


The experts' point of view



 Energy

**The electricity sector is a mirror
for other industries in the energy
transition process**

The sector identifies opportunities in the energy transition and the opening up of the free market, although it faces regulatory delays

**Exclusive interview
with our experts on
the panorama of
the sector**

**Business Barometer:
opportunities and
points of attention
in the market**

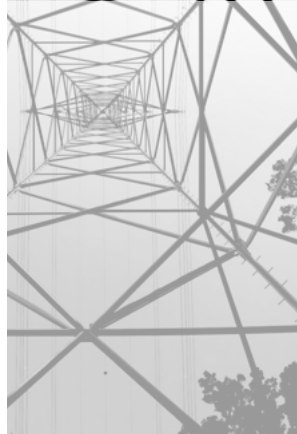
Lefosse

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Stay ahead of the market: check out the opportunities and points of attention in the energy sector.



INTRODUCTION

The main prospects for the energy sector in Brazil for those who want to stay ahead in the market.

The review **The experts' point of view: Energy** offers a complete overview of the sector, with analysis and insights from our experts on the regulatory, transactional and tax fronts. In the **cover story**, partners **Raphael Gomes, Christiano Rehder** and **Pedro Dante**, together with counsel **Rafaela Canito**, identify the opportunities and challenges for the energy transition and the opening up of the free energy market in the country from a tax and business perspective.

In a **full interview with our experts**, we show the way forward for the country's greenhouse gas (GHG) reduction agenda in line with the energy transition. Our partners and counsel comment on the sensitivities of rationalizing the charges levied on energy tariffs and the scenario for renewable generation projects after the automatic granting of discounts on tariffs for the use of the distribution (Tusd) and transmission (Tust) systems was interrupted.

The interview also covers the outlook for M&A operations in the sector and what the market and companies need to be aware of regarding the impacts of the Tax Reform (EC 132/2023) and the Complementary Law on the sector.

In the **business barometer**, you will find the main opportunities and points of attention in the energy sector to prepare yourself for what is to come.

Happy reading.



COVER STORY

The electricity sector is a mirror for other industries in the energy transition process

The sector identifies opportunities in the energy transition and the opening up of the free market, although it faces a regulatory slow pace

Electric power plants play a central role in the energy transition of other sectors of the Brazilian economy and Brazil can play a leading role in the use of green hydrogen and the expansion of offshore wind power. This is the assessment of lawyer Raphael Gomes, head of Lefosse's multidisciplinary Energy sector practice. He points out, however, that the slow pace of regulation and uncertainty about the source of funding for implementing these sources create obstacles to the realization of these projects, which have great potential to generate a positive impact from an environmental and social point of view.



Various sectors have sought to situate themselves in the context of the energy transition and the opening up of the market. There are some very hot fronts.”

Christiano Rehder



COVER STORY

"These are sources that, in order to be implemented, will require resources that must come from subsidies. High tariffs are a problem in Brazil, there's no room for more subsidies", he says, noting that the consensus among various government and private agents on the need to reduce energy tariffs has not led to concerted action to this end.

Slow pace in regulation and uncertainty about the source of funding for the implementation of renewable sources create obstacles to the realization of projects.

Christiano Rehder, a partner specializing in Corporate and M&A in the Energy sector at Lefosse, draws attention to Brazil's other competitive advantages as a green power, in addition to its already renewable grid: its high production capacity and supply of green raw materials for the manufacture of sustainable end products, which are increasingly demanded in global markets.

"The main one is steel. We talk about the electrification of the vehicle fleet and forget that this will require the production of an ever-increasing amount of this raw material. Brazil is one of the largest producers and exporters of iron ore in the world, and the iron ore extracted here is of unrivaled quality for the production of 'green steel' from low-carbon hydrogen. This decarbonization of the steel industry - and so many others, such as the aviation and fertilizer industries - with green hydrogen as a key vector, should be Brazil's next great frontier in the energy



The steel sector is responsible for 8% of the world's CO2 emissions

Fonte: [IEA](#)

transition, in addition to expanding the clean energy matrix and reducing deforestation and land misuse rates", he says.

