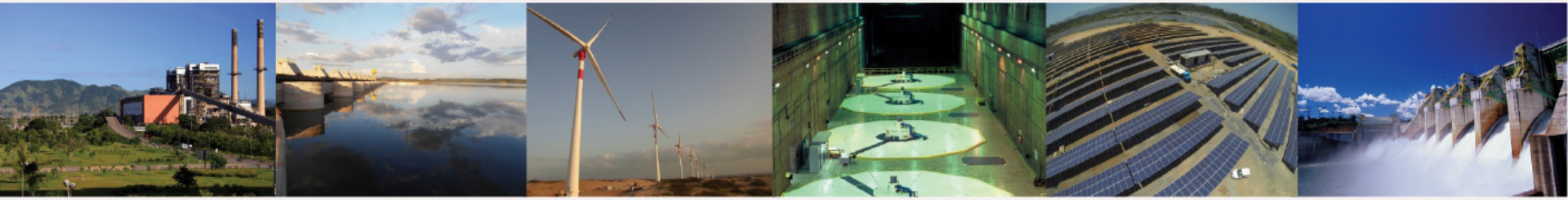
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Electric energy market: current conditions to meet load and trends for 2015

Manoel Arlindo Zaroni Torres

São Paulo, October 1st, 2014

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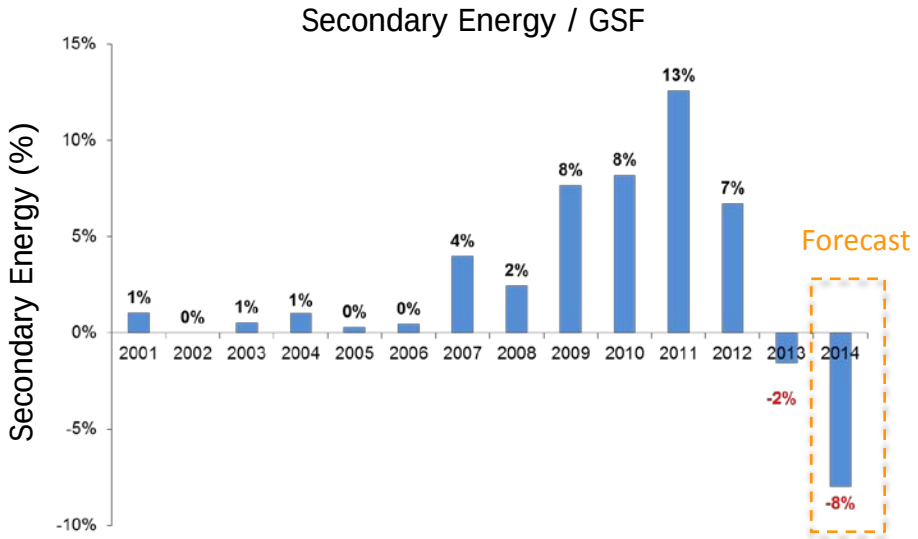
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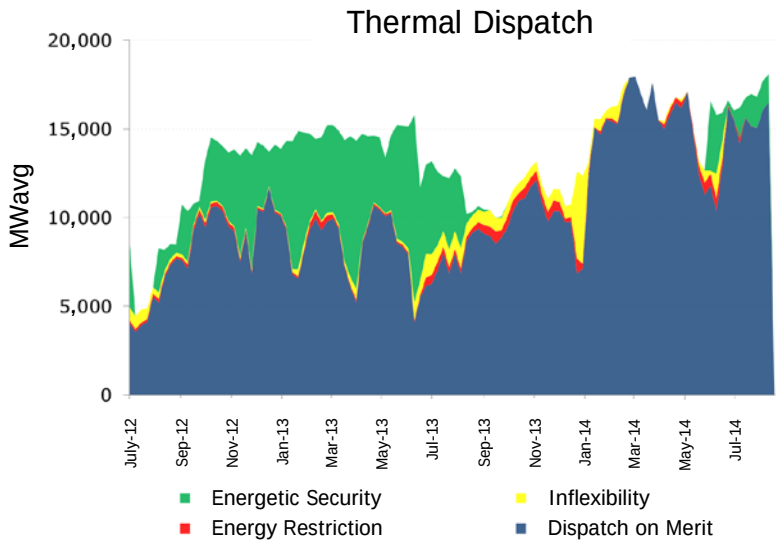
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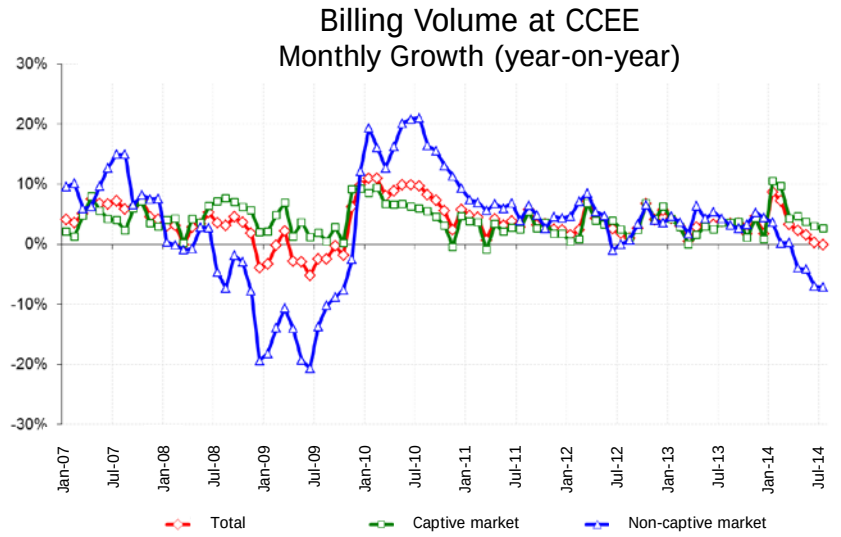
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Market thermometer

