

# Distribution

November/2022





# Agenda

## **1 General Concepts**

- 1.1** Distribution Overview
- 1.2** Regulation Basic Concept
- 1.3** Value creation
- 1.4** Tariffs

## **2 Actual x Regulatory EBITDA**

- 2.1** Losses
- 2.2** Regulatory Operational Costs x PMSO
- 2.3** Irrecoverable Revenues x ADA
- 2.4** Energy Sales
- 2.5** Other Revenues
- 2.6** Other items
- 2.7** Concession financial asset
- 2.8** New contract

## **3 Taxes**

- 3.1** PIS/COFINS and ICMS
- 3.2** Income Tax/Social Contribution

## **4 Attention points**

- 4.1** X Factor
- 4.2** Regulatory Assets & Liabilities
- 4.3** Overcontracting
- 4.4** Overdue bills



# 1. General Concepts

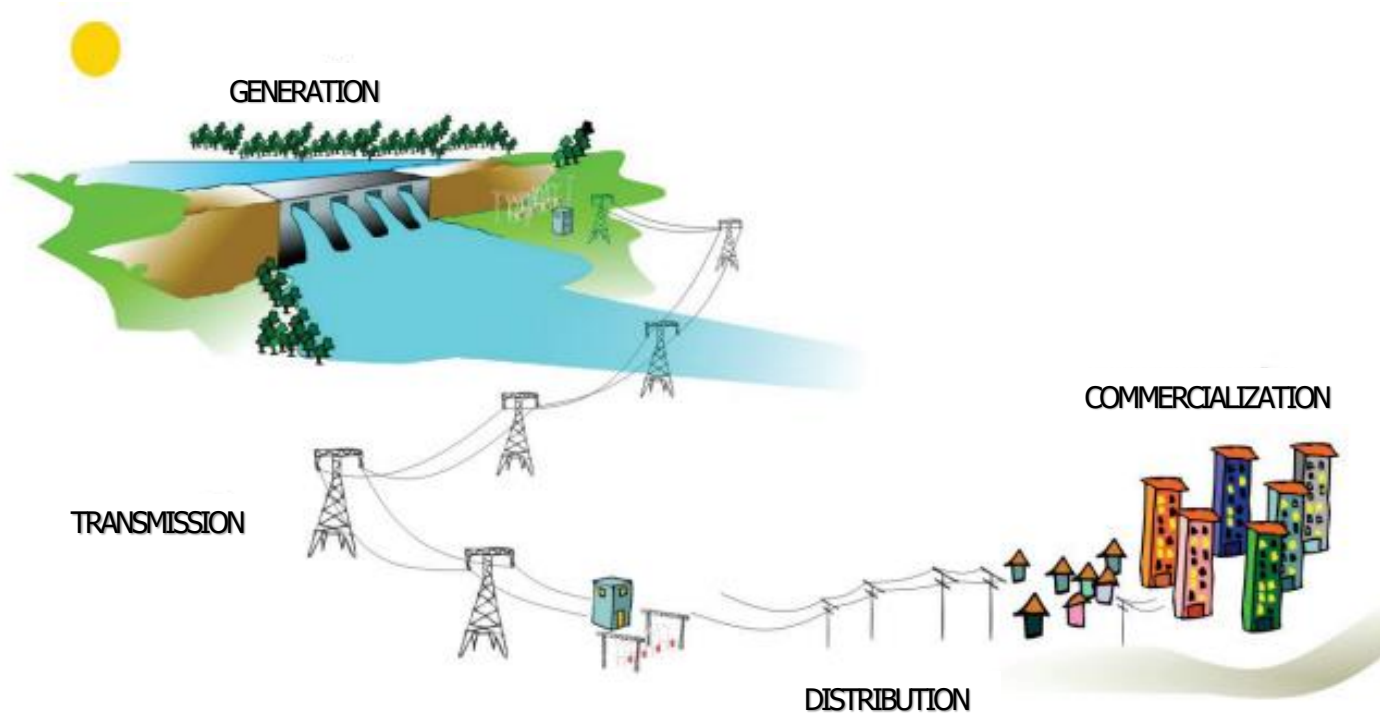
What you need to know...

- ✓ How we can create value in the Distribution business
- ✓ Key Aneel terms to characterize discos concession area
- ✓ How tariffs are calculated



# 1.1 Distribution Overview

# Overview: Distribution Segment in the Power Sector



## Distribution System

It is the segment of the Power Sector dedicated to **supplying electricity to the final consumer and other users**, by **lowering the voltage** coming from the transmission system.

The distribution system comprises the electrical grid and the set of installations and electrical equipment that operate at high voltage levels (greater than or equal to 69 kV and less than 230 kV), medium voltage (greater than or equal to 2.3 kV and less than 69 kV) and low voltage (less than 2.3 kV).

# 1.2 Regulation Basic Concept

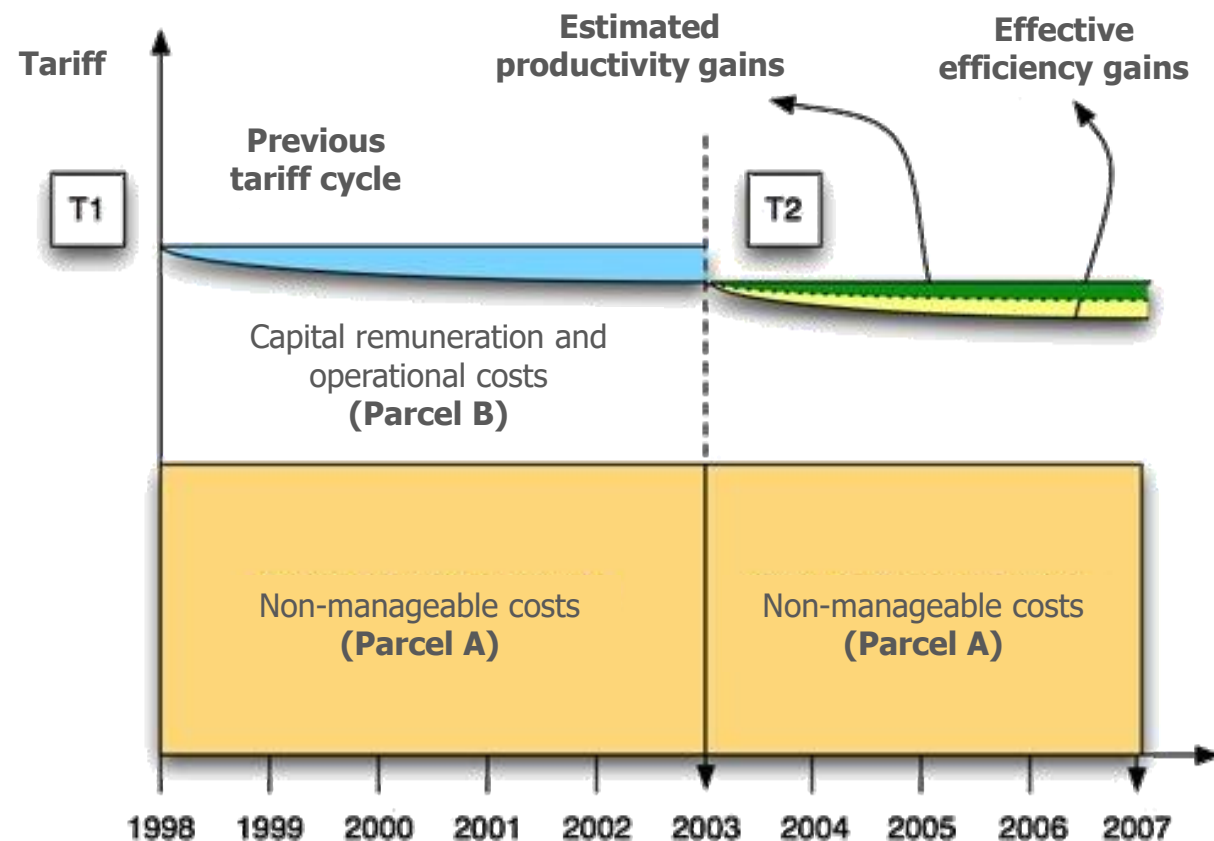
# Price Cap Model

Conceptually, the sharing of productivity gains by concessionaires with consumers occurs between tariff review events



## Tariff Repositioning Rationale

### Productivity and Efficiency Gains



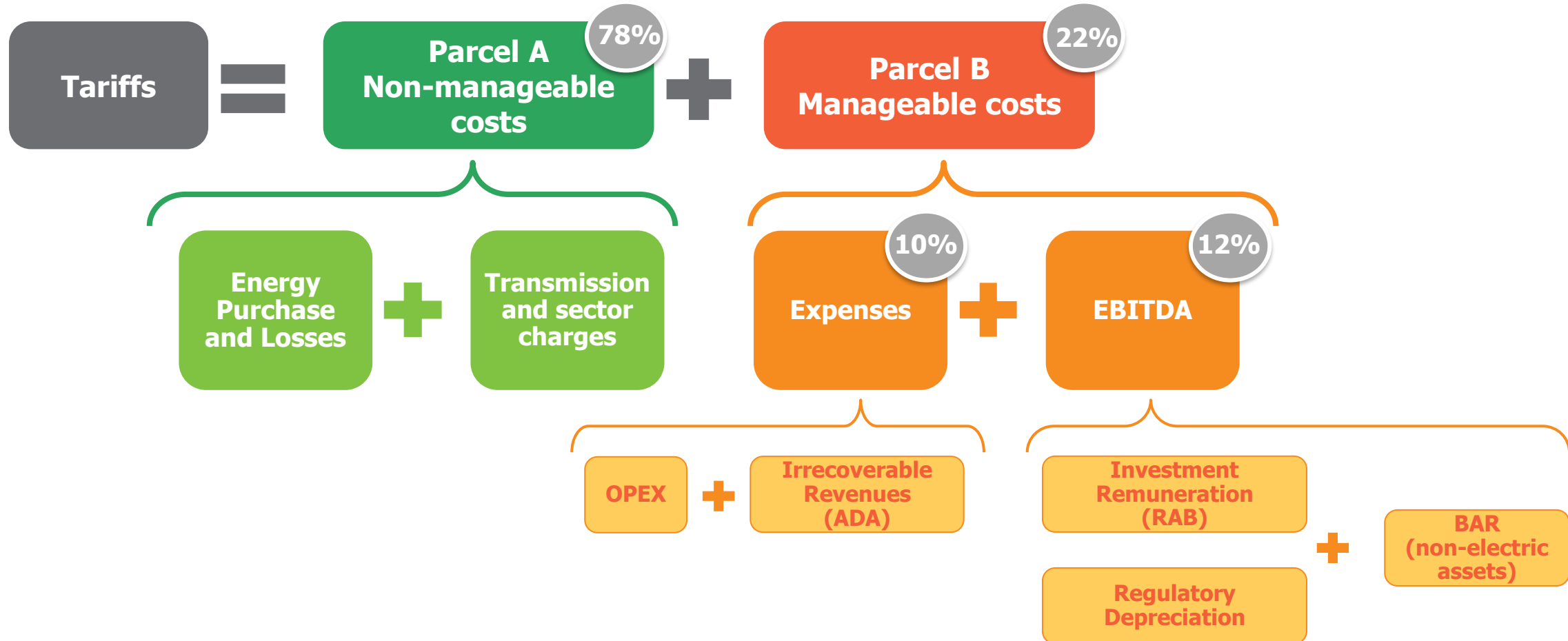
X Factor **encourages an increase in the productivity** of the sector, as in the period between tariff revisions, concessionaires can appropriate the productivity gain obtained **above the X Factor value set by the regulator** (price cap).

# 1.3 Value Creation



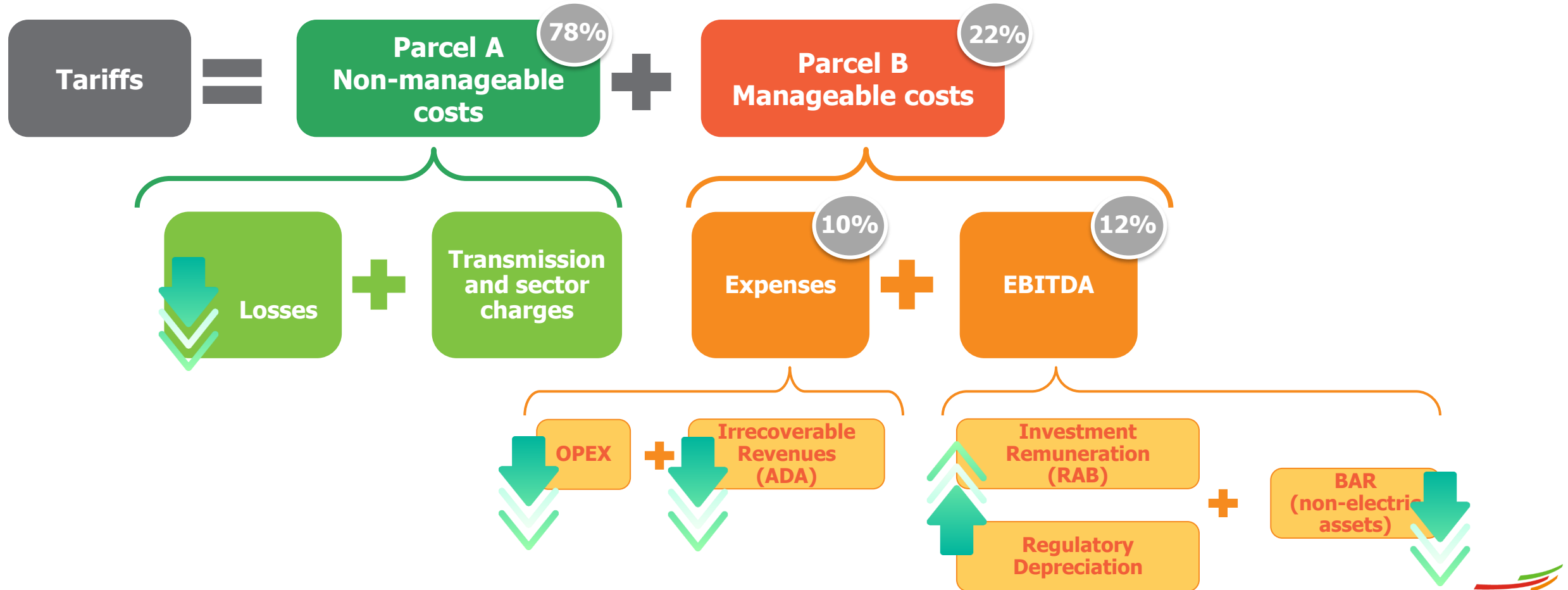
# Value creation in Distribution

## How to make money in the Distribution business?



# Value creation in Distribution

## How to make money in the Distribution business?



%

CPFL Paulista average cost structure (2018 Tariff Revision)

# Discos' Tariff Composition Ebtida

**Investment Remuneration** is the portion intended to cover the shareholder's remuneration for the capital invested in the concession



**Investment  
Remuneration**

**Regulatory  
EBITDA**

**Depreciation  
Quote**



**Depreciation Quote** considers the depreciation and amortization of investments over its useful life

# Discos' Tariff Composition Ebtida



RETURN OF INVESTMENT

## Investment Remuneration

is the portion intended to cover shareholder and lenders remuneration for the capital invested in the concession.

$$\text{Investment Remuneration} = \frac{\text{Regulatory WACC} \times \text{Net RAB}}{(1 - \% \text{ taxes})}$$



# Discos' Tariff Composition Ebtida



## Depreciation Quote

considers the depreciation and amortization of investments over their useful life

**Depreciation  
Quote**

=

**Depreciation Rate**

×

**Gross  
RAB**

# Distribution Regulatory WACC (PRORET 2.4)

- **Ke** - Sample: NTN-B of the last 10 years (including reference year) and Beta of US companies (EEI Members)
- **Kd** — based on the debentures issuance cost of companies in the sector  
Sample: debentures issued by distribution companies in the last 10 years
- **Capital structure** – considers Net Debt/EBITDA = **3x** for the highest indebtedness: **Ke: 52% | Kd: 48%**
- **Considers delta related to business risk**