The partner points out that, in order to make use of this potential, we urgently need to make progress on regulations and policies that will create a favorable environment for investment in the entire chain of alternative energy sources, from infrastructure to sustainable industrial enterprises. The current question, he says, is how to sustain a primarily renewable matrix and advance the energy transition in the face of so many issues that still need to be resolved so that we have an adequate regulatory framework, legal certainty and the definition of the right incentives and paths.

"Various sectors have sought to situate themselves in the context of the energy transition and the opening up of the market in order to invest, set up sales desks or even support centers for energy services and solutions. There are some very hot fronts", he says.

According to lawyer Pedro Dante, also a partner in the Energy practice, another flank opening up opportunities for the sector and industries came with the opening up of the free market to all high-voltage consumers (Group A). "We are seeing financial institutions, telecommunications companies and oil and gas companies looking at the free market", he says. "We hope that, with the movement of the retail model and the free market consolidated, there will be the dream opening up, including to low voltage. It's an interesting product for which companies are structuring themselves", he adds.

Promises of legislative change and a lack of public policy direction are points that have created legal uncertainty in the energy sector and have held back investment in mergers, acquisitions and structuring projects, such as self-production, according to Lefosse experts. "If there is a promise of legislative change and



COVER STORY

it doesn't come, then there is a cyclical problem of how to allocate risks and costs", says Gomes.

The distributed generation market, for example, has been waiting two years for the rules for obtaining the Special Incentive Regime for Infrastructure Development (Reidi), which exempts operations from PIS and Cofins contributions. Recently, the publication of Order No. 78 by the MME brought hope that it would be possible to take advantage of the benefit. However, uncertainties about the procedures still worry the sector.

With tight deadlines for making mini-generation projects viable, the market has been looking for financing alternatives, such as incentivized debentures, as well as operations backed by real estate receivables. "The segment is going through a consolidation movement. Medium-sized companies that have hundreds of access opinions are looking for investors and new companies with the financial capacity, precisely so that they can have contributions and be able to develop these projects", he explains.

"Also from the point of view of paying taxes, the opportunities for optimizing business in the coming years should be assessed on the basis of the potential impacts of the Tax Reform". Rafaela Canito, counsel specialized in Tax in the Energy sector, explains that the approval of the Tax Reform [Constitutional Amendment 132/2023] may require a review of contracts, practices and procedures. "The new tax clauses alone, which are usually in the contracts, may not be enough for the changes that are coming, especially since we have a long transition regime, until 2033. You have to be aware and ahead of these changes", he says.

These are points of attention for the sector, but they may represent an opportunity for companies to seek greater tax efficiency in their operations, says the lawyer. She points out that, under the new system, the rule is that taxpayers can largely take credit for the consumption taxes levied in their production chain.

More than the definition of the rates of the new taxes and the tax burden, the lawyer's warning is for the discussion of the regulation of the reform by means of a complementary law, which will also define the format of compliance with ancillary obligations, including during the transition period from the current tax system to the new one.



It is important to ensure that what is being decided and defined by Congress meets the interests of the sector, as well as simplifying tax obligations to ensure a lower Brazil cost."

Rafaela Canito



INTERVIEW

What do **our experts** have to say about the main **innovations in the sector?**

In the interview below, partners **Raphael Gomes**, from the Energy practice, **Christiano Rehder**, from the Corporate and M&A and Capital Markets practices, and **Pedro Dante**, from the Energy practice, together with **Rafaela Canito**, Tax counsel, share their analysis of the current scenario in the sector. They discuss the main challenges related to the tariff issue, the prospects for opening up the free market, the energy sources that should be highlighted in the energy transition and the impacts of the Tax Reform on the sector.