- High thermal dispatch
- Reduction in hydro generation, which is currently below commercial capacity
- Growth slowdown in the non-captive market

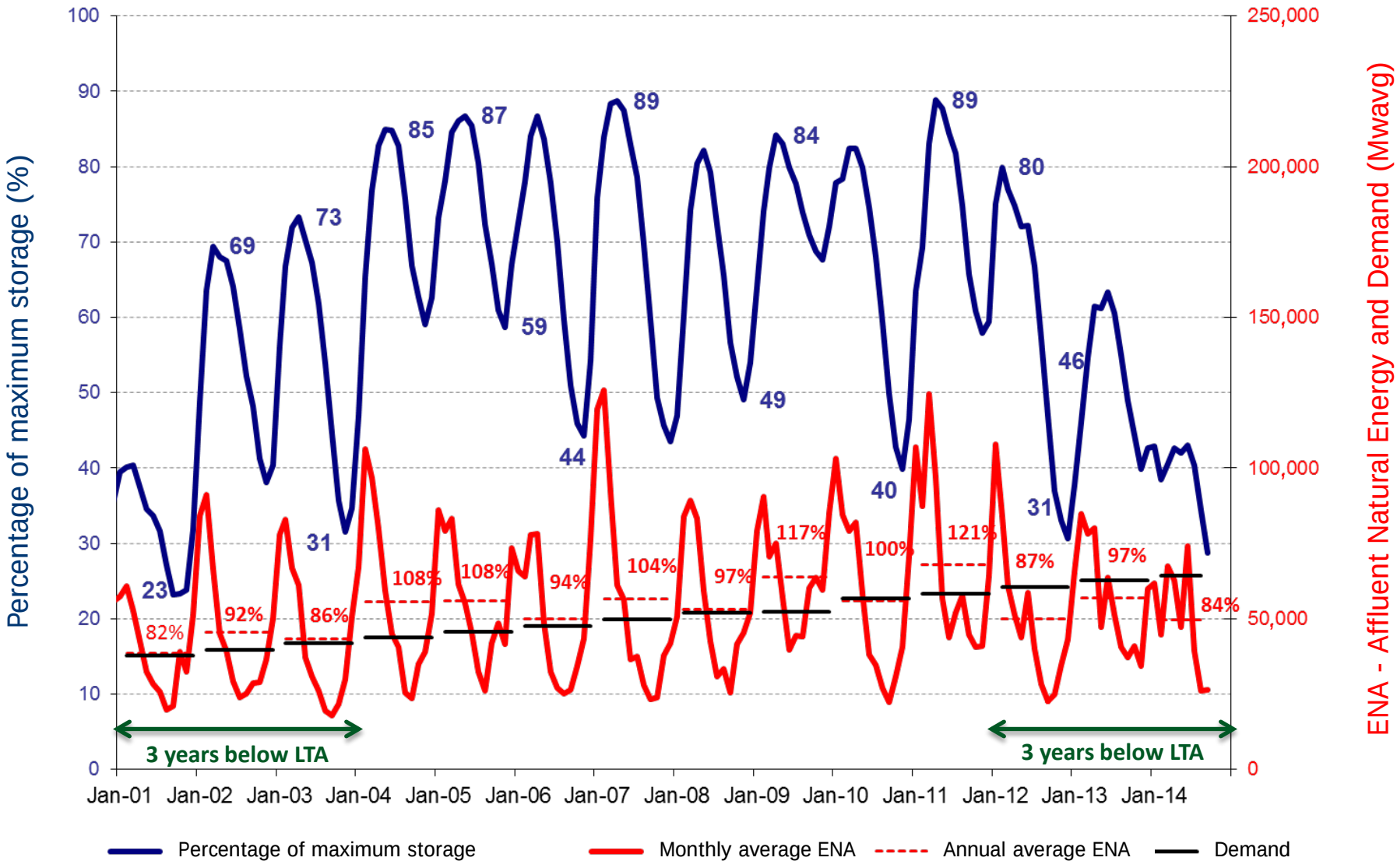






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ENA historical data and storage



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Tractebel “now” (Sep 30, 2014, 8:11 am): load factor of 73%



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Project under construction: Ferrari TPP retrofit

The Ferrari TPP, a sugar-cane bagasse-fired plant located in Pirassununga (SP), has an installed capacity of 65.5 MW and 23.2 aMW of commercial capacity.