**Updates:** done annually, and once applied, is final until the next Tariff Revision

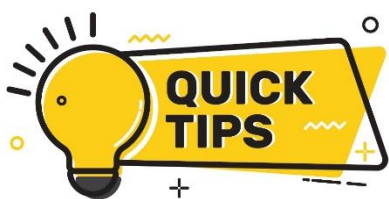
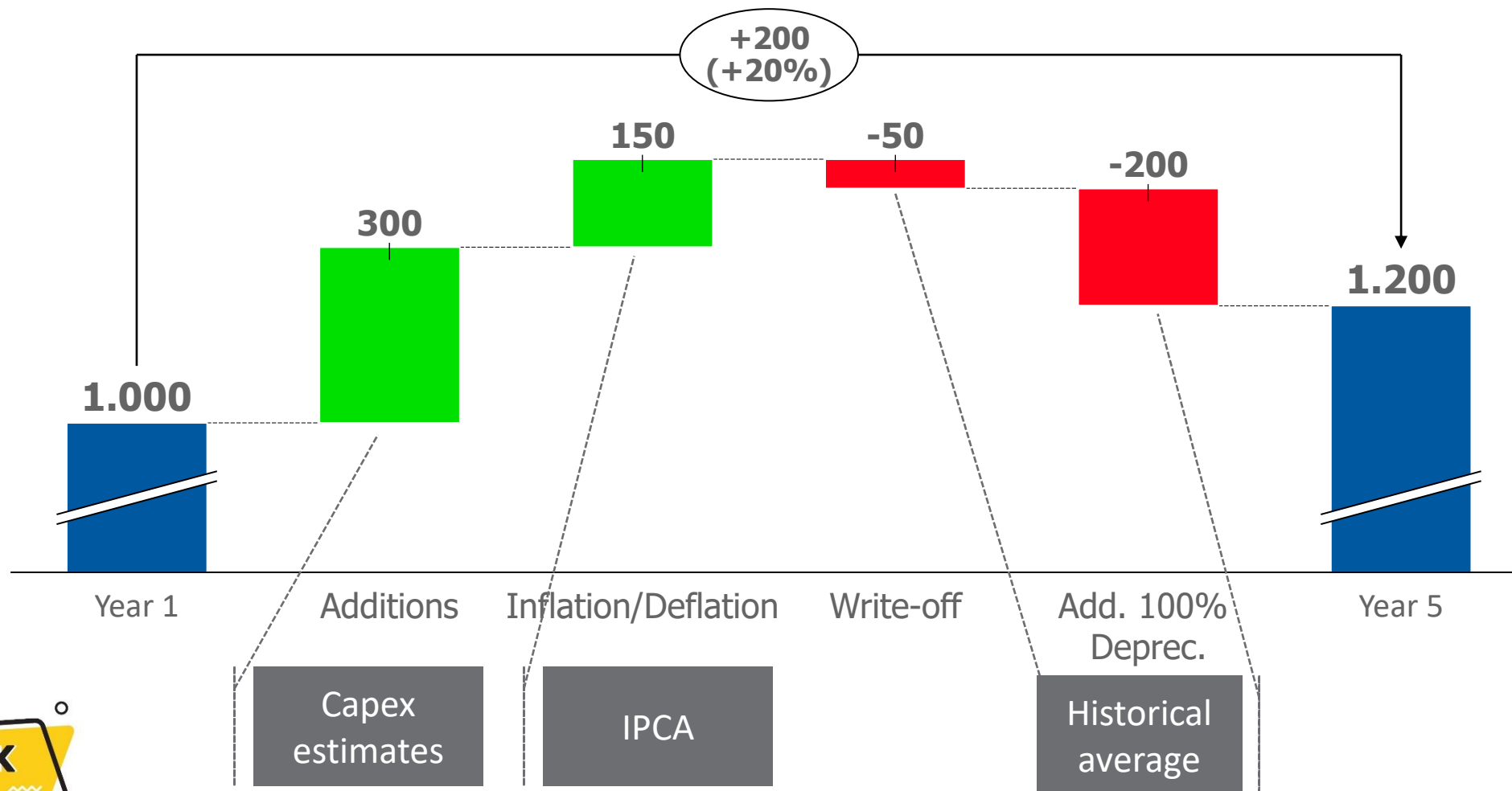
The  $r_{WACC}$  rates are calculated for the 5 years prior to the year of application, being:

- Ke's remuneration – average of the previous 5 years
- Kd remuneration - year before the year of application



# RAB – Theoretical Example

## Gross RAB | R\$ MM (Nominal Currency)



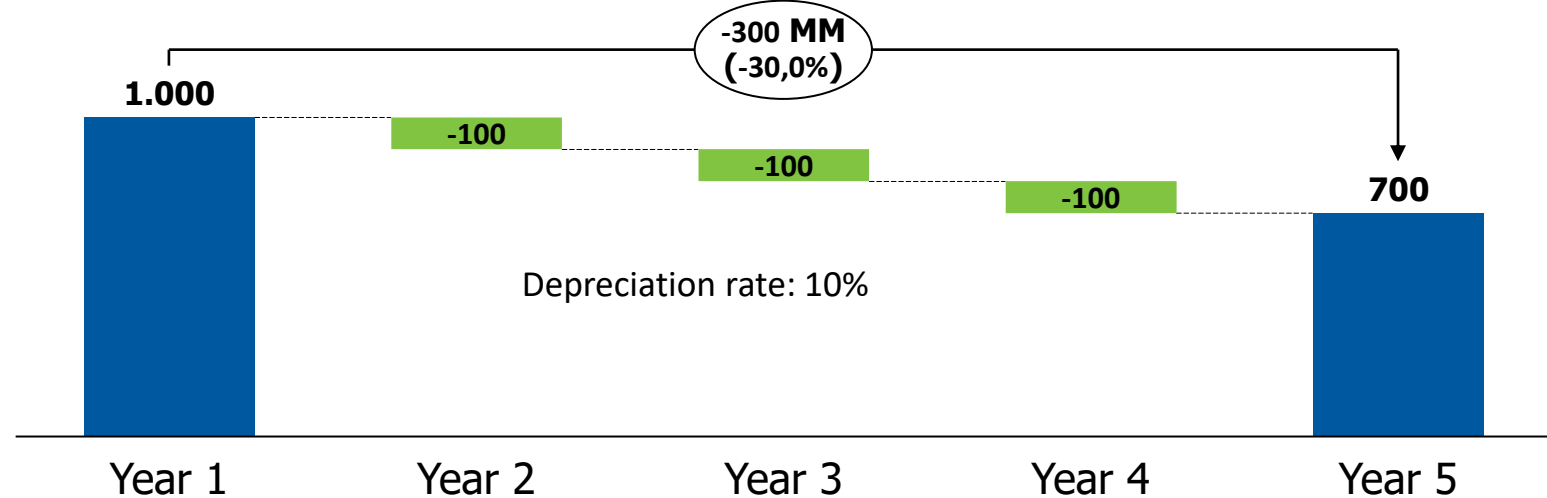


# RAB – Remuneration Asset Base

For goods with a short life cycle, it is worth paying attention to the moment when Capex is performed



- Investment in the beginning of the Tariff Cycle



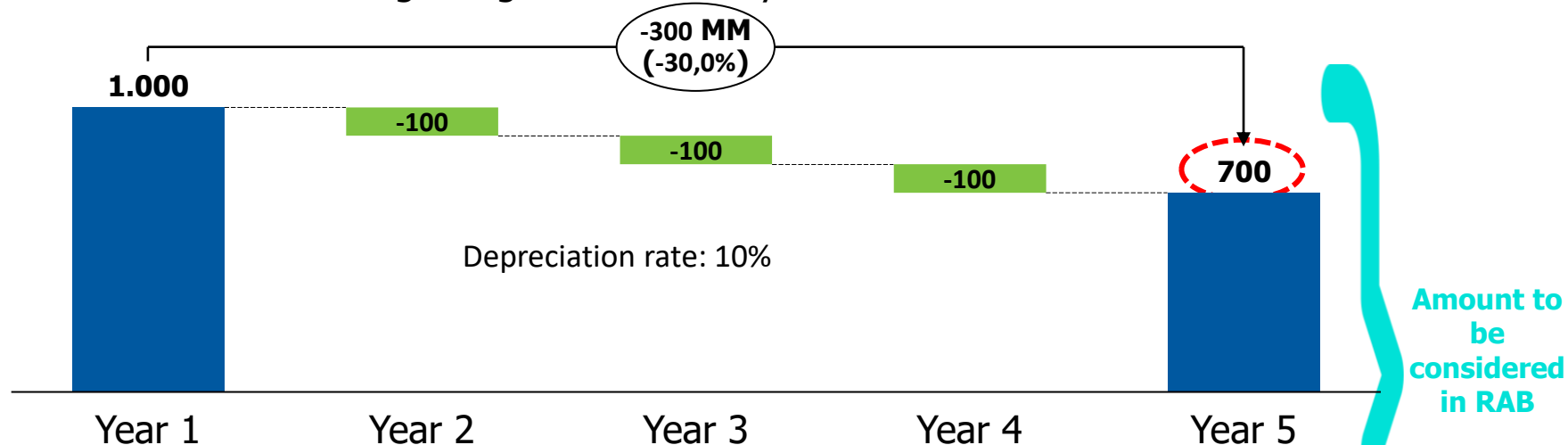


# RAB – Remuneration Asset Base

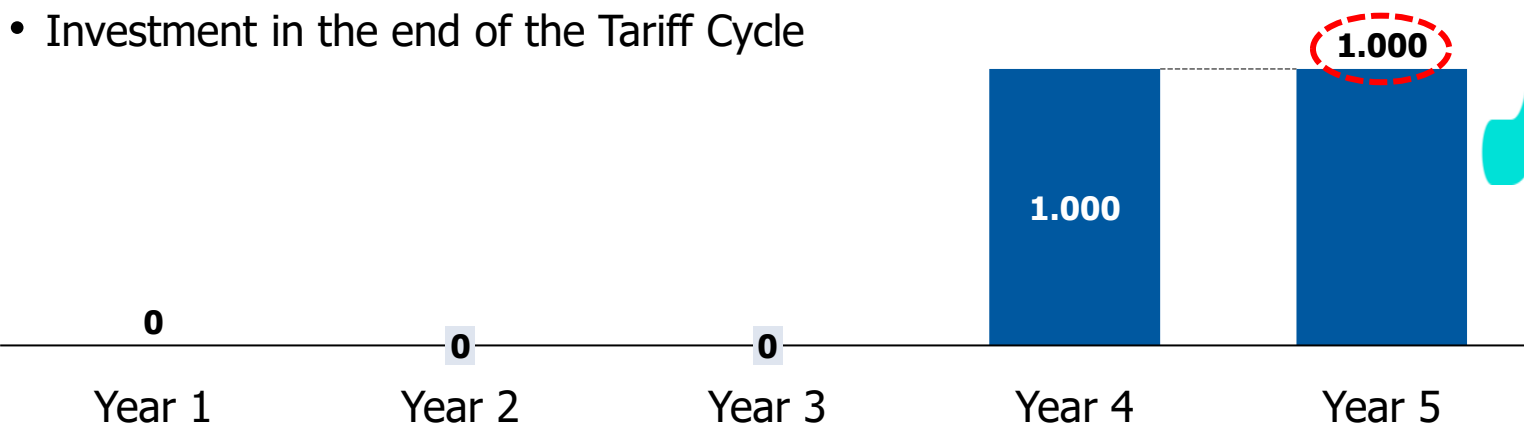
For goods with a short life cycle, it is worth paying attention to the moment when Capex is performed



- Investment in the beginning of the Tariff Cycle



- Investment in the end of the Tariff Cycle



# BAR – Non-electric assets

The **BAR** comprises the following groups of Fixed Assets in Service (AIS) and Intangible:

- ✓ Intangible – Softwares, Others
- ✓ Land – Administration
- ✓ Buildings, Civil Works and Improvements – Administration
- ✓ Machinery and Equipment – Administration
- ✓ Vehicles
- ✓ Furniture and appliances

**BAR: Non-electric assets**, that is, they are not included in RAB's AIS (Fixed Assets in Service)

In terms of regulation: it is defined based on a relationship with the AIS obtained in the RTP appraisal reports

$$BAR = 2,7159 \cdot (AIS - IA)^{-0,167+1} \cdot (IPCA_1/IPCA_0)^{0,167} \quad (9)$$

where:

**BAR:** Amount of regulatory remuneration base related to investments in non-electric assets;

**AIS:** Fixed Assets in Service approved in the RTP;

**IA:** AIS utilization rate approved in the RTP;

**IPCA<sub>1</sub>:** IPCA index in the date of RTP; and

**IPCA<sup>0</sup>:** IPCA in 01/01/2015



# Key takeaways

## 01

The current regulation model seeks to share the productivity gains obtained by the disco with its consumers



## 02

In order to create value in Distribution, constant investments and a continuous search for operational efficiency and cost reduction are required



## 03

Not all investments bring positive results:

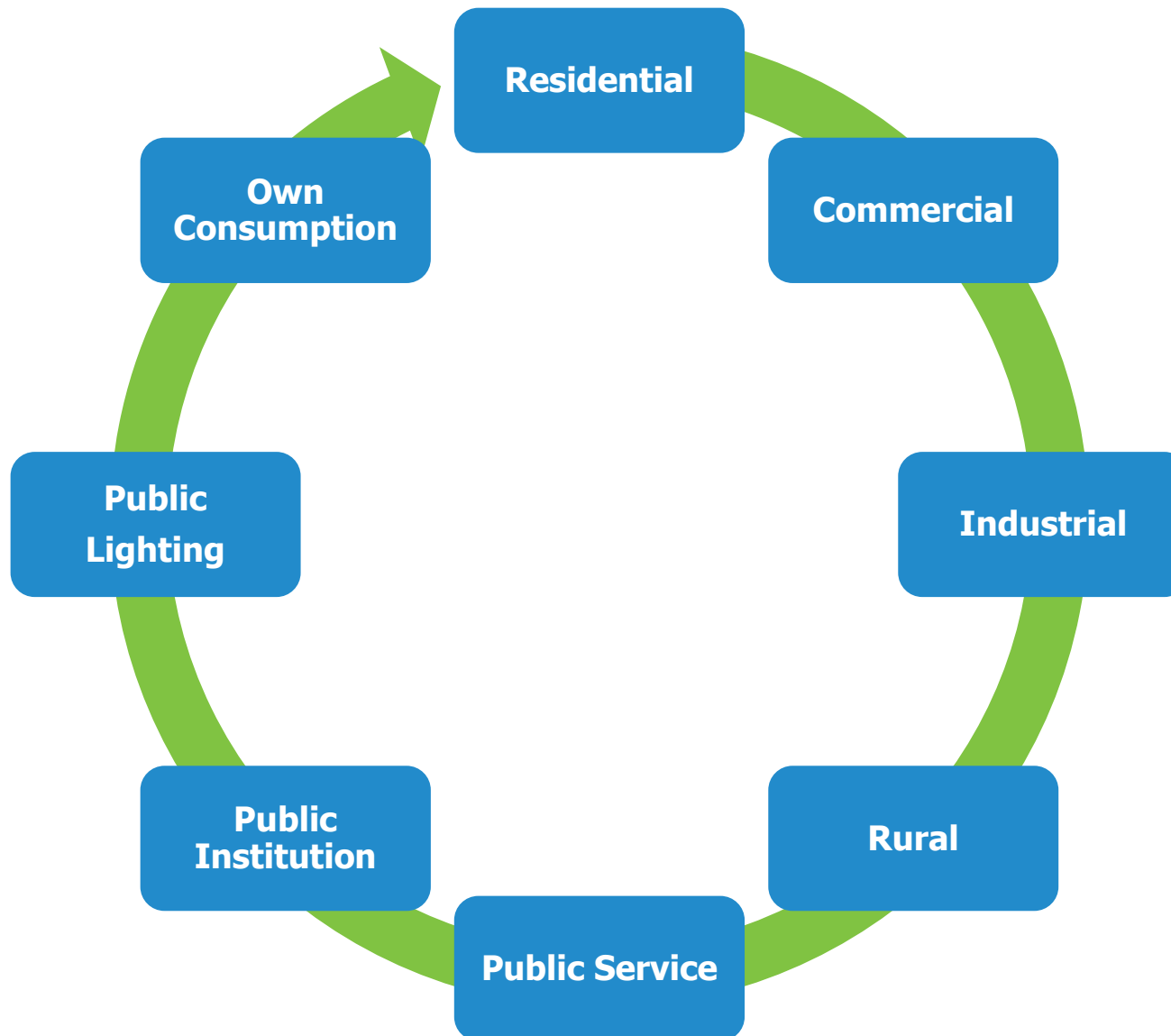
- Prudent investments in **RAB** assure capital remuneration and regulatory depreciation, although decreasing depending on the timing of their realization
- Investments in **BAR** are equivalent to an “expense”; therefore, they do not have remuneration for the invested capital, although they collaborate to improve business efficiency



