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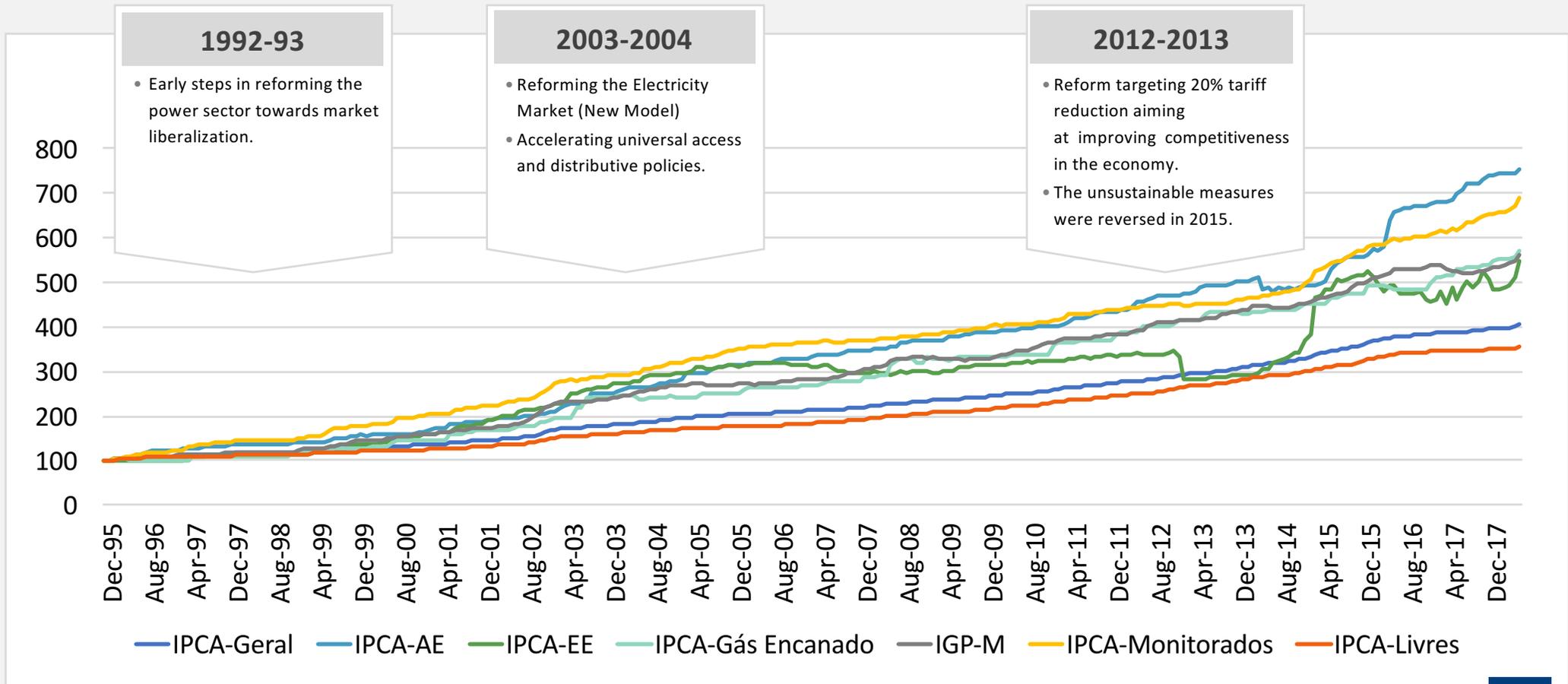
ENERGY SUBSIDY REFORMS FOR A BRIGHTER TOMORROW ELECTRICITY PRICES IN BRAZIL

Joisa C. Dutra

Geneva, Switzerland

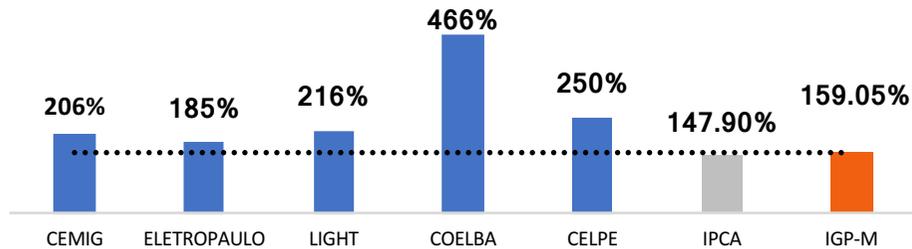
Two Decades of Electricity Reforms in Brazil:

A case for implementing distributive policies via cross subsidies?