Project Details



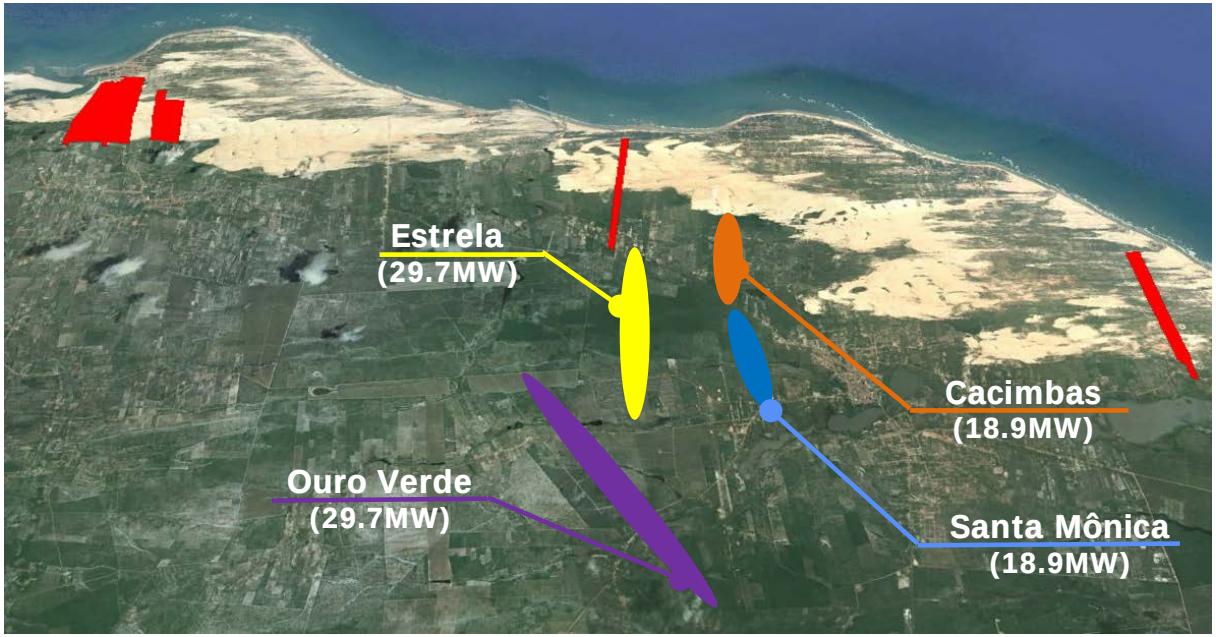


The Company is investing R$ 85 million in a retrofit, thus expanding the plant's installed capacity to 80.5 MW and commercial capacity to 35.6 MW médios.

Project under construction: Santa Mônica Wind Complex

Tractebel Energia is currently developing the Santa Monica Wind Complex, located alongside the Trairi Wind Complex (CE). The project, comprised of four plants with a total installed capacity of 97.2 MW (47.3 aMW), will have its output directed to the so-called special clients.