# 1.4 Tariff composition

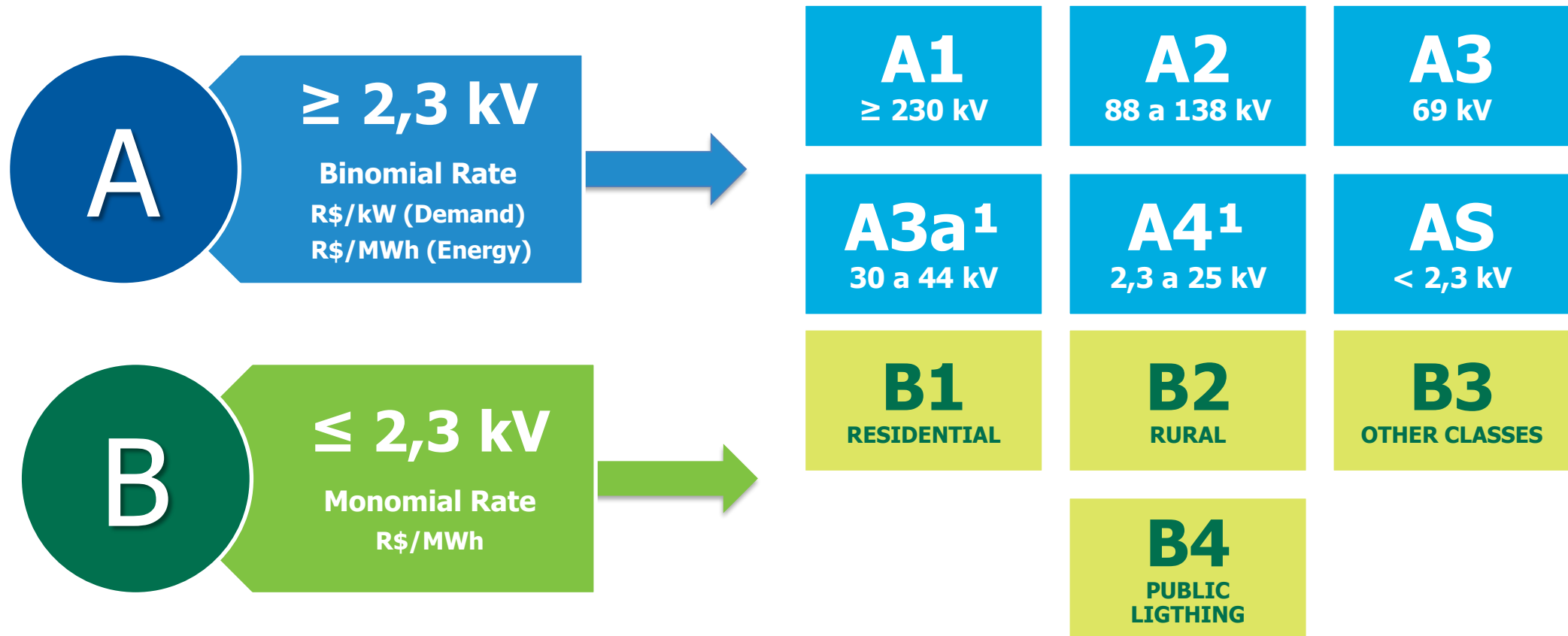


# Tariff composition – breakdown by segment



Definition given by  
**Article 177 of Decree  
No. 41,019/1957**,  
amended by Decrees  
No. 75,887/1975 and  
No. 86,463/1981.

# Tariff composition – breakdown by group and voltage



1) As of 3CRTP subgroups A3a and A4 were grouped for the purpose of constructing tariffs in EV.

# Tariff composition – tariff tiers

## OFF PEAK (OP)

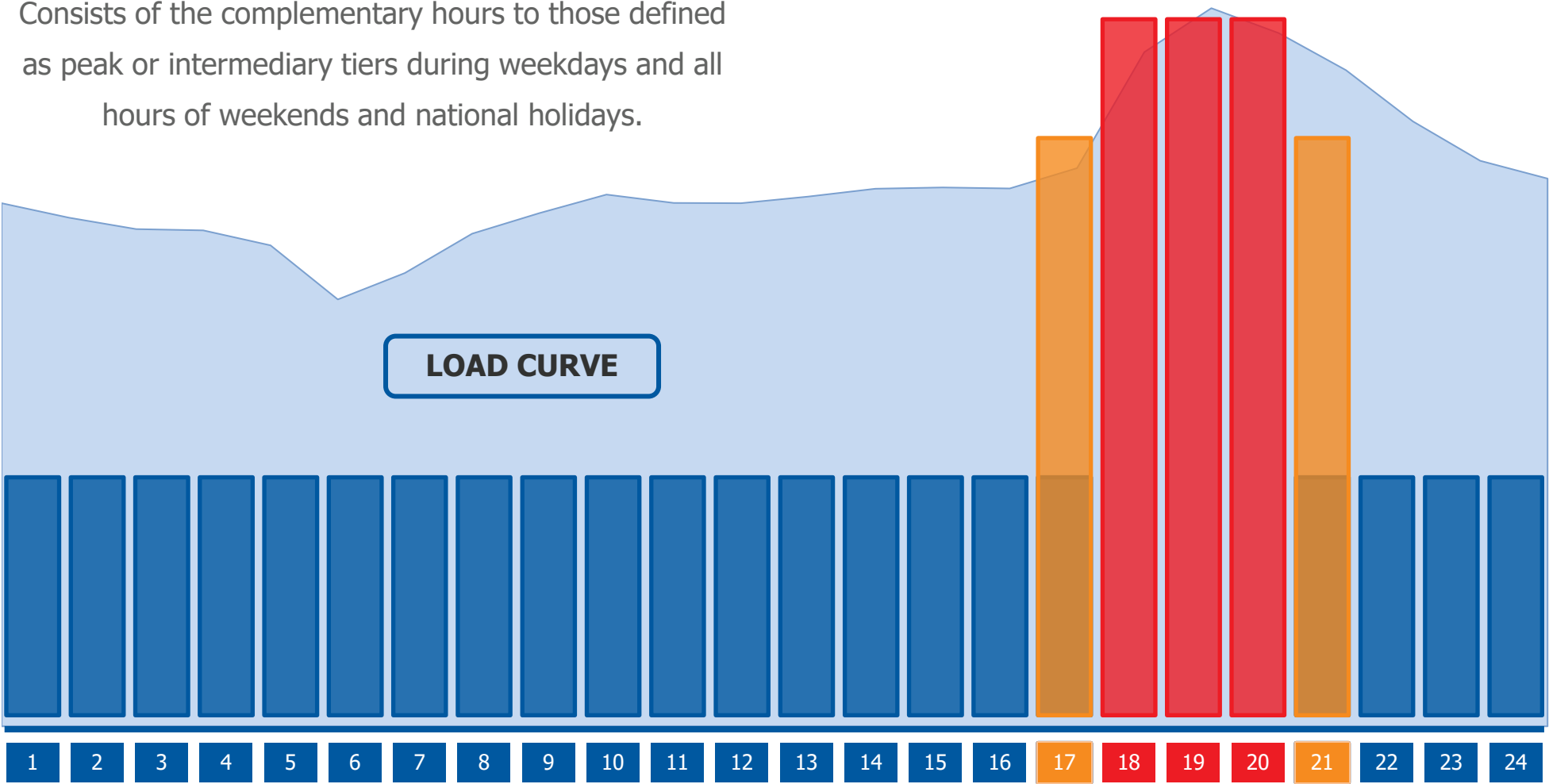
Consists of the complementary hours to those defined as peak or intermediary tiers during weekdays and all hours of weekends and national holidays.

## PEAK (P)

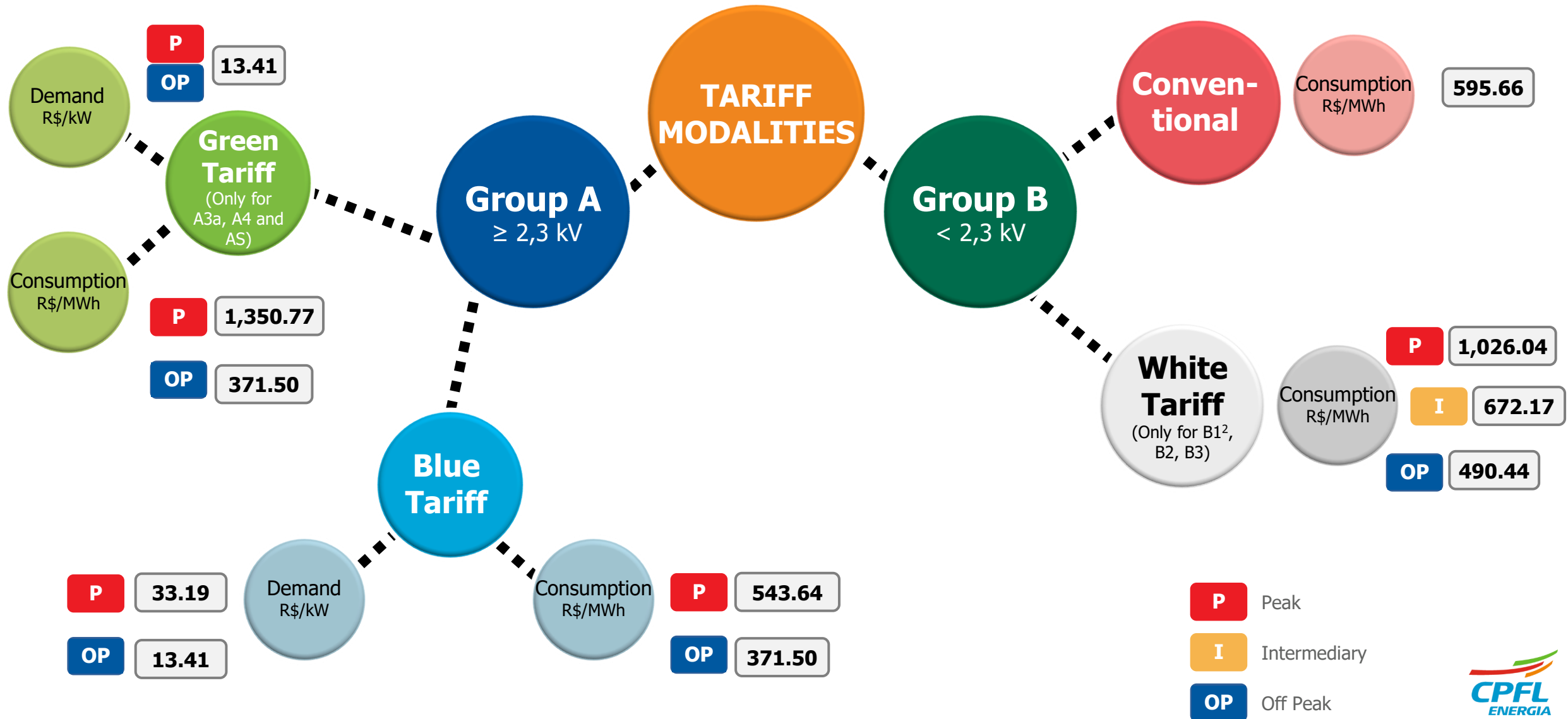
Three consecutive hours within weekdays defined by the DISCO and approved by ANEEL, exception made on weekends and national holidays.

## INTERMEDIARY (I)

Consists of two hours within weekdays – one immediately before and one immediately after the Peak tariff tier.



# Tariff composition – tariff modalities





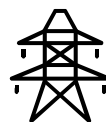
# Tariff Level - Annual Tariff Adjustments (RTA) and Periodic Tariff Revisions (RTP)

## Required Revenue – Tariff Level



### Manageable Costs

- OPEX
- Rate of Return and Depreciation



### Non-manageable Costs

- Energy Purchase
- Charges and Transmission



### Liquidation of Debts and Credits

Compensation Account of Parcel A Items (CVA)

#### Annual Adjustment (RTA)

Adjusted for inflation (-) expected productivity and quality index (X factor)




#### Periodic Tariff Revision (RTP)

every 4 or 5 years

Share gains with consumers and incentivize increase in efficiency

Recalculated every year to offset some effects of inflation on tariffs and pass through to consumers certain changes in Disco's cost structure that are beyond their control, such as energy's purchase costs and certain sector charges.

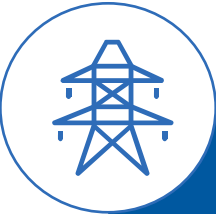
# Tariff Structure – How Required Revenue is divided among consumers

		USE OF DISTRIBUTION SYSTEM TARIFF		ENERGY TARIFF
		R\$/kW	R\$/MWh	R\$/MWh
	Captive Consumer	✓	✓	✓
	Free Consumer	✓	✓	✗
	Generation Plants	✓	✓	✗

In terms, the migration of consumers to the free market is neutral for Distributors, since the payment of demand (TUSD) remains after the migration.  
The challenge is due to the risk of overcontracting.

# Tariff Composition for Captive and Free Customers

**Tariff for the Use of Distribution System:** amounts determined by ANEEL, in R\$/MWh or R\$/kW, applied to the monthly bills of customers of the energy distribution system



## Tariff for the Use of Distribution System (TUSD)

Transmission [R\$/kW]							Losses [R\$/MWh]			Sector Charges <sup>1</sup> [R\$/MWh]				
Parcel A					Parcel B		Technical	Non-technical	National Grid	TFSEE	ONS	R&D_EE	CDE	PROINFA
Transmission Grid	Frontier	CUSD	Disco's connection	Transco's Connection	Opex	EBITDA								

1) Costs are allocated in the proportion of energy consumption.

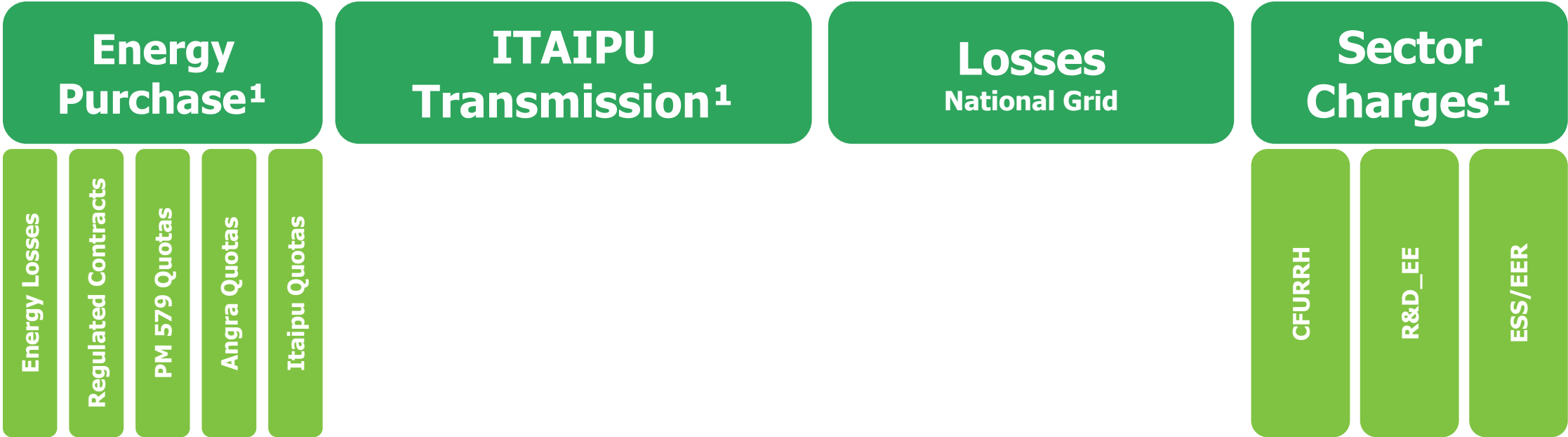
# Tariff Composition – only for Captive Customers

**Energy Tariff:** Values defined by ANEEL, in R\$/MWh, charged by the monthly billing by the disco in reference to the consumption of the contracts



## Energy Tariff(TE)

[R\$/MWh]



1) Costs are allocated in the proportion of energy consumption.

