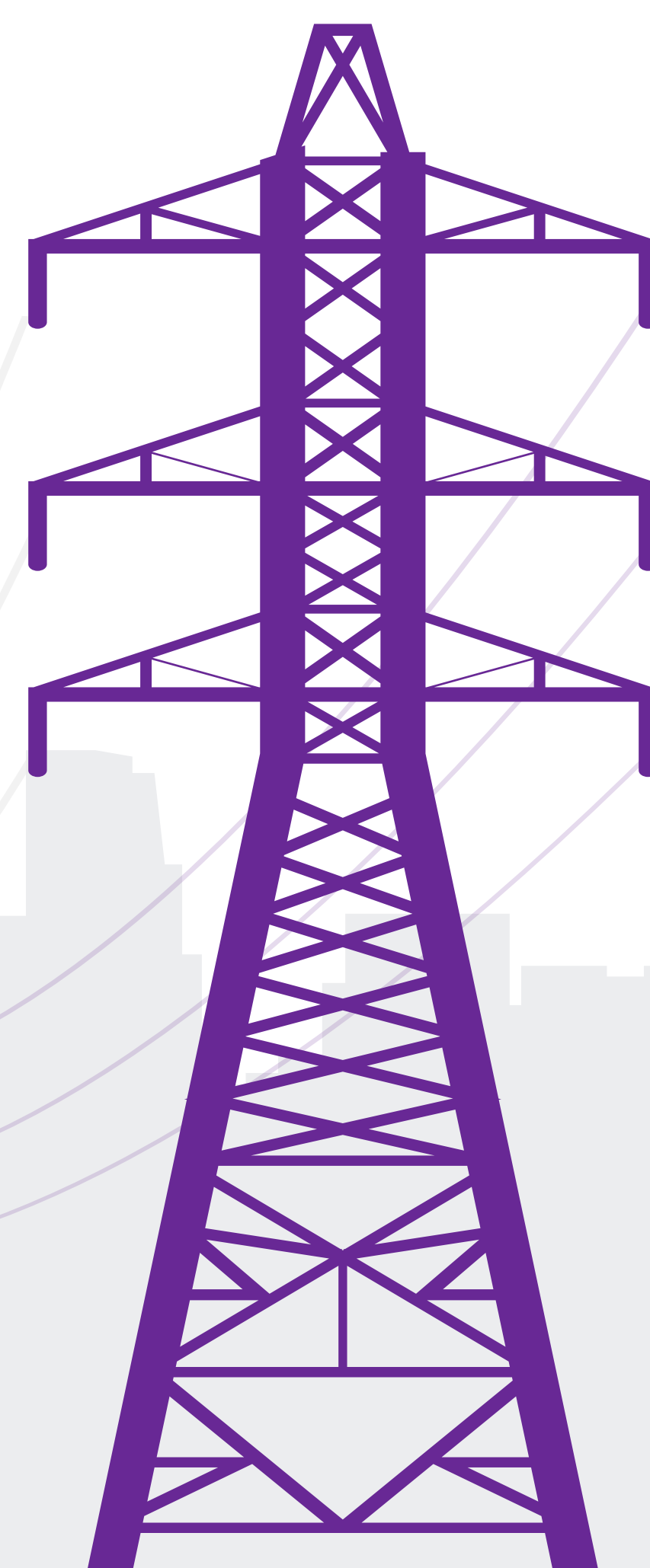


Brazil's government has issued Provisional Measure (PM) No. 1,300/2025 to initiate a series of reforms within the electricity sector. Amending several aspects of existing legislation, the provisional measure will remain in effect for up to 120 days, during which it will be reviewed by the Brazilian Congress. Below, we outline the main issues and provide initial comments.

