modality for Group B is not time-of-use (conventional modality), but consumers may opt for the time-of-use tariff modality, known as the White Tariff.
<i>II – the provision of electric energy supply service through prepayment;</i>	<u>Yes</u>	As provided for in REN ANEEL No. 1,000/2021.
<i>III – multipart tariffs, which consider charging part of the costs associated with making capacity available for use of the distribution system independently of energy consumption, complemented by a portion proportional to such consumption;</i>	<u>No</u>	The application of a two-part tariff for Group B was discussed within the scope of Public Hearing No. 059/2018. However, at the time, ANEEL took the position that any change in the tariff modality for Group B should account for the results observed in the regulatory sandboxes established under REN ANEEL No. 966/2021. ANEEL has resumed discussions on the so-called "tariff modernization," which includes the use of new tariff modalities. ANEEL Public Consultation No. 011/2024 was opened to discuss the development of a roadmap with strategies to promote this modernization.
<i>IV – differentiated tariffs for areas with high complexity in combating non-technical losses and high default rates; and</i>	<u>No</u>	Decree No. 12,068/2024 established that ANEEL should improve the economic conditions of distribution concession contracts so that this tariff modality could be applied. The Technical Note that guided ANEEL Public Consultation No. 011/2024 mentions that the inclusion of such a modality should be evaluated during ANEEL's "tariff modernization" agenda.
<i>V – different types of tariffs based on technical, locational, and quality criteria, to be applied in a non-discriminatory manner, ensuring transparency in calculation and the public disclosure of the values applied to each tariff type.</i>	<u>No</u>	As above.

Separation of Commercialization and Distribution Activities

By July 1, 2026, there must be a tariff and accounting separation or contractual separation of regulated energy commercialization and public electricity distribution service activities, ensuring the economic-financial balance of contracts.

This determination arises from the opening of the free market, making it necessary to completely separate the activities of energy trading and energy distribution.

PILLAR 3

1. SELF PRODUCTION

Previous Rule: Under the terms of Article 26 of Law No. 11,488/2007, a consumer who participates in a special purpose entity ("SPE") established to operate electricity generation, through the granting of a concession or authorization, is considered equivalent to a self-producer. This equivalence is limited to the portion of energy intended for the consumer's own use, or to their share in the project, whichever is less.

The qualification of the consumer as an equivalent self-producer is not conditional on the consumer holding a minimum percentage of the SPE's share capital.

Consumers who participate in the share capital of the entity holding a concession, or in a company that holds an interest in the share capital of the entity holding a concession, may be considered equivalent to self-producers of electricity, provided that each consumption unit for which the electricity is intended has a power demand of at least 3,000 kW.

New Rule: Only consumers with an aggregate contracted demand of at least 30,000 kW, comprised of one or more consumer units each with an individual demand of at least 3,000 kW, may be considered equivalent to self-producers of electricity, provided that they: (i) participate, directly or indirectly, in the share capital of the entity holding the concession; or (ii) are under common corporate control, whether direct or indirect, or are controlling, controlled, or affiliated companies, directly or indirectly, with the companies described in item (i). In both cases, the shareholding must carry voting rights.

The consumer shareholder must be expressly included in the power generation concession, reflecting participation in the project.

If the special purpose entity (SPE) issues non-voting shares that grant economic rights in an amount greater than those granted by voting shares, the minimum required participation of each shareholder's economic group in the SPE's share capital, whether direct or indirect, may not be less than 30% of the total share capital of that company.

After a period of 60 days from the date of publication of the Provisional Measure, new self-production arrangements, including by equivalence, may only be carried out with generation projects whose commercial operation begins after the date of publication of the Provisional Measure.

Points of Attention:

The contracted demand limits and the minimum shareholding criteria above do not apply to consumer units that:

Have already been equated to self-production, with contracts registered at the CCEE before the MP's publication.

Are part of an economic group that holds 100% of the shares of the legal entity holding the authorization.

Have submitted to the CCEE, within 60 days from the date of publication of the Provisional Measure, share or quota purchase agreements, or call option agreements granting options to purchase shares or quotas (provided that the COD of the project did not occur before the publication of Law No. 11,488/2007, and the transfer of the shareholding must take place within 24 months after the execution of the agreements. Additionally, within the 24-month period, the following must be submitted to the CCEE: a) an amendment to the articles of association filed with the competent board, together with proof of participation in the economic group, **or** b) record of the share transfer book and proof of participation in the economic group.