## 04

After defining the Distributor's Required Revenue, Aneel distributes the total amount among the tariff spots, in order to give the appropriate tariff sign to each type of customer



Consumers who opt for the free market do not pay the Energy Tariff (TE), only the TUSD. In this case, the customer must negotiate its energy in the free market (ACL), which follows its own rules

## 05

## 06

Parcel A is revised annually to update costs. Parcel B is determined in the RTP, incorporating investments from the previous cycle, and is subject to monetary restatement in the RTAs





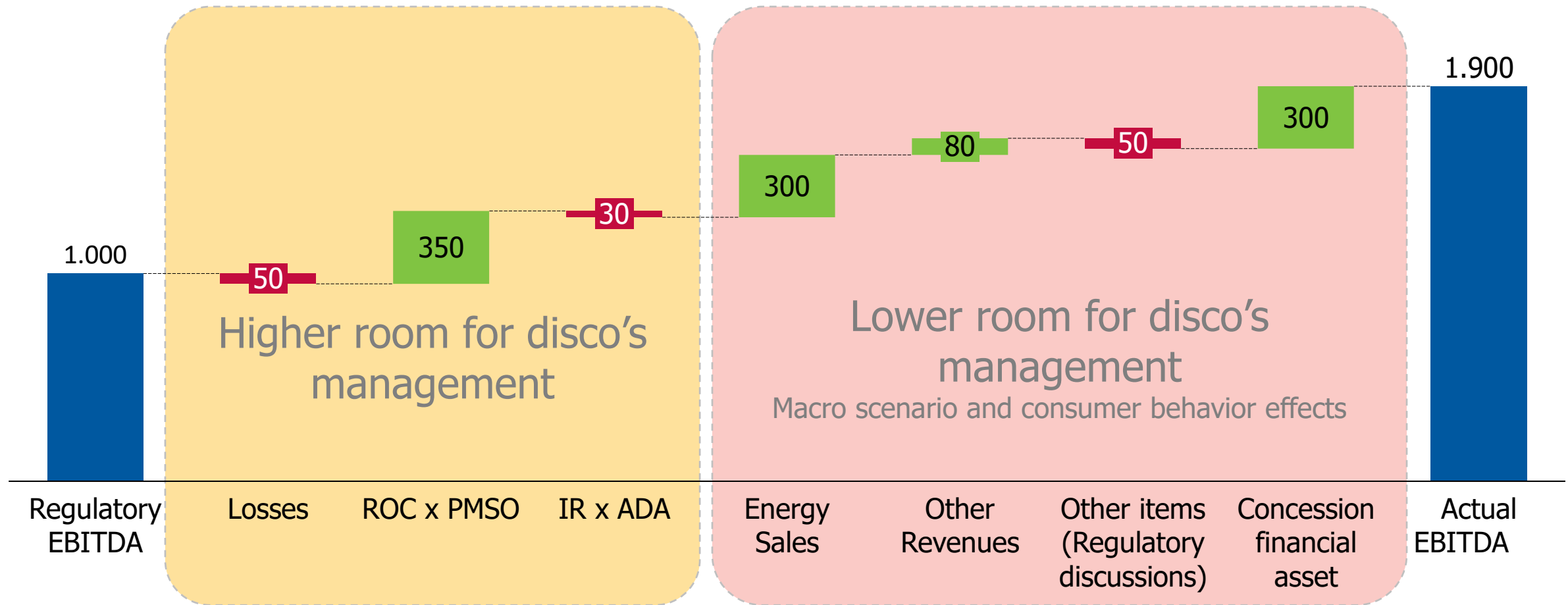
## 2. Actual versus Regulatory EBITDA

What items assure the outperformance?

- ✓ When the consumer behavior is (un)favorable
- ✓ When operational efficiency is key
- ✓ Factors not associated to tariff regulation
- ✓ What changes in the “new” concession contract



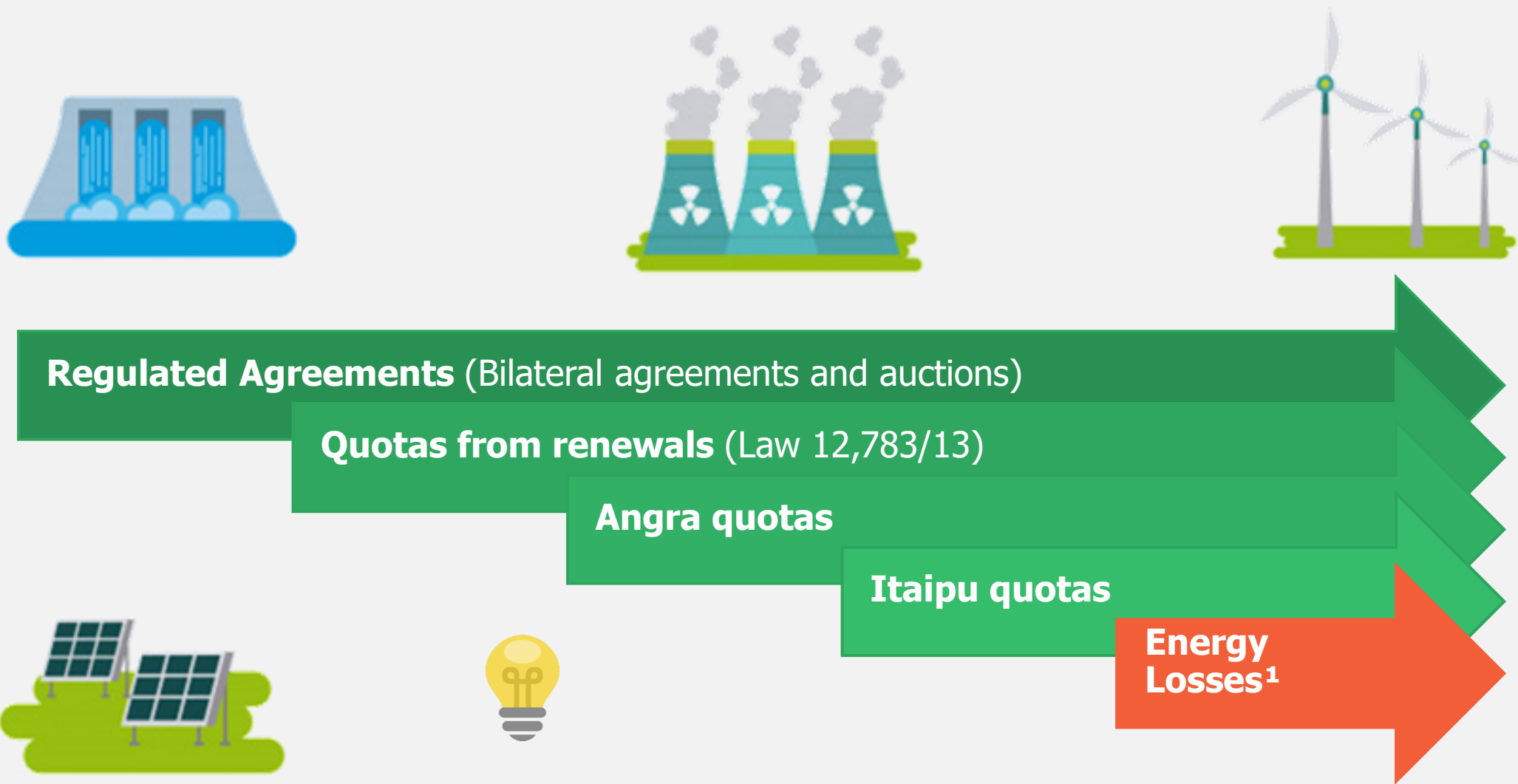
# Actual versus Regulatory EBITDA – Theoretical example



1) Other items: Parcel A, compensatory fines, pension fund etc.

## 2.1 Losses

# Energy Purchase



1) Energy Purchase includes losses in Transmission and in Distribution (Technical and Non-technical)

# Distribution Losses – Theoretical Example

**Losses impact (GWh)** = (% Regulatory losses - % Actual losses) \* Load in the concession area

			Regulatory	Actual
<b>GWh</b>	A	Load in the concession area	1,000	900
	B	Distribution Losses	100	99
<b>Losses percentage</b>	C = B/A	Distribution Losses	10.0%	11.0%
	D = C x A	Actual Losses - Regulatory Losses		1.0%

**Losses impact (R\$)** = MWh actual above regulatory losses \* Pmix R\$/MWh

<b>GWh</b>	<b>E = D x A</b>	<b>1.0% x Load</b>	<b>9.0</b>
<b>Impacto R\$</b>	F	Energy Purchase average price	200.00
	<b>G = F x E</b>	<b>Impact (currency units)</b>	<b>(1,800)</b>

The limit for reducing losses is not the regulatory level, because if it is below this level, it can bring a gain to the disco.

# National Grid Losses – Theoretical Example

Regulatory losses consider last 12 months

**Losses impact (GWh)** = (% Regulatory losses - % Actual losses) \* Gross captive load

			Regulatory	Actual
GWh	A	Gross captive load	600	550
	B	National Grid Losses	15.0	12.1
Losses percentage	C = B/A	National Grid Losses	2.50%	2.20%
	D = C x A	Actual Losses - Regulatory Losses		(0.30%)

**Losses impact (R\$)** = MWh MWh actual above regulatory losses \* Pmix R\$/MWh

GWh	E = D x A	(0.30%) x Load	0.165
Impact R\$	F	Energy Purchase average price	200.00
	G = F x E	Impact (currency units)	33

The limit for reducing losses is not the regulatory level, because if it is below this level, it can bring a gain to the disco.



## 2.2 Regulatory Operational Costs x PMSO

## REGULATORY OPERATIONAL COSTS

- ❑ Analysis based on efficiency concepts:
  - **Costs with personnel, materials, third-party services and others**
  - **Efficiency** is the relationship between outputs and inputs, measured by discos benchmarking
  - **Stimulates competition** between companies
  - The **greater the efficiency, the greater** the percentage of **transfer of real costs**
  - There is no recognition of legal expenses, except for labor convictions (from the 4<sup>th</sup> cycle onwards), actuarial deficits and surpluses and the Retirement and/or Voluntary Dismissal Program

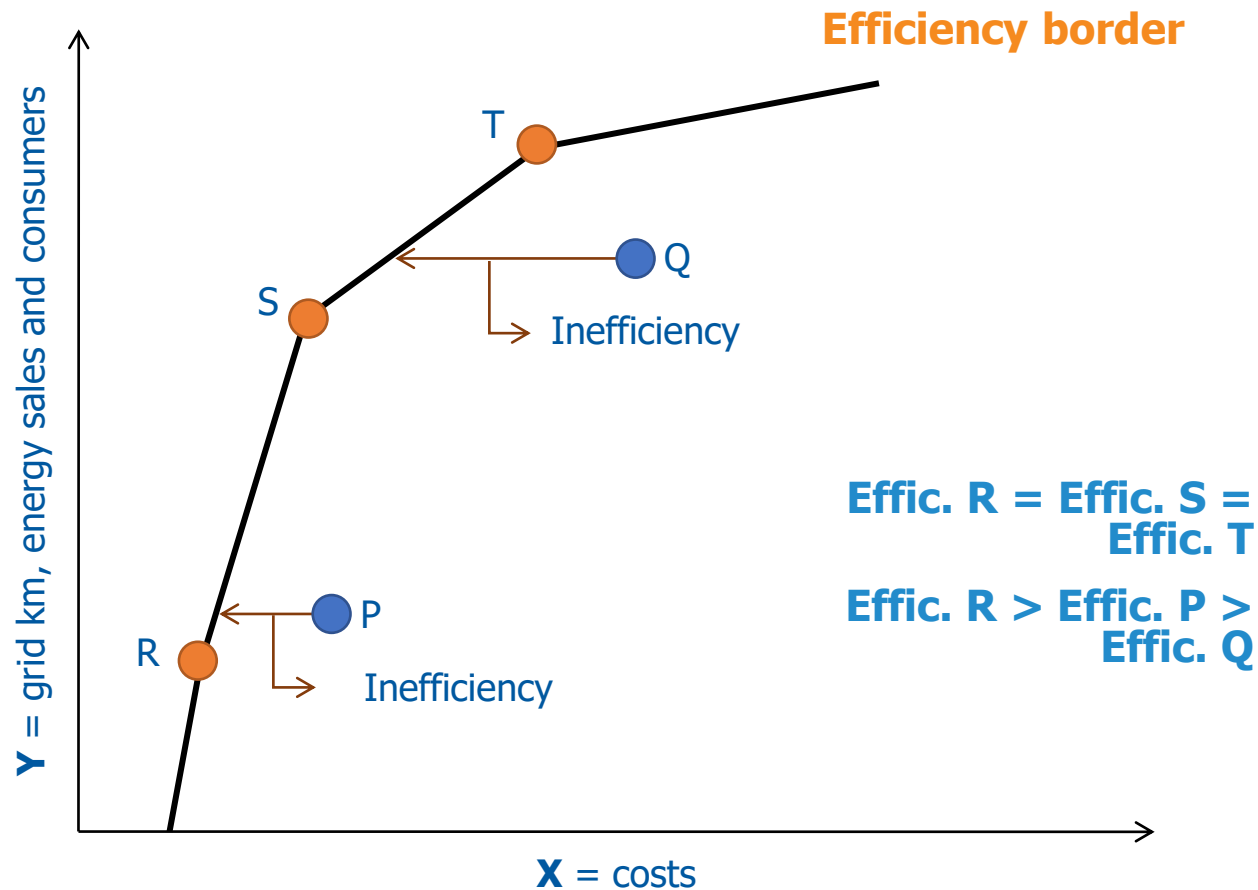
## PMSO

- **Personnel**
  - Wages and charges
- **MSO**
  - Operational Services and Materials
  - Vehicles, IT, Infra
  - Judicial provisions with tariff coverage



# Methodology

## OPERATIONAL COSTS



- For a company **to become more efficient** in terms of benchmarking, it is necessary to improve the input/output ratio.
- As the discos do not control the variables customers, grid km and energy sales, **the only point of action are the operating costs.**



# Key assumption: What is the OPEX level compared to tariff coverage?



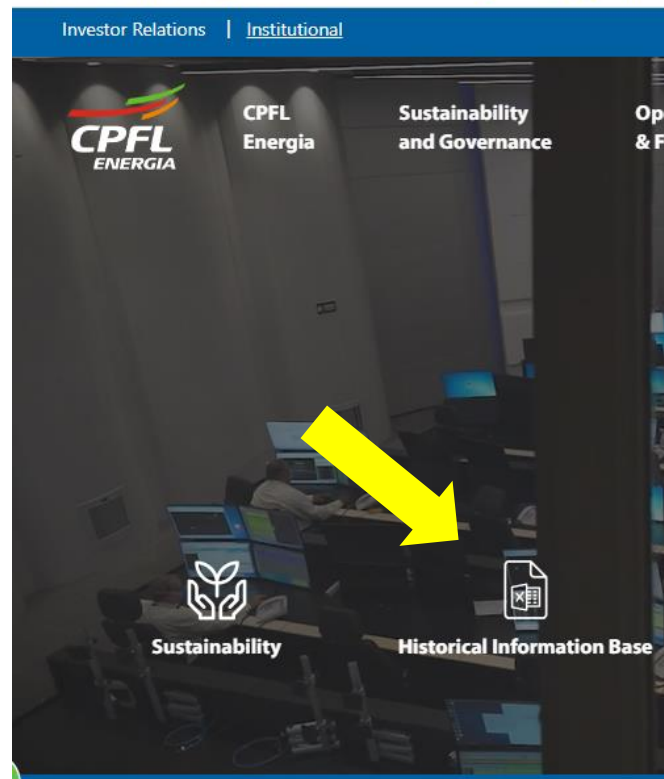
## Where to get this information to your model?