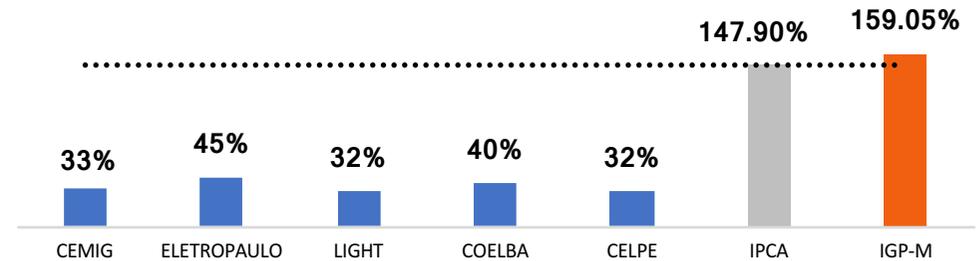


Evolution of Electricity Tariffs Key Components in selected Discos: Efficiency gains for networks through incentives regulations, and tax and levies have been a burden!

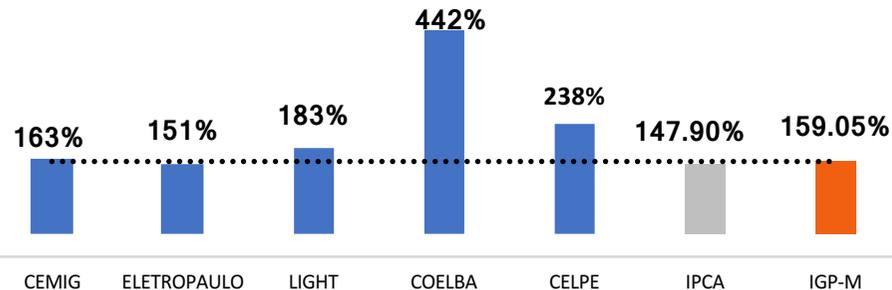
Pass-through Costs (Energy, Transmission Charges, Levies) Increase (2003-2018)



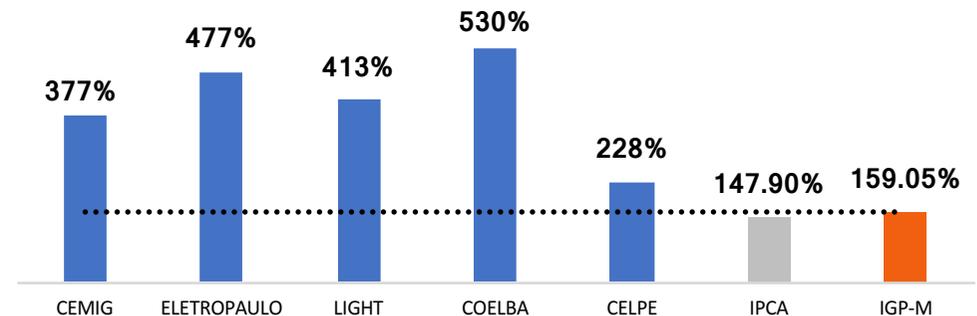
Distribution Costs Increase (2003-2018)



Energy Costs Increase (2003-2018)