Brazil has a vocation for renewable energies. But what is missing, from a regulatory point of view, if we are to make progress on the agenda of reducing greenhouse gas (GHG) emissions?

Raphael Gomes: The electricity sector is an example for other sectors in Brazil. There, the transition to a low-carbon economy has already taken place. Large hydroelectric plants, wind and solar sources make up more than 90% of Brazil's energy matrix. The electricity sector is key to collaborating with the energy transition of other sectors, with the electrification of industry.

There's no point in electrifying the furnaces of steel mills and maintaining a dirty energy matrix.

With the evolution of the production and use of green hydrogen in industry, we could have a chain with a high contribution to CO2 reduction.

Brazil has renewable electricity for the production of hydrogen fuel cells, which could gradually replace other energy sources in industry with the right planning. But there is an open question in the regulation of green hydrogen, of how we are going to be able

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RENEWABLE GENERATION PROJECTS AFTER END OF AUTOMATIC RENEWAL OF TUSD AND TUST DISCOUNTS

IMPACT OF THE TAX REFORM ON THE SECTOR

WHAT TO EXPECT FROM THE COMPLEMENTARY LAW TO EC 132/2023?

IMPACTS OF THE DELAY IN OBTAINING REIDI ON DISTRIBUTED MINI-GENERATION PROJECTS

THE SECTOR'S MAIN OPPORTUNITIES AND POINTS OF FOCUS



INTERVIEW

to produce it and equalize the Capex [capital expenditure]. There's also the economic question of how we're going to make the transition, which won't be at zero cost.

From the point of view of oil and gas, we have the opportunity of ethanol. In the energy sector, we have the collaboration of the automotive sector with the electrification of buses, passenger cars and trucks. The energy sector is prepared to receive this with a very large amount of renewables.

The electricity sector can be a mirror and a lesson for other sectors of the economy. In relation to the Green Hydrogen Bill [PL 2.308/2023], we have the expectation versus the speed, which has not been a constant in relation to legislative changes. There is a lot being said, but little effectiveness. Today, the Offshore Wind Bill [PL 11.247/2018] seems to be more advanced, even though the EPE (Energy Research Company) studies are not so optimistic about the expansion of this source in the short term. Both are great news for the sector, along with renewable sources and diversity in the matrix. But there is always the other side of the coin, which is the cost. These are sources that, in order to be implemented, will require resources that must come from subsidies. However, energy tariffs in Brazil are high and the issue of subsidies must be analyzed very carefully.



With the development of green hydrogen and the use of this source to electrify industry, we will have a chain with a high contribution to CO2 reduction.”

Raphael Gomes

There is a lot of talk about developing these sources without using any subsidies, but I see it differently. We have only had the brutal development of wind and solar sources because we had Proinfa. Alcohol as a fuel was only possible with the implementation of Proálcool. The Reserve Energy auctions helped develop the biomass sector, and so on.

It is very difficult to envision the development of a new energy source without any subsidies. There is the challenge of Capex, internalization of the production chain and competitiveness with other sources. I believe that the issue should be resolved by equalizing and reviewing the subsidies that exist today, whose public interest has already been exhausted and for which the Brazilian consumer continues to pay.



**Raphael
Gomes**

Energy
Partner

INTERVIEW



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Raphael Gomes

The rationalization of charges levied on energy tariffs is part of the plan announced by the federal government to develop Brazilian industry. What, in your view, is most sensitive in this debate?

Gomes: The question is the direction of public policy so that there is, in fact, rationalization. There is no consumer, generator or player in the electricity sector who disagrees that charges should be rationalized. This is because we see how heavy the tariff is for the Brazilian consumer. But the federal government's speeches have been contradictory. On the one hand, the government says there should be a rationalization of charges. On the other hand, it announces that it intends to solve the problem of the distributors' tariffs. How can this increase be subsidized if contracts are not reviewed and new sources of funding are not created?