Coverages are disclosed in the SPARTA Document (ANEEL) at the time of RTP.

CPFL Energia publishes an estimate of updated amounts on the IR website, using our own methodology, after each RTA.



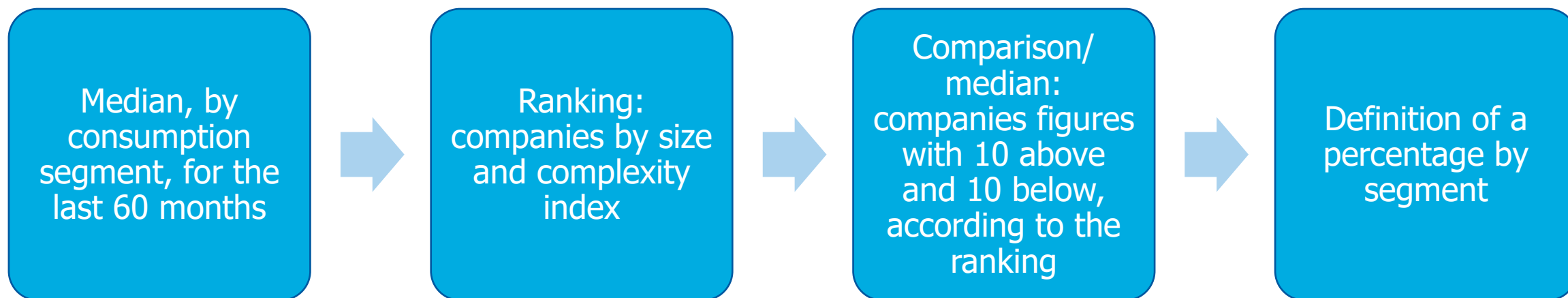
[www.cpfl.com.br/ir](http://www.cpfl.com.br/ir)



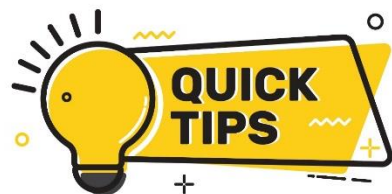
CPFE B3 LISTED NM <span>Go back</span>									
Annual Tariff Adjustment (RTA)									
DISCOS	cpfl paulista		cpfl piratininga		RGE <small>Uma empresa CPFL Energia</small>		cpfl santa cruz		
	jul-22 <sup>1</sup>		out-22		jun-22		jul-22 <sup>1</sup>		
RESULTS	R\$ MM	(%)	R\$ MM	(%)	R\$ MM	(%)	R\$ MM	(%)	
1. TOTAL REQUIRED REVENUE	14.762,9	100%	5.902,2	100%	9.691,8	100%	1.458,4	100%	
2. PARCEL A - VPA	10.584,9	71,7%	4.358,9	73,9%	6.173,2	65,9%	1.050,6	72,0%	
2.1. Sectorial Charges	3.530,8	23,9%	1.502,5	25,5%	1.782,2	15,5%	337,7	23,2%	
2.2. Transmission Charges	1.279,2	8,7%	617,1	10,5%	975,5	11,2%	191,2	13,1%	
2.3. Energy purchased	5.774,8	39,1%	2.239,3	37,9%	3.415,4	39,1%	513,6	35,2%	
2.4. Irrecoverable Revenue	0,0	0,0%	0,0	0,0%	0,0	0,0%	8,1	0,6%	
3. PARCEL B - VPB	4.178,0	28,3%	1.543,3	26,1%	3.518,6	34,1%	407,8	28,0%	
3.1 - Capital Return (RC)	1.371,9	9,29%	516,8	8,76%	1.256,1	12,0%	151,7	10,40%	
3.2 - Depreciation Quota (QRR)	708,4	4,80%	230,4	3,90%	593,2	5,4%	74,3	5,09%	
3.3 - Operational costs (CO3)	1.810,6	12,2%	761,2	12,90%	1.408,4	14,5%	172,3	11,81%	
3.4 - Irrecoverable revenues - Sector charges (Vi)	126,3	0,86%	53,1	0,90%	81,1	0,7%	0,0	0,00%	
...	Ds - TUSD	Ds - Consumers	Ds - Tariff Revision	Ds - Tariff adjustment	DEBT CPFL Paulista	DEBT CPFL Piratininga	DEBT		

## 2.3 IR x ADA

### Sub-module 2.6 A - Energy Losses and Irrecoverable Revenues







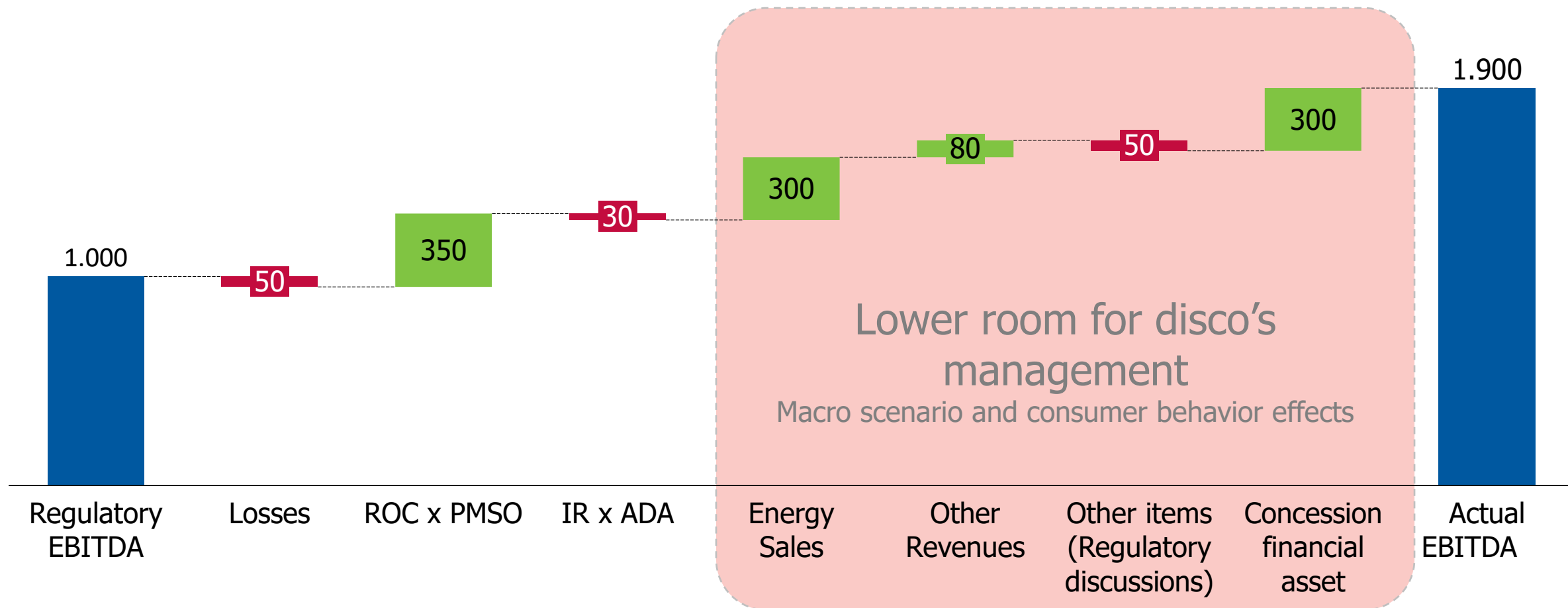
## Coverage for Irrecoverable Revenues

Annual Tariff Adjustment (RTA)				
DISCOS	cpfl paulista		cpfl piratininga	
	jul-22 <sup>1</sup>		out-22	
RESULTS	R\$ MM	(%)	R\$ MM	(%)
<b>3. PARCEL B - VPB</b>	<b>4.178,0</b>	<b>28,3%</b>	<b>1.543,3</b>	<b>26,1%</b>
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3.4 - Irrecoverable revenues - Sector charges (Vi)	126,3	0,86%	53,1	0,90%
3.5 - Annual cost of non-electrical assets (CAIMI)	339,7	2,30%	108,9	1,84%
3.6 - Adjustment due to realized capex	0,0	0,00%	0,0	0,00%
3.7 - Parcel B productivity index	-178,8	-1,21%	-127,1	-2,15%

## CPFL Paulista Income Statement

1H22	
<b>OPERATING REVENUES</b>	
Electricity Sales to Final Customers	8.434.205
Electricity Sales to Distributors	120.304
Revenue from building the infrastructure	928.401
Update of concession's financial asset	302.725
Sectorial financial assets and liabilities	(712.848)
Other Operating Revenues	1.732.880
	<b>10.805.666</b>
ADA	(87.002)
ADA%	1,03%

# Actual versus Regulatory EBITDA – Theoretical example



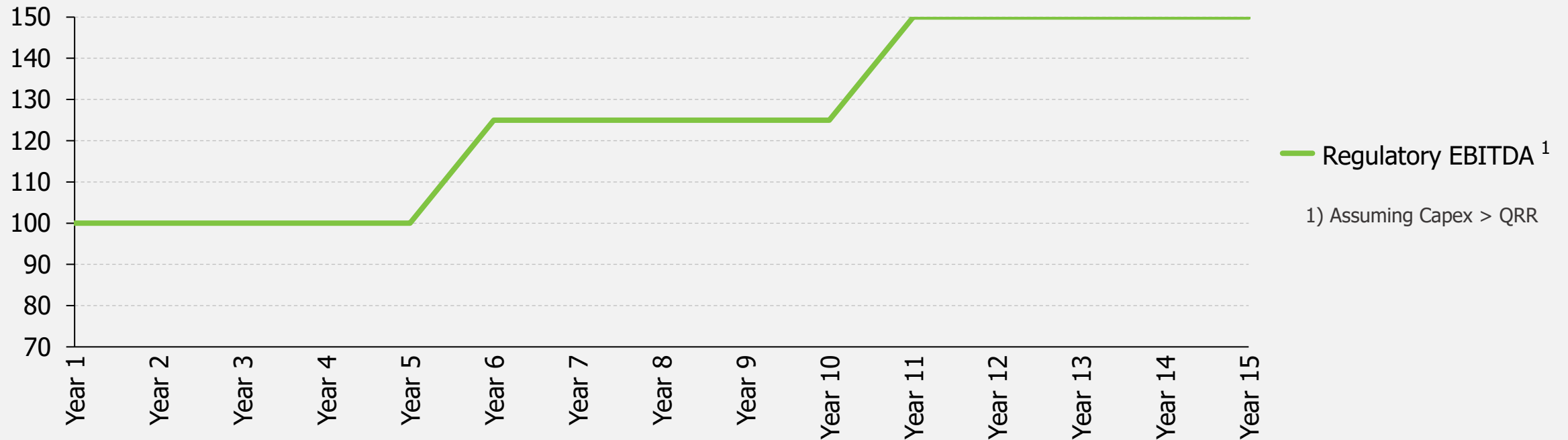
1) Other items: Parcel A, compensatory fines, pension fund etc.

## 2.4 Energy Sales

# Energy Sales

How energy sales affect the EBITDA overtime?

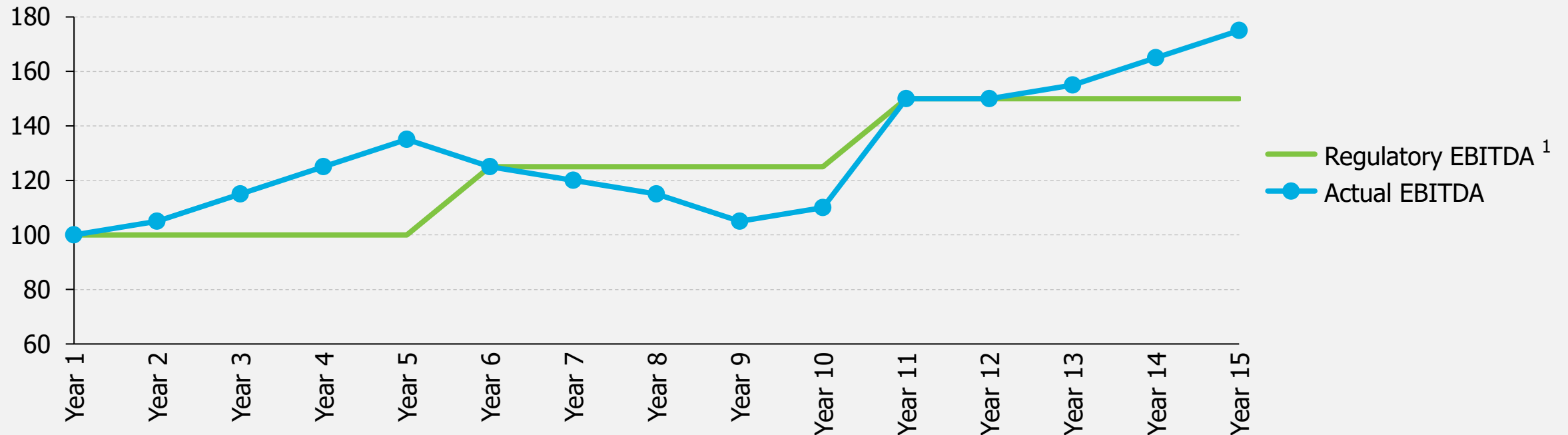
## Theoretical example:



# Energy Sales

How energy sales affect the EBITDA overtime?