Opening the Market and Effects on Electricity Distribution

- The free contracting market for Low Voltage consumers will open as of **August 1, 2026** (industrial and commercial consumers) and **December 1, 2027** (residential consumers)
 - **This is a beneficial measure at the discretion of the granting authority (this could even occur via regulation).**
- Creation of the Supplier of Last Instance (SUI) – a legal entity authorized by the Brazilian Electric Energy Agency (ANEEL) responsible for serving consumers in the case of failure of retail suppliers
 - **This issue has been debated ever since the issuance of Bill No. 414/2021, whose definition is essential due to opening of the market.**
- The Granting Authority must regulate the role of the SUI by February 1, 2026, defining **(i)** which consumers are eligible for supply, and **(ii)** whether the distributors must (or may) carry out this activity.
 - By July 1, 2026, the activities of **(i)** regulated trading and **(ii)** public distribution services must be formally separated
 - **This measure can be taken, as long as the economic and financial balance of the distributors is observed (as provided for).**
 - The costs of involuntary exposure or the overcontracting of distributors (as a result of the migration) will be shared through a tariff charged to free contracting market (ACL) and regulated contracting market (ACR) consumers
 - **The benefits of the new tariff and the potential mass migration indirectly change the conditions for forecasting the demand necessary for holding auctions, a topic that should be addressed more broadly if the provisional measure is converted into law (or via regulations).**
 - However, the PM provides that SUI costs will be borne via a tariff charged only to ACL consumers
 - **This provision is questionable from a legal perspective.**



Power Self-Production

- The PM establishes a broad definition of 'self-producer' and, in respect of self-production by equivalence, it no longer refers only to exempting CDE, PROINFA and CCC charges
 - **In our view, this change clarifies that all sectoral charges become subject to exemption, and the self-producer or self-producer by equivalence must only bear charges over the difference resulting from its net consumption (as already provided for in Article 59, Decree 5,163/2004), unless otherwise expressly provided for in law.**
- New requirements have been created for self-producers by equivalence:
 - Minimum demand:** 30 MW of 'aggregate contracted demand', composed of consumption units with a minimum demand of 3 MW
 - Equity in the enterprise:** **(i)** direct or indirect equity interest with voting rights, or **(ii)** an interest in the economic group of a company meeting the previous requirement
 - Minimum stake:** 30% of the capital stock **if** non-voting shares confer more economic rights than voting shares
- The new requirements do not apply to self-production projects that have already been signed until the end of their respective power production licenses (PPAs). Such projects must prove their status either via contracts already registered with the CCEE (Brazil's electric energy clearinghouse), or their full equity interest in the SPVs, or by submitting the relevant shares/quotas sale and purchase agreements (or options) within 60 days of the provisional measure's publication date.
- After this 60-day deadline, only greenfield projects entering into commercial operation after the MP's publication date may qualify for self-production, provided they meet the new demand and minimum equity interest requirements indicated above for self-producers by equivalence
 - **The converted law (or regulations) should clarify which measure will be considered to verify the fulfillment with the 60-day deadline – in our view, contracts proven to have been executed should be accepted (or, at the very least, filed with ANEEL or Brazil's Antitrust Authority – CADE).**

Discounts on TUSD/TUST Tariffs

- The TUSD/TUST discount applicable to consumption has ended, although the discounts on generation remain unchanged
 - Discounts on consumption in PPAs registered and validated with the CCEE by **December 31, 2025** will remain valid
 - The discount will be lost in the event of **(i)** transfer of the PPA's ownership, **(ii)** extension of the contract, **(iii)** provisions of an indefinite term clause, and (iv) registration of a volume equal to zero or lack of registration by December 31, 2025
 - In calculating the discount, the registered and validated amounts of energy **cannot** be changed after December 31, 2025
 - **This is an important point for all ACL agents who have PPAs providing for registry against payment (registro contra pagamento)**
- In the event there is evidence of fraud or misleading conduct (simulação) to obtain the discount, the CCEE must notify ANEEL to determine liability.
 - **Both the end of the discount on consumption and the obligation to register go against acquired rights arising from the legal provisions of the current power production licenses, being subject to questioning if included in the converted law**