Project Details



Red areas: Trairi Wind Complex

Santa Mônica Wind Complex
- transmission line concluded
- 36 wind generators
- maker: Alstom
- capacity: 2.7 MW each
- model: ECO122

The Company will invest approximately R$ 460 million[1] in the Complex, thus expanding the non-renewable conventional power within its generating portfolio. The COD for the whole Complex is expected for 2016.

Note:
[1] Approximate updated value.

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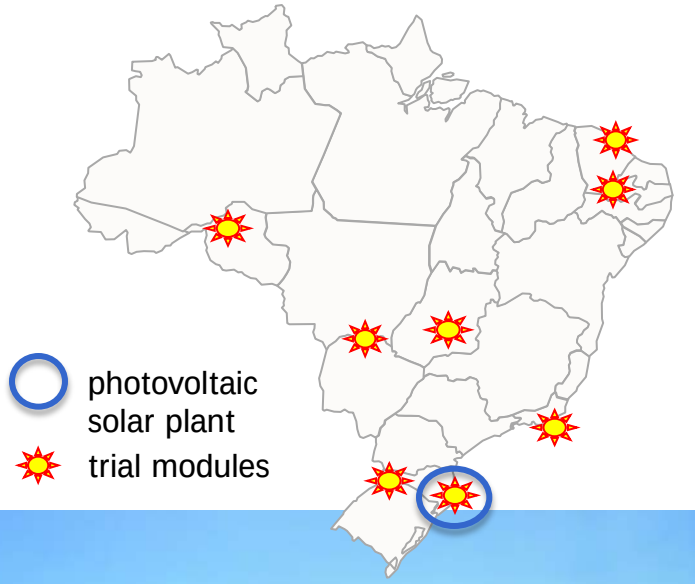
Project in commercial operation: Cidade Azul Photovoltaic Solar Plant

Photovoltaic Solar Project

- installed capacity of the photovoltaic solar plant: 3 MWp
- installation of trial modules (70 kWp each), set in locations with diverse regional climate conditions, besides of Brazil's largest-to-be photovoltaic solar plant
- expected investment: R$ 56.3 million
- goal: to assess the solar generation potential in Brazil, its complementarity with another power sources and identify the most appropriate technologies matching the climate conditions for several regions
- partnership with Federal University of Santa Catarina's Photovoltaic Research Group and other institutions
- developed under the Aneel's Technological Research and Development Program for the Electric Energy Sector

Project status

- Entered into commercial operation on August 9, 2014





Cidade Azul Photovoltaic Solar Plant

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Challenges for 2014 and 2015 (1 of 2)

- A-5 Auction (Nov 28, 2014): beginning of supply on Jan 1st, 2019
  - 1,115 projects enrolled: around 53,869 MW
  - Transmission risk is on the generation developer
  - Outputs
    - Quantity product (30 years): SHP and HPP
    - Thermal availability product (25 years): coal, gas and biomass
    - Wind and solar availability product (20 years): wind and solar
  - Thermal requirements
    - Maximum CVU (generation variable cost) = R$ 250.00/MWh and inflexibility < 50%

- A-1 Auction: has not been announced by the Government
  - Objective: to contract ~ 3,000 MWavg from Regulated Market Contracts (CCEARs) which will expire on 12/31/14, in order to reduce distributors' overall short position
  - Risk: as distributors are short in the first half of 2015, they will be long in the second half, should they get contracted (because they will receive quotas in mid-2015)
  - Should the A-1 Auction does not occur in 2014, distributors will need an adjustment auction in 2015 (contingent upon legal limits to overcome)
  - An A-0 Auction will require a legal change (PM 641 has lost its effects)

Challenges for 2014 and 2015 (2 of 2)

- Discussion about PLD limits
  - Current values: cap PLD = R$ 822.23/MWh (CVU of a significant thermal power plant) and floor PLD = R$ 15.62/MWh (Itaipu HPP's costs of generation)
  - Aneel's proposal: absence of technical arguments to decrease cap PLD (two options: deficit cost or significant thermal power plant CVU) and suggests the cost of hydro power plants generation based on quota regime for floor PLD
  - Conclusion: exposed agents tend to support cap reduction, while agents with a long term vision (expansion) are concerned with the creation of artificial measures in price formation and agree with Aneel's proposal

- Tariff flags
  - Concept: to give captive consumer a price signal
  - A R$ 6 billion reduction is expected in the ACR (Regulated Contracting Environment) account
  - Operating issues to solve so as the flags can take into effect as of January 1st, 2015