## Theoretical example:

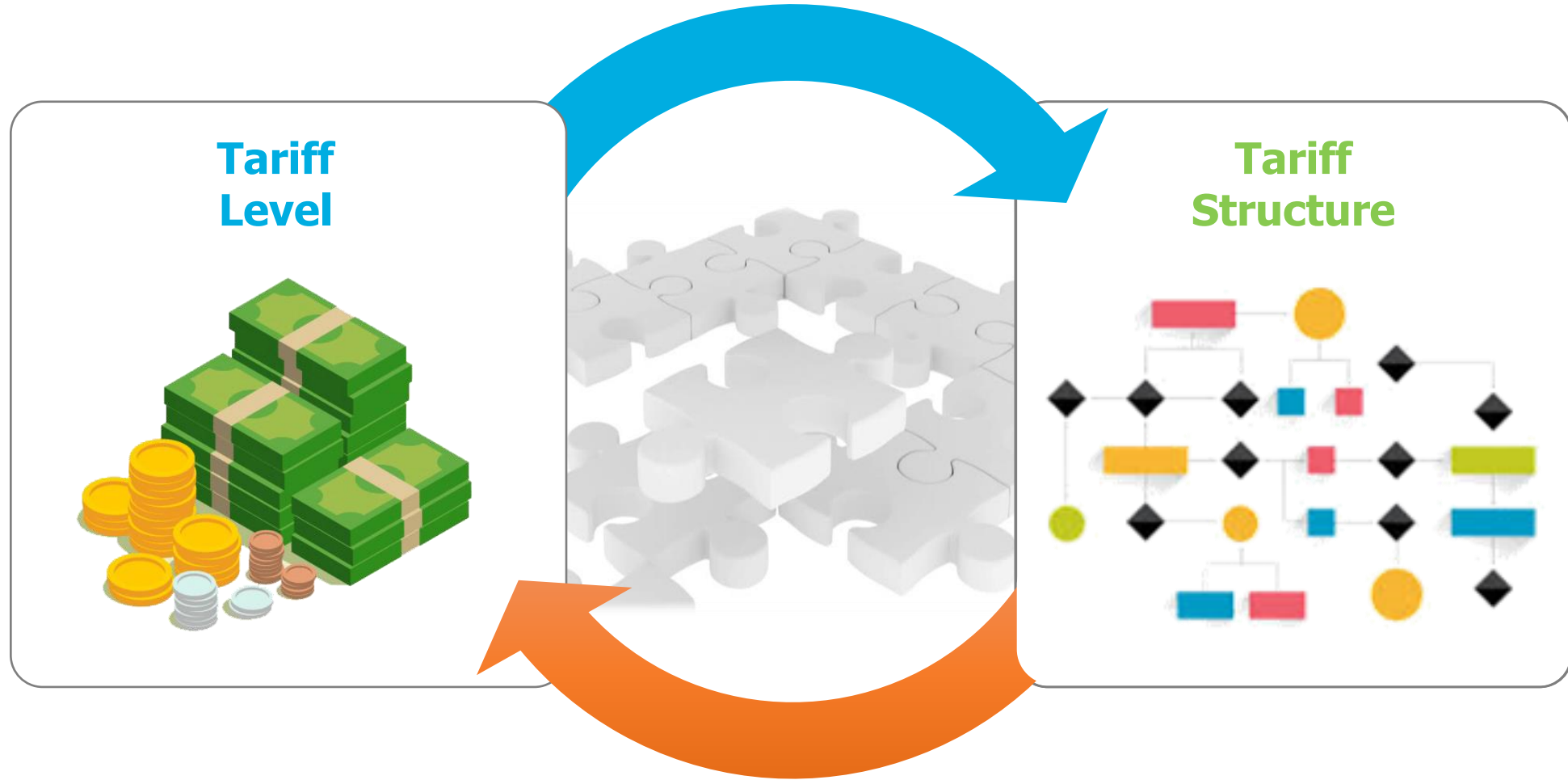


- Actual Ebitda is influenced by energy sales performance in the intra-cycle period
- Gains/losses observed over the years are disco's risk
- In the RTP (Tariff Revision), the energy sales volume is adjusted, as well as the other parameters (reflecting the increase in RAB)

1) Assuming Capex > QRR



# Tariff composition – Tariff level and structure

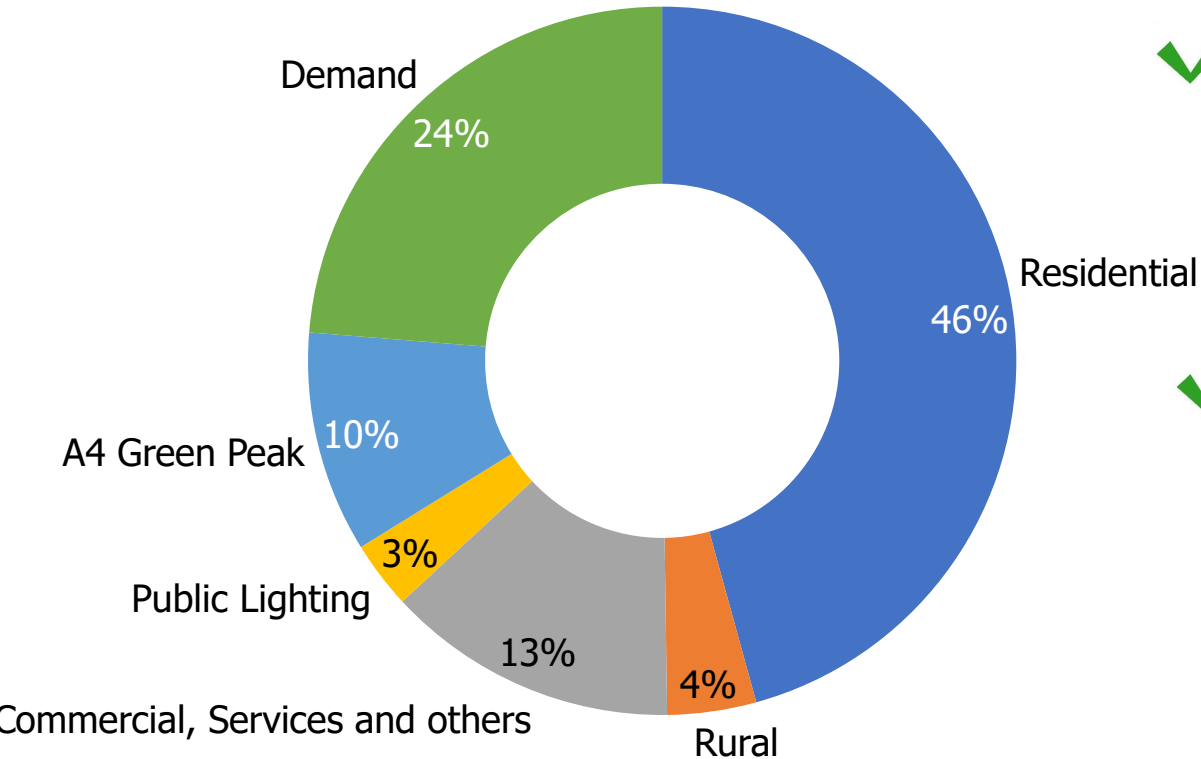


# Breakdown of "Fio B" Revenue by segment



"Fio B" is the tariff component charged in TUSD. Each segment and customer subtype has a different weight

**"Fio B" Revenue by segment**  
CPFL Paulista in 1H22



**Customers connected in Low Voltage** - Residential, Rural, Public Lighting, Commercial, Services and Others - obey a dynamic linked to the consumption level of each segment



**Customers connected in Medium or High Voltage** - Demand and A4 Green Peak have a slightly different rationale:

- **Demand** is contracted for the next 12 months; therefore, revenue is more stable;
- The **A4 Green Peak consumption** depends on the customer's activity.

Tariff Composition for Captive and Free Customers										
Tariff for the Use of Distribution System: amounts determined by ANEEL, in R\$/MWh or R\$/kW, applied to the monthly bills of customers of the energy distribution system										
Tariff for the Use of Distribution System (TUSD)										
Transmission [R\$/kW]			Losses [R\$/MWh]			Sector Charges <sup>1</sup> [R\$/MWh]				
Parcel A		Parcel B	Technical	Non-technical	Network Grid	TREEL	ONS	RAO_EE	CDE	PRODPA
Transmission Grid	Frontier	CUSD	Disco's connection	Transmission Connection	Open	EBITDA				

1) Costs are allocated in the proportion of energy consumption.

## 2.5 Other Revenues

# Other Revenues

## Example – CPFL Paulista 1Q22 Financial Statement (Portuguese only)

### ( 19 ) RECEITA OPERACIONAL LÍQUIDA

	2022		2021	
	2º Trimestre	1º Semestre	2º Trimestre	1º Semestre
<b>Receita de operações com energia elétrica</b>				
<b>Classe de consumidores</b>				
Residencial	2.232.334	4.598.687	1.923.301	3.991.534
Industrial	373.598	742.680	338.202	684.512
Comercial	825.479	1.676.317	636.911	1.351.165
Rural	157.786	302.133	165.545	294.388
Poderes públicos	148.839	288.109	98.822	203.587
Iluminação pública	132.324	281.185	124.829	233.030
Serviço público	208.862	422.639	194.462	381.728
<b>Fornecimento faturado</b>	<b>4.079.223</b>	<b>8.311.749</b>	<b>3.482.072</b>	<b>7.139.944</b>
Fornecimento não faturado (líquido)	(78.626)	122.456	(63.858)	(38.406)
(-) Transferência da receita relacionada à disponibilidade da rede elétrica ao consumidor cativo	(1.931.925)	(3.549.689)	(1.570.366)	(3.205.314)
<b>Fornecimento de energia elétrica</b>	<b>2.068.672</b>	<b>4.884.516</b>	<b>1.847.848</b>	<b>3.896.224</b>
Outras concessionárias, permissionárias e autorizadas	8.721	20.219	14.642	29.308
(-) Transferência da receita relacionada à disponibilidade da rede elétrica ao consumidor cativo	(2.985)	(5.836)	(2.554)	(5.041)
Energia elétrica de curto prazo	59.757	100.085	260.393	329.261
<b>Suprimento de energia elétrica</b>	<b>65.493</b>	<b>114.468</b>	<b>272.481</b>	<b>353.528</b>
Receita pela disponibilidade da rede elétrica - TUSD consumidor cativo	1.934.910	3.555.525	1.572.920	3.210.355
Receita pela disponibilidade da rede elétrica - TUSD consumidor livre	691.173	1.235.439	521.819	1.012.258
(-) Compensação pelo não cumprimento de indicadores técnicos	(6.485)	(19.199)	(7.571)	(22.712)
Receita de construção da infraestrutura de concessão	496.342	928.401	303.210	549.436
Ativo e passivo financeiro setorial (nota 7)	(97.836)	(712.848)	379.131	482.690
Atualização do ativo financeiro da concessão (nota 8)	177.666	302.725	88.584	187.688
Aporte CDE - baixa renda, demais subsídios tarifários e descontos tarifários - liminares	202.620	374.418	143.540	277.900
Outras receitas e rendas	73.307	142.222	60.524	117.570
<b>Outras receitas operacionais</b>	<b>3.471.697</b>	<b>5.806.683</b>	<b>3.062.157</b>	<b>5.815.185</b>
<b>Total da receita operacional bruta</b>	<b>5.605.862</b>	<b>10.805.666</b>	<b>5.182.485</b>	<b>10.064.937</b>

# Other Revenues

## Example – CPFL Paulista 1Q22 Financial Statement (Portuguese only)

### ( 19 ) RECEITA OPERACIONAL LÍQUIDA

	2022		2021	
	2º Trimestre	1º Semestre	2º Trimestre	1º Semestre
Receita de operações com energia elétrica				
Classe de consumidores				
Residencial	2.232.334	4.598.687	1.923.301	3.991.534
Industrial	373.598	742.680	338.202	684.512
Comercial	825.479	1.676.317	636.911	1.351.165
Rural	157.786	302.133	165.545	294.388
Poderes públicos	148.839	288.109	98.822	203.587
Iluminação pública	132.324	281.185	124.829	233.030
Serviço público	208.862	422.639	194.462	381.728
Fornecimento faturado	4.079.223	8.311.749	3.482.072	7.139.944
Fornecimento não faturado (líquido)	(78.626)	122.456	(63.858)	(38.406)
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Energia elétrica de curto prazo	59.757	100.085	260.393	329.261
Suprimento de energia elétrica	65.493	114.468	272.481	353.528
Receita pela disponibilidade da rede elétrica - TUSD consumidor cativo	1.934.910	3.555.525	1.572.920	3.210.355
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Aporte CDE - baixa renda - demais subsídios tarifários e descontos				
<b>Outras receitas e rendas</b>			<b>73.307</b>	<b>142.222</b>
Outras receitas operacionais	3.471.697	5.806.683	3.062.157	5.815.185
Total da receita operacional bruta	5.605.862	10.805.666	5.182.485	10.064.937



# Other Revenues

## Examples:

- ✓ Pole rental
- ✓ Revenue from services provided
- ✓ Leases
- ✓ Charged services

## Regulatory model

- Revenue remains in the result at the 1<sup>st</sup> moment, with all taxes due
- 60% of gross revenue is allocated to tariff reduction mechanism → deduction of Parcel B after RTP
- Capture: 36-month average revenue prior to the 6<sup>th</sup> month before RTP, updated by IGP-M, multiplied by 12

## Effect in results in a given period

### Theoretical example

<b>Revenue</b>	<b>1,000</b>
PIS/Cofins (non-neutral)	-93
R&D	-10
<b>EBITDA</b>	<b>898</b>
Income Tax	-305
<b>Net Income</b>	<b>592</b>

# Other Revenues – effect on the long term

Simulation assuming cost = ZERO

	Cycle 1					Cycle 2				
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
<b>Other Revenues</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>
Parcel B - reduction						-600	-600	-600	-600	-600
<b>Gross Revenue</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>400</b>	<b>400</b>	<b>400</b>	<b>400</b>	<b>400</b>
PIS/Cofins (non-neutral)	-93	-93	-93	-93	-93	-37	-37	-37	-37	-37
R&D	-10	-10	-10	-10	-10	-4	-4	-4	-4	-4
<b>EBITDA</b>	<b>898</b>	<b>898</b>	<b>898</b>	<b>898</b>	<b>898</b>	<b>359</b>	<b>359</b>	<b>359</b>	<b>359</b>	<b>359</b>
Income Tax	-305	-305	-305	-305	-305	-122	-122	-122	-122	-122
<b>Net Income</b>	<b>592</b>	<b>592</b>	<b>592</b>	<b>592</b>	<b>592</b>	<b>237</b>	<b>237</b>	<b>237</b>	<b>237</b>	<b>237</b>

## 2.6 Other items

# Aneel's quality indicators – SAIDI/SAIFI

Continuity Indicators

**SAIDI/CAIDI** (System/Consumer Average Interruption Duration Index):  
Indicates the number of hours, on average, that a consumer goes without electricity during a period, usually monthly.

**SAIFI/CAIFI** (System /Consumer Average Interruption Frequency Index):  
Indicates how many times, on average, there was interruption in the consumer unit.

**DMIC** (Maximum Interruption Duration per Consumer Unit):  
Maximum continuous power outage at a consumer unit or connection point.

**SAIDI and SAIFI are verified per electric set. CAIDI and CAIFI are individual indicators that generate the payment of financial compensation by the discos to consumers, verified per consumer unit.**

# Compensatory Fines

## Example – CPFL Paulista 1Q22 Financial Statement (Portuguese only)

### ( 19 ) RECEITA OPERACIONAL LÍQUIDA

	2022		2021	
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<b>Classe de consumidores</b>				
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Industrial	373.598	742.680	338.202	684.512
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<b>Fornecimento faturado</b>	<b>4.079.223</b>	<b>8.311.749</b>	<b>3.482.072</b>	<b>7.139.944</b>
Fornecimento não faturado (líquido)	(78.626)	122.456	(63.858)	(38.406)
(-) Transferência da receita relacionada à disponibilidade da rede elétrica ao consumidor cativo	(1.931.925)	(3.549.689)	(1.570.366)	(3.205.314)
<b>Fornecimento de energia elétrica</b>	<b>2.068.672</b>	<b>4.884.516</b>	<b>1.847.848</b>	<b>3.896.224</b>
Outras concessionárias, permissionárias e autorizadas	8.721	20.219	14.642	29.308
(-) Transferência da receita relacionada à disponibilidade da rede elétrica ao consumidor cativo	(2.985)	(5.836)	(2.554)	(5.041)
Energia elétrica de curto prazo	59.757	100.085	260.393	329.261
<b>Suprimento de energia elétrica</b>	<b>65.493</b>	<b>114.468</b>	<b>272.481</b>	<b>353.528</b>
Receita pela disponibilidade da rede elétrica - TUSD consumidor cativo	1.934.910	3.555.525	1.572.920	3.210.355
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<b>Total da receita operacional bruta</b>	<b>5.605.862</b>	<b>10.805.666</b>	<b>5.182.485</b>	<b>10.064.937</b>

# Compensatory Fines

## Example – CPFL Paulista 1Q22 Financial Statement (Portuguese only)

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(-) Compensação pelo não cumprimento de indicadores técnicos			(12.714)	(15.141)
Ativo e passivo financeiro setorial (nota 7)	(97.836)	(712.848)	379.131	482.690
Atualização do ativo financeiro da concessão (nota 8)	177.666	302.725	88.584	187.688
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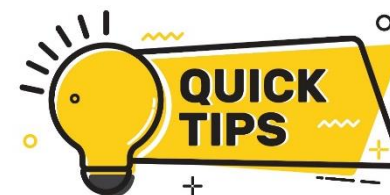


# Compensatory Fines

## Example – CPFL Paulista 1Q22 Financial Statement (Portuguese only)

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Total da receita operacional bruta	5.605.862	10.805.666	5.182.485	10.064.937



**Assumption for your model:**

Historical average + % RTA

## 2.7 Concession financial asset

# Concession financial asset

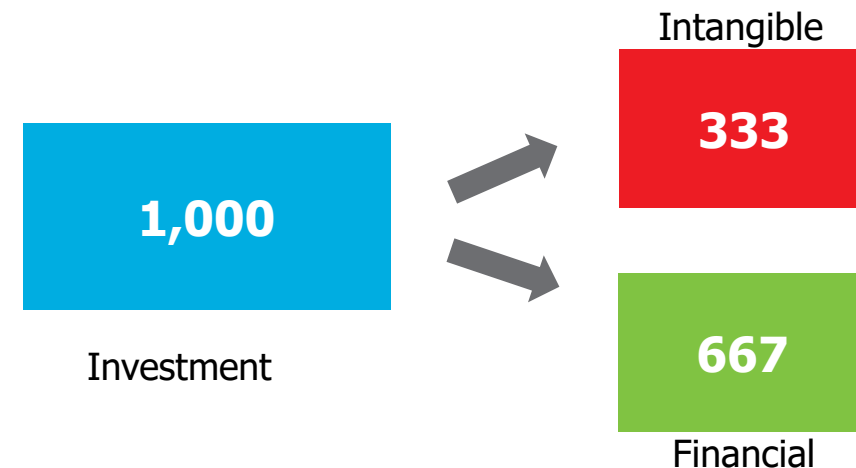
- It is the portion of the investment that cannot be amortized within the concession period
- It serves as a proxy for the indemnity to be received by the shareholder at the end of the concession, for the unamortized assets
- The **monetary restatement** of this asset is accounted for in operating revenue
- This is just an accounting record, **with no cash effect**

## Theoretical example:

- Investment of R\$ 1,000,00
- Depreciation: 30 years
- Rate: 3.3% p.y



## Bifurcation:



## 07

The items under management by discos are:

- Loss Reduction
- Efficiency in PMSO
- Delinquency reduction



Energy sales volumes different from those approved in the RTP affect the results.