TCMB View: Despite the increase in the consumer load requirement, the other changes in the Provisional Measure will enable the development of new corporate structures for future self-production projects by equivalence, especially given the possibility of equating consumers under common corporate control, directly or indirectly, or as controllers, controlled, or affiliates of the equated company.

The Provisional Measure preserves the previous legal regime for self-producers with structures already presented and contracts registered at CCEE before the MP's publication. It also proposes a 60-day transition period for signing and submitting share purchase agreements to CCEE, with a 24-month period for closing the transactions.

However, the MP provides that new self-production arrangements, including by equivalence, may only be carried out with generation projects whose commercial operation begins after the date of publication of the MP. The wording therefore includes typical self-production projects, via consortium, leasing, among other structures, which represents a broader restriction than that presented in the initial drafts of the Provisional Measure..

2. REALLOCATION OF SECTORIAL CHARGES:

a) Overcontracting and Involuntary Exposure of Distributors

Previous Rule: Distributors had neutrality regarding recognized involuntary exposure and overcontracting, with pass-through via tariffs to captive consumers.

New Rule: The charge from overcontracting and involuntary exposure will be shared via tariffs among all consumers, captive or free, proportionally to energy consumption.

b) SUI

Previous Rule: Not applicable. The SUI designation was introduced into the Brazilian electricity sector by the Provisional Measure.

New Rule: The costs of the SUI and the financial effects of the involuntary deficit resulting from serving consumers entitled to last-resort supply will be shared among consumers in the free contracting environment through a tariff charge, as will be stipulated in regulation.

c) Ending of TUSD and TUST discounts for consumption

Previous Rule: Article 26 of Law No. 9,427/1996 establishes discounts of no less than 50% on the tariffs for the use of transmission and distribution systems, applicable to hydroelectric projects, solar, wind, biomass, and qualified co-generation sources, affecting both production and consumption.

Until the enactment of Provisional Measure No. 998/2020, which became Law No. 14,120/2021, the discount was automatically granted upon the authorization of projects that met the technical criteria established in the aforementioned law.

Law No. 14,120/2021 abolished this discount, but preserved it for authorizations requested up to March 1, 2022 for the duration of the authorizations, subject to compliance with certain requirements.

New Rule: The discounts on tariffs for the use of transmission and distribution systems applicable to power consumption will be applied exclusively until the end date of the contract registered with CCEE. The application of these discounts is prohibited in the following cases: (i) after the contractually stipulated end date; (ii) as defined by a transfer of contract ownership; (iii) as defined by contract extension; (iv) as defined by clauses of indefinite duration; (v) in contracts not registered with CCEE; (vi) in contracts registered after December 31, 2025; or (viii) in contracts without a defined amount of power to be traded, even if they have been registered and validated with CCEE. After December 31, 2025, the volumes of power in contracts registered and validated with CCEE may not be altered.

CCEE must annually determine the positive or negative deviations between the amounts registered and validated up to December 31, 2025, and the amounts effectively implemented, with each contracting party being subject to the payment of an extraordinary charge due to the CDE. This charge is to be calculated based on the deviation and the tariffs for the use of electricity consumption, according to guidelines established by the Ministry of Mines and Energy.

In the event of evidence of fraud or deception for the purpose of obtaining the discounts, the CCEE will notify ANEEL to investigate responsibility and apply appropriate sanctions, without prejudice to civil and criminal liability.

d) Cost Sharing of Angra 1 and 2

Previous Rule: Currently, under Article 11 of Law No. 12,111/2009, distribution companies purchase the energy generated by Angra 1 and 2, passing on the acquisition cost of this energy in the "Parcela A" component of their tariffs, so that these costs are borne solely by captive consumers.

Previous Rule: Currently, under Article 11 of Law No. 12,111/2009, distribution companies purchase the energy generated by Angra 1 and 2, passing on the acquisition cost of this energy in the "Parcela A" component of their tariffs, so that these costs are borne solely by captive consumers.

e) Sharing of the Annual CDE Quotas

Every year, ANEEL calculates and approves the annual budget of the Energy Development Account ("CDE"), and establishes the specific annual quotas to be paid by distribution and transmission companies, which are consequently passed on to the consumers responsible for each component of the CDE.

History and Methodology:

Until 2016¹	Cost sharing was carried out with regional differentiation and without differentiation by voltage level.
2017 to 2029	A transition process was implemented to gradually eliminate regional differentiation and introduce differentiation by voltage level, with progressive adjustments to avoid abrupt impacts on tariffs.
From 2030 onwards	Regional differentiation ends, establishing differentiation by voltage level (High Voltage would pay 1/3 of the amount paid by Low Voltage; Medium Voltage would pay 2/3 of the amount paid by Low Voltage).