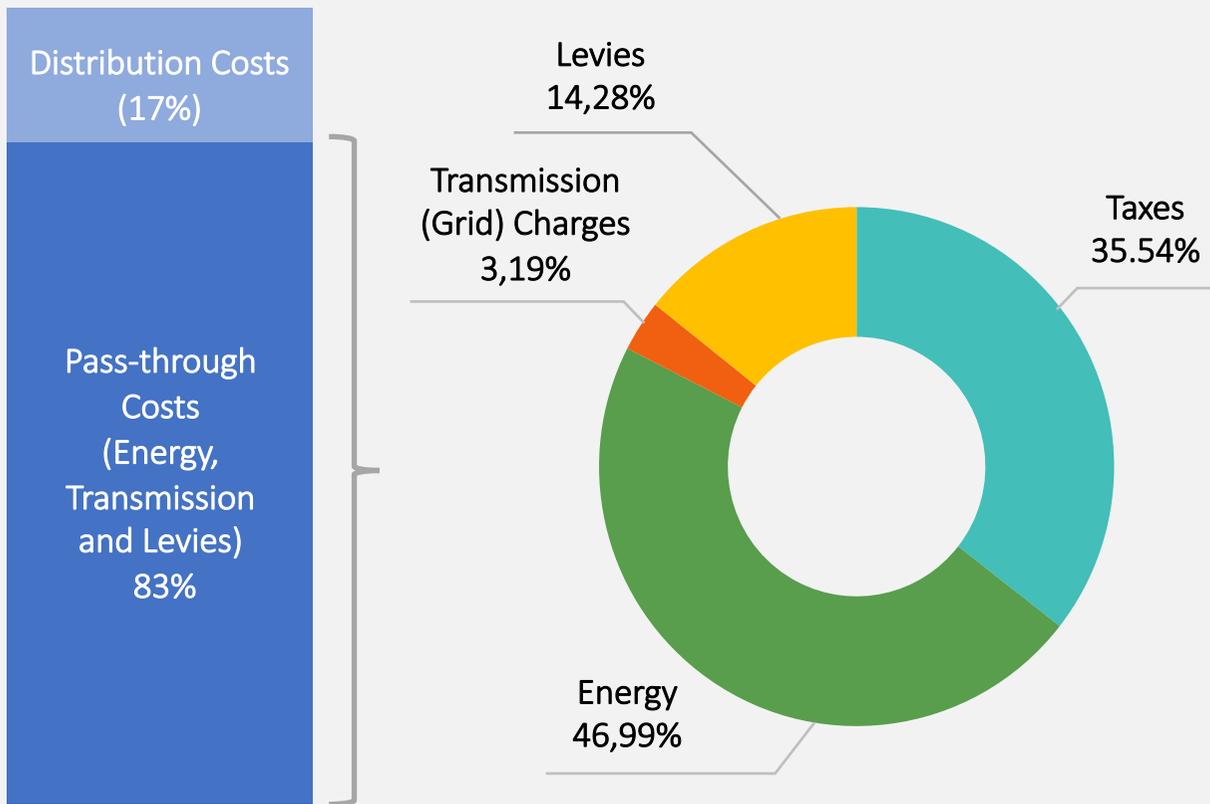


Levies Increase (2003-2018)



Electricity tariffs 2017:

Taxes and levies account for circa 50% of sector's cost



Revenues from users' charges must cover costs of services provision.

Since coverage is universal (more than 99% of the population is connected to the grid) electricity services is one of the most taxed products in the economy.

It is *de facto* a vehicle to promote distributive policies.

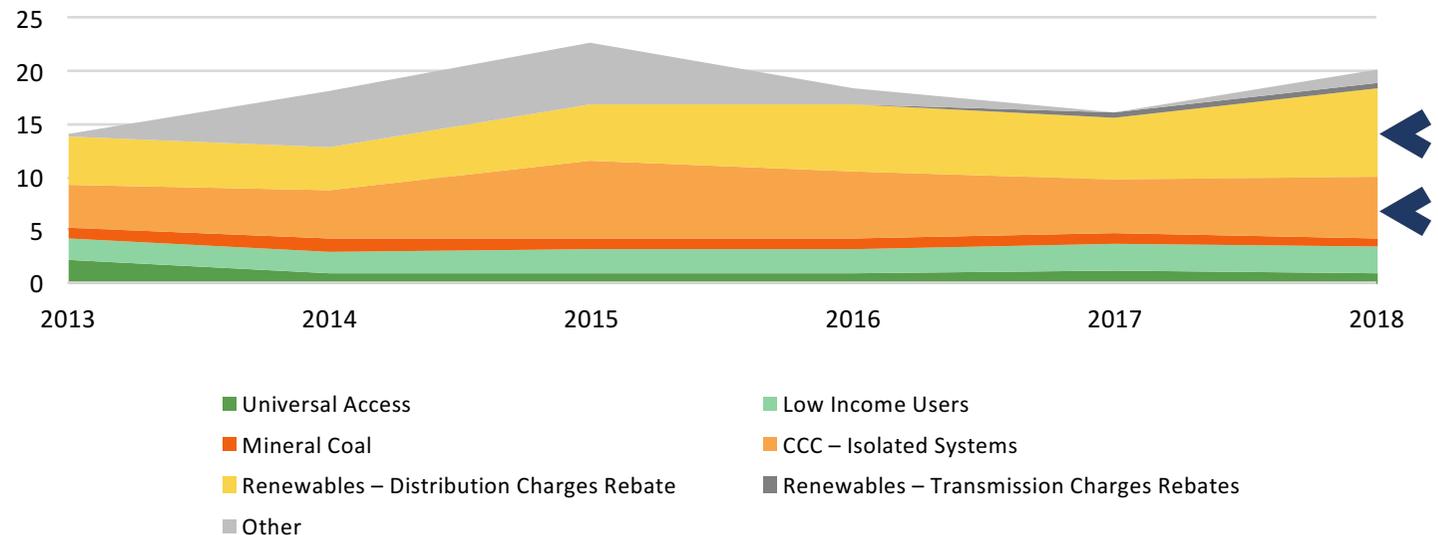
Evolution of CDE Levy Components 2013-2018:

Renewables and fossil fuel generation in remote areas are the main beneficiaries

In 2016/17 the government revisited the subsidies policy with two main conclusions:

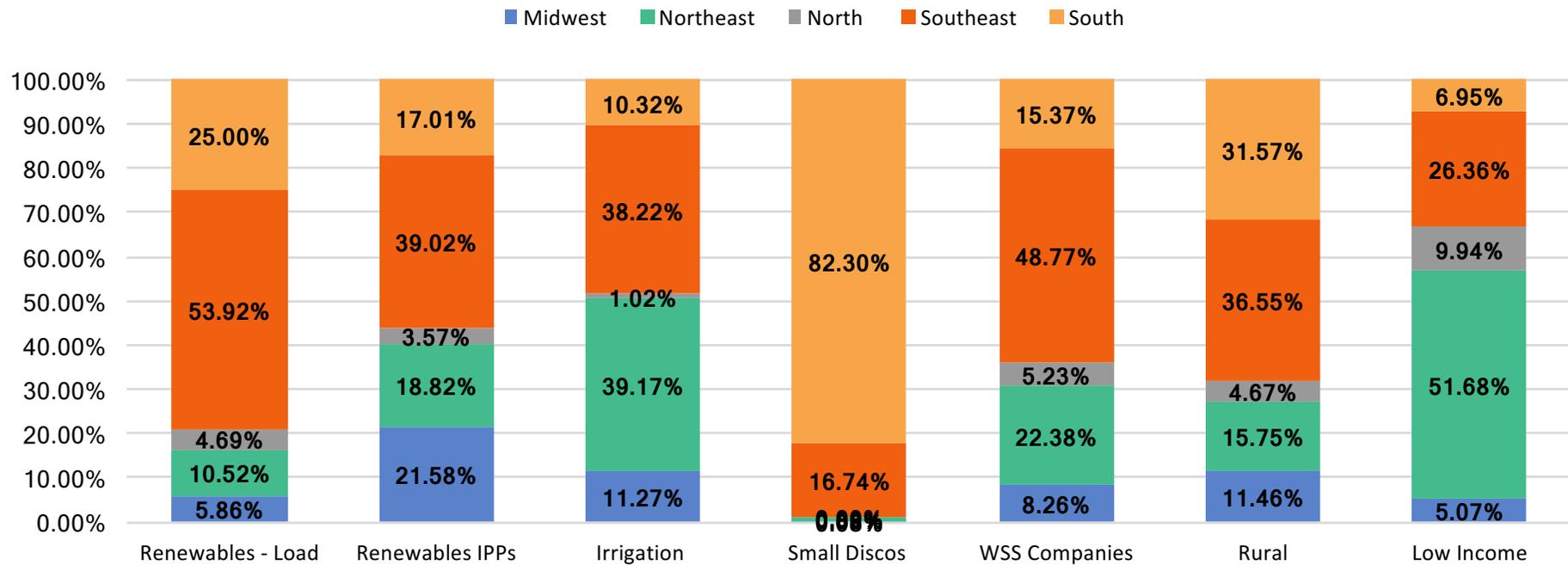
- **Subsidies have no mitigation strategy** - not limited in time nor in the amount of resources.
- **The system is plagued with design flaws:** (i) no impact assessment; (ii) not targeted; (iii) beneficiaries are entitled to receive more than one subsidy once it meets the inclusion criteria.

Subsidies Financed Through the Energy Development Account - CDE



Regional Distribution of Subsidies (2014-18):

Developed regions benefiting from the highest amount of subsidies!



Lessons from Electricity Subsidies in Brazil:

This may not be what you expected

Self-sustainability

Market liberalization reforms drove the Regulator to set rates aimed at no subsidies from the government (Federal budget)



Sector Revenues

Utilities' revenues stem from users charges only. It must cover costs of providing services for both regulated and liberalized markets. Subsidies are funded by taxes and levies charged to users.



Intra-sector Subsidies

Universal access was implemented but subsidized through a decentralized approach - at Discos level and within concessions. Pervasive system of subsidies benefiting small Discos, renewables energy, low-income, irrigators, WSS companies, fossil fuel IPPs, remote areas, etc...)



Market Distortions

Cross subsidies among users groups and regions impair competitiveness of the economy undermining affordability of the electricity. Despite efforts from the government, reforms have not been implemented. The problem is at the top of the sector's agenda for the next presidential mandate.

Thank You!

Joisa.dutra@fgv.br