Other Revenues and other effects – to a lesser extent – also contribute to Ebitda

## 08





## 09

The Concession Financial Asset has a relevant effect on Ebitda in the last years of the concession, although it does not represent a gain in valuation, as it has no cash effect



## 2.8 New contract

# Key differences between old contracts and contracts renewed as of 2015

	Old contract	New contract
 <b>Parcel B adjustment in RTA</b>	IGP-M (-) X Factor	IPCA (-) X Factor
 <b>Parcel A Neutrality</b>	Only for sector charges	Includes energy purchase and transmission charges
 <b>Irrecoverable Revenues Coverage</b>	Comprises parcel B	Comprises parcel A
 <b>Quality and economic-financial KPIs</b>	Applied as of 2022	Transition rule from 2016 to 2021



# Sector charges and transmission



## Sector charges

Energy Development  
Account (CDE)

System Service Charge  
(ESS)

Incentive Program for  
Alternative Sources  
(PROINFA)

Research and  
Development (R&D)

Electricity Service  
Inspection Fee (TFSEE)

National System  
Operator Fee (ONS)



## Transmission charges

Use of Basic  
Network  
Installations (TUST)

Itaipu Transport

Use of the  
Distribution System  
(TUSD)

Connection Charges



# CVA and Neutrality: mechanisms for transferring Parcel A costs to the consumer

When actual **energy sales** and **Parcel A** expenses are different from the amounts approved by Aneel, we account for regulatory assets/liabilities:

## CVA

Offset differences between actual and approved **PRICE**

## Neutrality

Neutralize variations between actual and approved **ENERGY SALES**

However, depending on the disco's **type of contract**, we may have parcel A impacts on results:

	Parcel A	CVA	Neutrality (old)	Neutrality (new)
Energy	Energy + Losses	✓	✗	✓
	National Grid	✓	✗	✓
Transmission Charges	Connection	✗	✗	✓
	Transmission	✓	✗	✓
	TUSD	✗	✗	✓
	CDE	✓	✓	✓
Sector Charges	ESS/EER	✓	✓	✓
	Proinfa	✓	✓	✓
	TFSEE/ONS	✗	✓	✓
	R&D	✗	✗	✗

**Energy Purchase and Transmission are economically neutral when:** (i) **Contracted energy** is between 100% and 105% of demand; (ii) **Energy Losses** are within regulatory limits; and (iii) **National Grid** is between 90 and 110% of the demand

# Aneel's Quality and economic-financial KPIs

Such contracts brought clauses for compliance with efficiency indicators related to the continuity of services and the Economic-Financial Management of discos.

These indicators are evaluated in two stages:

- Transition period (1<sup>st</sup> to 5<sup>th</sup> year of the contract)
- As of the 6<sup>th</sup> calendar year

As of the 6<sup>th</sup> year, a normative resolution was approved that provides for the indicators and penalties that will be imposed on all discos<sup>1</sup> in case of non-compliance (expiry process).

## ✓ **Quality Indicator**

internal SAIDI

internal SAIFI

## ✓ **Economic-financial Indicator**

$$\frac{\text{Net Debt}}{\text{EBITDA} - \text{QRR}} \leq \frac{1}{1.11 * \text{SELIC}}$$

## ✓ **SELIC limits**

Maximum: 9.009% p.y.

$$\frac{1}{1.11 * 9.009\%} = \frac{1}{10\%}$$

Leverage of  
**10.0x**

Minimum: 6.006% p.y.

$$\frac{1}{1.11 * 6.006\%} = \frac{1}{10\%}$$

Leverage of  
**15.0x**

1) Old contracts will be monitored and subject to penalties as of 2022.

# Expiry process regulation

	Frequency	Consequence
<b>Indicator:</b>  Internal SAIDI and internal SAIFI	3 consecutive years  2 consecutive years or 3 in 5 years  Any of the last 5 years of the contract  1 year	Opening of the expiry process  Limitation on dividends/IoE payment  Limitation on dividends/IoE payment  Results Plan
<b>Indicator:</b>  $\frac{\text{Net Debt}}{\text{EBITDA} - \text{QRR}} \leq \frac{1}{1.11 * \text{SELIC}}$	2 consecutive years  1 year	Opening of the expiry process  Limitation on dividends/IoE payment and new contracts with related parties are forbidden <sup>1</sup>

1) It is necessary for the disco to submit a request for consent to ANEEL

### 3. Taxes

Relevant attention points on that matter

- ✓ How PIS/Cofins is applied in Distribution segment
- ✓ What changed in ICMS tax rate with Law 194/22
- ✓ What affects income tax effective rate



# Taxes over revenue | PIS, COFINS and ICMS

## Ex: Energy bill

In this example we use a customer classified as Industrial A4 Green Tariff

DISCRIMINAÇÃO DA OPERAÇÃO - RESERVADO AO FISCO													
Cod. 115	Descrição da Operação	Mês Ref.	Quant. Registrada	Quant. Faturada	Unid. Med	Tarifa com Tributos R\$	Valor Total Operação R\$	Base Cálculo ICMS R\$	Aliq. ICMS%	ICMS	Base Cálculo PIS/COFINS	PIS 0,88%	COFINS 4,06%
0605	Consumo Ponta [KWh] - TUSD	SET/22	281,678	281,678	kWh	1,14236743	321,78				321,78	2,83	13,06
0605	Consumo Fora Ponta [KWh]-TUSD	SET/22	2.694,766	2.694,766	kWh	0,11692296	315,08				315,08	2,77	12,79
0601	Cons Ponta - TE	SET/22	281,678	281,678	kWh	0,58914748	165,95	165,95	18,00	29,87	136,08	1,20	5,52
0601	Cons FPonta TE	SET/22	2.694,766	2.694,766	kWh	0,36057677	971,67	971,67	18,00	174,90	796,77	7,01	32,35
0601	Consumo Reativo Exc Ponta	SET/22	84,156	84,156	KVr	0,37952919	31,94	31,94	18,00	5,75	26,19	0,23	1,06
0601	Consumo Reativo Exc Fora Ponta	SET/22	657,123	657,123	KVr	0,37960910	249,45	249,45	18,00	44,90	204,55	1,80	8,30
0602	Demanda [kW] - TUSD	SET/22	28,503	28,503	KW	16,30518679	464,75				464,75	4,09	18,87
0602	Demanda [kW] - TUSD	SET/22		1,496	KW	16,30144308	24,40				24,40	0,21	0,99
0602	Demanda Reat Exced [KW] -TUSD	SET/22		6,863	KW	16,30324710	111,89				111,89	0,98	4,54
Subtotal							2.656,91						
Total Distribuidora							2.656,91						
0807	Contrib. Custeio IP-CIP Municipal	SET/22					10,02						
Total Devoluções/Ajustes							10,02						
Total a Pagar							2.666,93						
Total Consolidado							2.666,93	1.419,01		255,42	2.401,49	21,12	97,48

The energy tariff already includes taxes. In such a way that taxes (Pis/Cofins and ICMS) tend to be neutral in the result of Discos.

Tariffs defined by ANEEL are net of these taxes

TARIFA ANEEL			
kWh Ponta TE	R\$ 0,45925000	kW Único	R\$ 15,50000000
kWh Fponta TE	R\$ 0,28107000	Reat.kWh Ponta	R\$ 0,29592000
kWh Ponta TUSD	R\$ 1,08599000	Reat.kWh FPonta	R\$ 0,29592000
kWh FPonta TUSD	R\$ 0,11115000	Reativo kW	R\$ 15,50000000
kW Único	R\$ 15,50000000		



# Taxes over revenue | Law 194/2022

## Ex: Energy bill

In this example we use a customer classified as Industrial A4 Green Tariff

DISCRIMINAÇÃO DA OPERAÇÃO - RESERVADO AO FISCO													
Cod. 115	Descrição da Operação	Mês Ref.	Quant. Registrada	Quant. Faturada	Unid. Med.	Tarifa com Tributos R\$	Valor Total Operação R\$	Base Cálculo ICMS R\$	Aliq. ICMS%	ICMS	Base Cálculo PIS/COFINS	PIS 0,88%	COFINS 4,06%
0605	Consumo Ponta [KWh] - TUSD	SET/22	281,678	281,678	kWh	1,14236743	321,78				321,78	2,83	13,06
0605	Consumo Fora Ponta [KWh]-TUSD	SET/22	2.694,766	2.694,766	kWh	0,11692296	315,08				315,08	2,77	12,79
0601	Cons Ponta - TE	SET/22	281,678	281,678	kWh	0,58914748	165,95	165,95	18,00	29,87	136,08	1,20	5,52
0601	Cons FPonta TE	SET/22	2.694,766	2.694,766	kWh	0,36057677	971,67	971,67	18,00	174,90	796,77	7,01	32,35
0601	Consumo Reativo Exc Ponta	SET/22	84,156	84,156	KVr	0,37952919	31,94	31,94	18,00	5,75	26,19	0,23	1,06
0601	Consumo Reativo Exc Fora Ponta	SET/22	657,123	657,123	KVr	0,37960910	249,45	249,45	18,00	44,90	204,55	1,80	8,30
0602	Demanda [kW] - TUSD	SET/22	28,503	28,503	KW	16,30518679	464,75				464,75	4,09	18,87
0602	Demanda [kW] - TUSD	SET/22		1,496	KW	16,30144308	24,40				24,40	0,21	0,99
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Total a Pagar							2.666,93						
Total Consolidado							2.666,93	1.419,01		255,42	2.401,49	21,12	97,48

## LAW 194/2022:

- Non-incidence of ICMS over transmission and distribution services and sector charges linked to electricity operations
- Rate limited to 18% in SP and 17% in RS (please check each state)

## Main rationale to include income tax in your model:

- Evaluate each company's tax regime
- Main additions and exclusions specific to discos:
  - **Excess Demand / Reactive Power**
    - Refers to the portion of measured demand that exceeds the amount of demand contracted by the consumer.
    - This revenue and taxes will be considered for tariff reduction.
  - **Restatement of Concession Financial Asset**
    - Temporary exclusion of the restatement of the financial asset in the income tax calculation base
    - Realization of the deferred liability occurs after the end/renewal of the concession





## 4. Attention points

Other important issues for understanding Distribution

- ✓ What is X Factor
- ✓ Sectoral Financial Assets & Liabilities
- ✓ What is overcontracting
- ✓ How customer delinquency affects financial results



# 4.1 X Factor

# Productivity is expected in the concession contract, is defined by ANEEL and directly impacts Parcel B in discos' tariff revisions<sup>1</sup>



## X Factor Components

Productivity, Quality and Cost Trajectory



XPd



**Pd Component:** Ratio between the evolution of **outputs** (billed energy) and the variation of **inputs** (sum of operating costs and CAPEX remuneration).



Xq



**Q Component:** Annual variation of the calculated indicators SAIDI, SAIFI, FER, IASC, QUALCOM, INAB and INCO. Defined in each RTA and can vary from + 2% to – 2%.



Xt



**T Component:** Trajectory of operating costs between the first and last year of the disco's tariff cycle.



X Factor



$$\mathbf{X\ Factor = XPd + Xq + Xt}$$

1) For the concessions that had their contracts extended, as of the second RTP after the extension, productivity will also affect the RTAs.

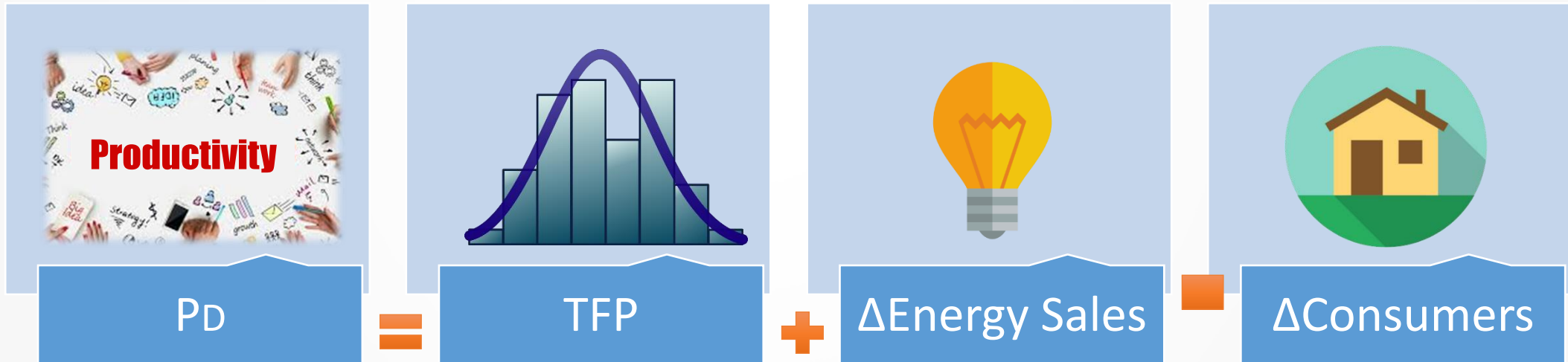
**Productivity is directly proportional to energy sales (MWh) and inversely proportional to the number of consumer units**



## Productivity Concept

Relation input/output

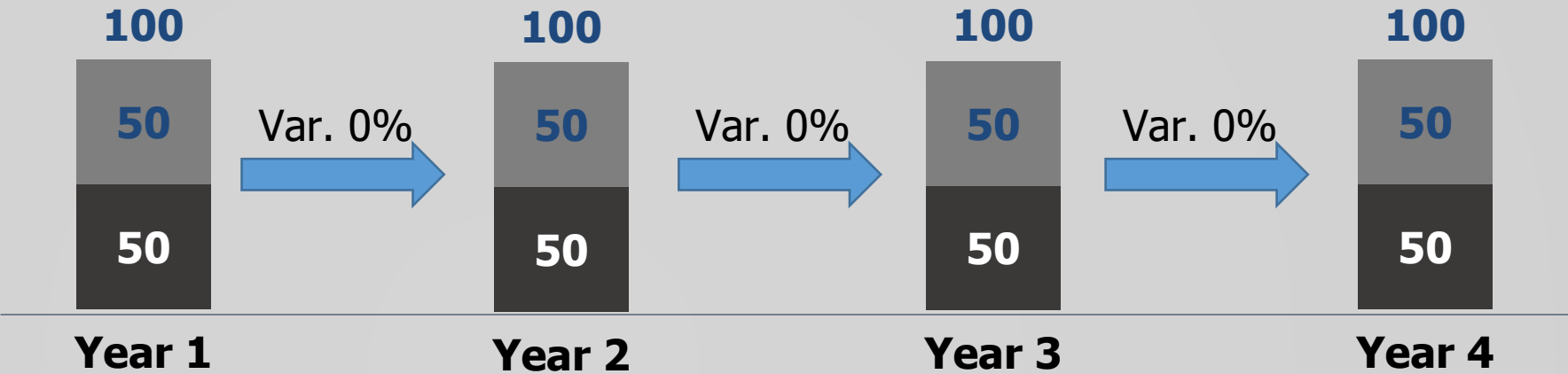
It is related to the relation between inputs and outputs: **Productivity** =  $\frac{\text{Output}}{\text{Input}}$



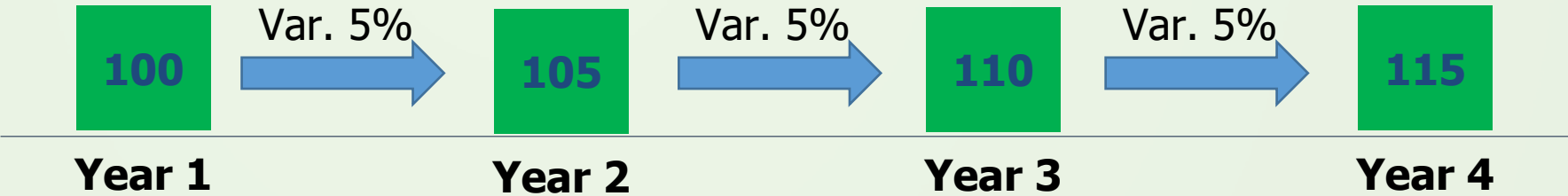
$$Pd = PTF + 0,317 \cdot (\Delta MWh(i) - \overline{\Delta MWh})$$

The productivity of discos is influenced by the annual variation of inputs (TOTEX) and outputs (Energy Sales)

**TOTEX**



**Energy Sales**



**Productivity**



## 4.2 Regulatory Assets & Liabilities

# Regulatory assets and liabilities – CVA, financial components and others

1 Parcel A variation account (CVA)

2 CVA of the previous year

3 Sector Charges Neutrality

4 Over contracting

5 Financial components

6 Others



1 2

**CVA balance:** the sum of the differences between the value approved on the tariff adjustment and the actual value, updated by SELIC rate

Example: Itaipu Dollar.