New Rule:

Until 2029	Differentiation by voltage level (High, Medium, and Low Voltage) is maintained in the same proportion observed on the date of publication of the Provisional Measure.
2030 to 2037	A gradual and uniform adjustment begins to eliminate differentiation by voltage level. By the end of this period, the voltage criterion will be completely phased out.
From 2038 onwards	The sharing of the CDE will be independent of the voltage level at which consumers are served.

¹ Until the publication of Law No. 13,360 of November 17, 2016, which established new criteria for the allocation of CDE quotas.

f) Distributed Generation

This change concerns the division of the allocation of tariff components not associated with the cost of energy and not paid by the consumer-generator, related to energy compensated in the Electric Energy Compensation System ("SCEE"), which is funded by the CDE.

Previous Rule: Sharing only among captive consumers.

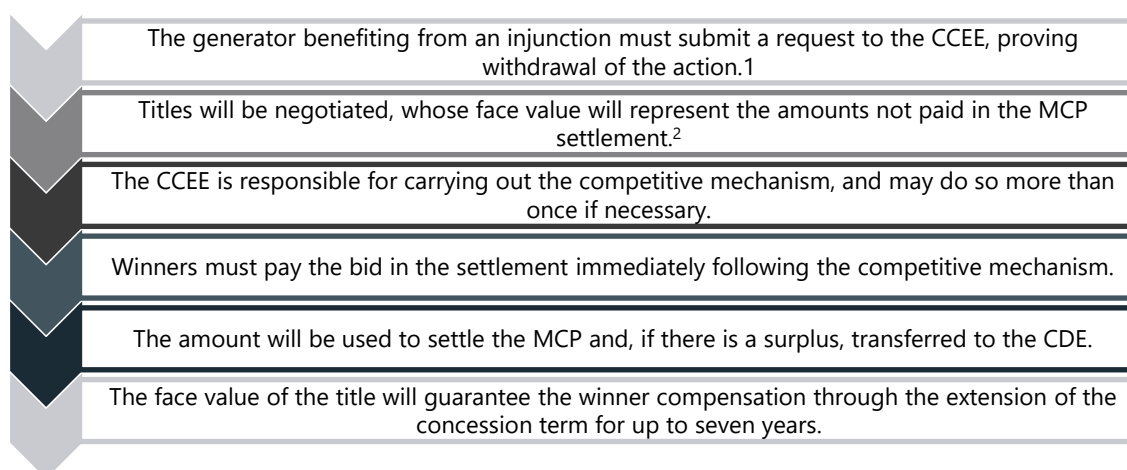
Previous Rule: Sharing only among captive consumers.

OTHER MEASURES

I. HYDROLOGICAL RISK RENEGOTIATION:

Despite previous public policies aimed at the renegotiation of hydrological risk, small Hydroelectric Generating Centrals (CGHs), which are not subject to concessions, did not have incentive to renegotiate, considering that the previous mechanism offered the extension of the concession term as an incentive. Currently, there are still injunctions on the matter, blocking more than 1 billion Reais in the settlement of the Short-Term Market ("MCP") of the CCEE.

The renegotiation of hydrological risk will be limited to up to 12 months from the MP's entry into force. Financial amounts not paid in the MCP due to legal actions on hydrological risk will be negotiable through a competitive mechanism, with participation by hydro generation agents in the MRE:



¹ The request submitted by the generator to the CCEE proving the withdrawal of the lawsuit may be conditioned upon the full settlement of the amounts through the competitive mechanism.

² The sum of the instruments will amount to the total of the unpaid amounts within the scope of the MCP.

II. CCEE ATTRIBUTIONS AND ADMINISTRATOR LIABILITY

a) CCEE Monitoring

The MP maintains CCEE's attributions, but expressly includes monitoring of associates and market operations, with the possibility of initiating sanctioning processes, whose procedures will be approved by ANEEL. Individuals or legal entities contracted by CCEE for management or supervision are directly liable, civilly and administratively, for damages from willful misconduct or gross negligence, without prejudice to criminal liability and CCEE's subsidiary liability. CCEE may also participate in other energy markets or provide other services, including contract guarantee management in the free market and registration and certification of energy.

The MP also changes CCEE's name to "Chamber of Energy Commercialization," anticipating its possible role in gas, biofuels, and hydrogen markets.

b) Liability of Sector Agent Administrators

Administrators of sector agents become directly liable, civilly and administratively, for damages from willful misconduct or gross negligence, or for violating legal, regulatory, or statutory rules, without prejudice to criminal and subsidiary liability of the represented legal entity.