3

**Neutrality:** offsets the differences between the volume approved on the tariff adjustment and actual volumes

6

**Others:** tariff flags, PIS/Cofins over ICMS etc.

5

**Financial components:** items added to tariffs to pass through the costs incurred by the discos in previous years

4

**Overcontracting:** involuntary energy purchase allowed to pass through to consumers



# Regulatory Assets & Liabilities

Example – CPFL Piratininga 2Q22 Financial Statement (Portuguese only)

## ( 7 ) ATIVO E PASSIVO FINANCEIRO SETORIAL

A composição dos saldos e a movimentação do período do ativo e passivo financeiro setorial são como segue:

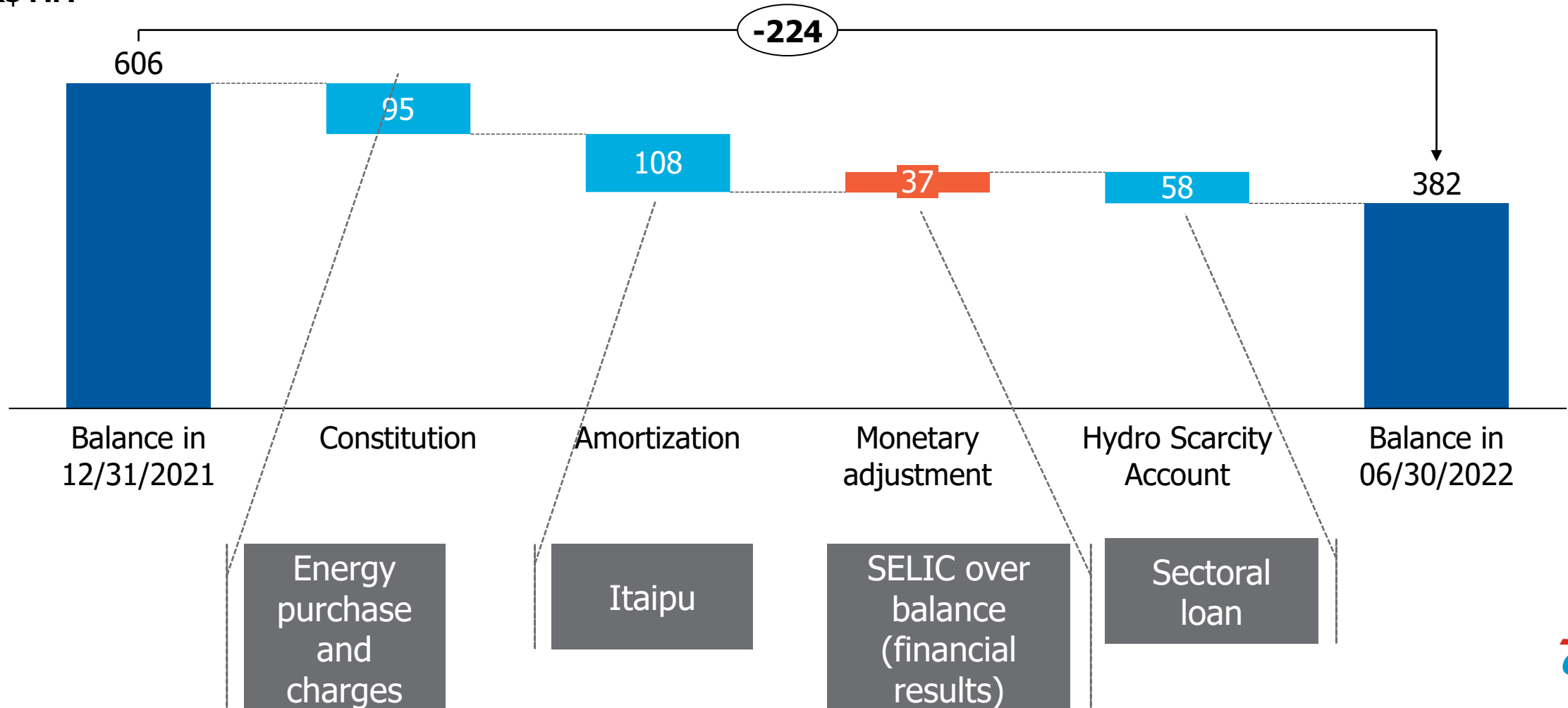
	Saldo em 31/12/2021			Receita operacional (nota 17)		Resultado financeiro (nota 20)	Recebimento	Saldo em 30/06/2022		
	Diferido	Homologado	Total	Constituição	Realização	Atualização monetária	Conta de escassez hídrica	Diferido	Homologado	Total
<b>Parcela "A"</b>	<b>346.377</b>	<b>322.470</b>	<b>668.847</b>	<b>(156.176)</b>	<b>(171.183)</b>	<b>35.334</b>	<b>(58.426)</b>	<b>144.546</b>	<b>173.851</b>	<b>318.397</b>
CVA (*)										
CDE (**)	(10.503)	558	(9.945)	194.405	(154)	5.168	-	188.864	609	189.473
Custos energia elétrica	(31.946)	(35.280)	(67.227)	(381.302)	27.395	(8.295)	(18.167)	(442.859)	(4.736)	(447.595)
ESS e EER (***)	234.775	87.441	322.215	(272.726)	(50.188)	10.865	(40.259)	(70.818)	40.726	(30.092)
Proinfa	-	12.186	12.186	38.643	(7.353)	1.861	-	40.060	5.276	45.336
Rede básica	(703)	45.878	45.175	12.869	(26.728)	2.021	-	12.305	21.032	33.337
Repasse de Itaipu	197.299	283.894	481.193	20.563	(160.513)	22.904	-	227.548	136.599	364.147
Transporte de Itaipu	322	4.745	5.067	2.213	(2.718)	213	-	2.557	2.219	4.775
Neutralidade dos encargos setoriais	(10.741)	(40.378)	(51.118)	(13.973)	25.752	(548)	-	(25.262)	(14.626)	(39.888)
Sobrecontratação	(32.126)	(36.573)	(68.699)	243.222	23.325	1.144	-	212.240	(13.248)	198.992
Bandeira Tarifária Faturada	-	-	-	(90)	-	-	-	(90)	-	(90)
<b>Outros componentes financeiros</b>	<b>(3.475)</b>	<b>(59.277)</b>	<b>(62.752)</b>	<b>61.485</b>	<b>63.165</b>	<b>1.919</b>	<b>-</b>	<b>131.437</b>	<b>(67.619)</b>	<b>63.817</b>
<b>Total</b>	<b>342.902</b>	<b>263.193</b>	<b>606.095</b>	<b>(94.691)</b>	<b>(108.018)</b>	<b>37.253</b>	<b>(58.426)</b>	<b>275.982</b>	<b>106.232</b>	<b>382.214</b>

# Regulatory Assets & Liabilities

Example – CPFL Piratininga 2Q22 Financial Statement

The balance variation is accounted for in **Operational Revenue**

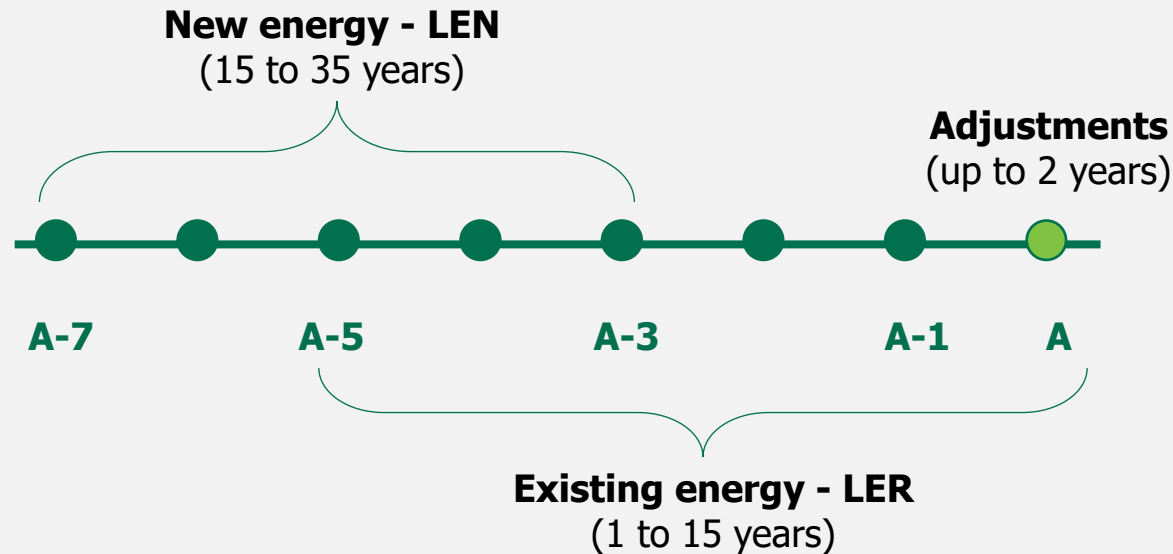
In R\$ MM



## 4.3 Overcontracting

# Overcontracting – what is it?

## Auction types



LFA – Alternative Sources  
LER – Reserve Energy



Bilateral Contracts



Itaipu Quotas  
Angra Quotas  
Law 12,783/13 Quotas



**Overcontracting happens when the amount of contracted energy is higher than the disco's energy needs (captive market + losses)**

## Law 10.848/04 and later

(free translation)



Art. 2 Concessionaires, permit holders and authorized public service providers of electric energy distribution of the National Interconnected System - SIN **must guarantee the full service of their energy market, through regulated contracting, in auctions**, according to regulation (...)

II - for electricity from **existing generation projects**, delivery will begin **in the same year or up to the fifth year** following the bidding year, with a supply period of at least 1 (one) and a maximum of 15 (fifteen) years;

III - for electricity from **new generation projects**, delivery will start from the **third to the seventh year** following the bidding, with a supply period of at least 15 (fifteen) and a maximum of 35 (thirty-five) years.

(...)  
§ 3º Except for the provisions of § 2º of this article, bids for the discos' purchase for **adjustments, in percentages to be defined by the Granting Authority, which may not exceed 5% (five percent) of their loads, whose maximum term of supply will be 2 (two) years.**

# Overcontracting – what is it?



Regulation allows **up to 105%** to be passed on in the tariff.

- If energy contracts exceed 105%, there may be:
  - ✓ **Voluntary overcontracting:** due to the disco's contracting strategy, which assumes the spot price (PLD) risk
  - ✓ **Involuntary overcontracting:** due to the quotas of Law 12,783/13, the migration of free and special customers to the free market and the expansion of Distributed Generation
- If energy contracts reach less than 100%, the disco must purchase energy in the short-term market (PLD risk) and will pay a subcontracting penalty

# Overcontracting – how to know if a disco is overcontracted?

Example – RGE's 2022 RTA – SPARTA/ANEEL Excel file

In "Energia" spreadsheet:

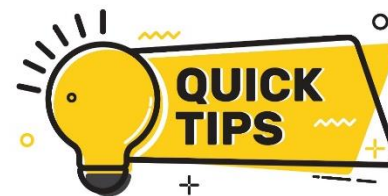
Tipo	Montante contratado	Montante Req sem proir
Geral	15.164.221 MWh	14.530.694 MWh



104.4%

Energia Contratada ( Sem considerar o PROINFA) : determinar o custo médio do Mix

Empresa	Montante	Custo médio
<b>Energia Base</b>	<b>7.278.570 MWh</b>	
Geração Própria	- MWh	-
Cota Angra I/Angra II	545.489 MWh	349,15
Cotas Lei n º 12783/2013	3.490.942 MWh	122,65
Itaipu (tirando as perdas)	3.242.138 MWh	281,21
		-
<b>Bilateral</b>	<b>- MWh</b>	<b>-</b>
<b>CCEAR</b>	<b>7.885.651 MWh</b>	<b>257,94</b>
<b>Custo Mix (sem proinfa)</b>		<b>235,05</b>
<b>Despesa Final</b>	<b>14.530.694 MWh</b>	



In order to download SPARTA Excel file, access:

[https://www2.aneel.gov.br/aplicacoes\\_liferay/tarifa/](https://www2.aneel.gov.br/aplicacoes_liferay/tarifa/)

## 4.4 Overdue bills



# Overdue bills – Late payment interest and fines

## Late payment interest and fines

- 1 Monetary restatement - IPCA
- 2 Fine – 2%
- 3 Interest – 1% p.m. (*Pro rata die*)

As of 3Q22, CPFL Energia began disclosing a **Management Analysis of the Financial Result** in its earnings release, which includes, among other items, revenues/expenses related to overdue bills: **late payment fines, monetary restatement, financing and negotiations.**

### Managerial Analysis

	Financial Result (R\$ Million)					
	3Q22	3Q21	Var.	9M22	9M21	Var.
Expenses with the net debt	(424)	(272)	55.7%	(1,511)	(641)	135.6%
Late payment interest and fines	108	123	-12.4%	370	429	-13.8%
Mark-to-market	1	(31)	-	13	(14)	-
Adjustment to the sectoral financial asset/liability	74	35	108.7%	298	48	525.0%
Other financial revenues/expenses	(16)	2	-	(83)	(55)	49.5%
<b>Financial Result</b>	<b>(258)</b>	<b>(142)</b>	<b>81.1%</b>	<b>(913)</b>	<b>(233)</b>	<b>291.7%</b>

## Key takeaways

# 10

The new concession contract (concessions renewed from 2015 onwards) **eliminates the effects of Parcel A**, in addition to replacing the IGP-M with the IPCA in the adjustment of Parcel B



PIS/Cofins, mostly, and ICMS are **neutral for the results**. **Effective IR/CS rate tends to be higher than 34%** due to the inclusion of amounts for excess demand and reactive power

# 11

# 12

Other importante point for the understanding of a disco's performance:

- ✓ X Factor
- ✓ Balance of regulatory assets & liabilities
- ✓ Overcontracting
- ✓ Late payment interest and fines





# Contact IR:

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