The question is the direction of public policy so that there is, in fact, rationalization. There is no consumer, generator or player in the electricity sector who disagrees that there should be a rationalization of charges.”

Raphael Gomes





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At the same time, the government recognizes the importance of other energy sources in which Brazil must take a leading role and evolve, such as offshore and hydrogen. But Capex is not competitive today and will need to be subsidized.

Among the many issues that would require subsidization versus rationalization, we also see the issue of energy self-production. What happens with self-production is: Brazilian industry doesn't pay the subsidy. That's the importance of solving the root of this problem. Are these subsidies well targeted? Are they well valued? Is this bill the Brazilian consumer's responsibility?

One discussion right now - wrote an article about it - is about the Itaipu tariff, paid by the entire Midwest, South and Southeast regions. We would have had to have had a brutal reduction in the tariff. But what has been done? Public works have been included in the tariff. Should public works be paid for by energy consumers or by Brazilian citizens through taxes? That's rationalization. We have the opportunity to reduce charges, but we don't.

Everyone agrees that the subsidy should be analyzed in a way that equalizes it. The higher the tariff, the higher the level of defaults and technical losses - the famous gato (electricity theft). Why? Because it has simply saturated what the consumer can afford.



INTERVIEW

How does the self-production industry work?

A benefit that has existed since the 1990s, in self-production, the consumer enters the generation risk matrix.



Benefits:

- _ Pay only for the energy produced, i.e. the cost of energy;
- _ Because it is helping to expand a generation matrix and to finance a new source of generation, it does not pay the charges.



Counterpart:

- _ No subsidy;
- _ As a self-producer, you take on additional risks as opposed to the consumer who goes to the free market and buys an energy purchase contract.

What are the prospects for M&A operations in the electricity sector in 2024 and 2025? What types of projects and investments have most attracted investors? What are the points of attention due to the potential cooling of the market?

Christiano Rehder: The energy sector has resiliently stood out in Brazil's transactional statistics in recent years. Despite the cooling of operations, in general the sector has even been saving statistics. In centralized generation, for example, there are large projects reaching a level of maturity which, against a backdrop of a slowdown in M&As involving greenfield projects, encourage portfolio rotation. We saw major operations last year, mainly in renewables, where there was an exchange of assets between large groups and between some funds.



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Christiano Rehder



INTERVIEW

Circumstantial decisions are being made by large divestment groups - leaving Brazil, looking for a strategic partner, or disposing of an asset that has already reached the end of its life within the investment thesis.

Other sectors, not just those traditionally involved in energy, are trying to situate themselves within the context of the energy transition, for example by opening up the market to seek investment, setting up trading desks or even support centers and solutions for energy services. There are very hot fronts.

In relation to the Legal Framework for Distributed Generation [Law 14.300/2022], which has generated a gold rush of projects and new access opinions, we see the segment racing against time to get these projects off the ground and seek funding. We have seen a lot of movement from developers to financiers, big foreign funds taking an interest in the market and positioning themselves to take part in this final race.

In terms of brakes, what we always see, from a transactional point of view, is a concern about legal uncertainty. Incorrect or inconsequential signals about some kind of interference in decisions made in the past, as well as certain public energy policies, raise alarm bells for those planning to enter the sector, especially those who have already done their valuation and Capex analysis and don't know what they might face in the future.

Sources:
[KPMG](#), [Fitch Ratings](#)



Transactional statistics in Brazil

104

mergers and acquisitions

There were 104 mergers and acquisitions in **2023** in the electricity and natural resources sectors. This is an **increase of almost 3%** compared to 2022. In monetary terms, the approximate amount of Energy market transactions in 2023 was **R\$20.2 billion**.

6,91%

of total transactions

This volume of business represents 6.91% of total transactions in 2023.

INTERVIEW

How is the scenario – and how does it tend to stay – for renewable generation projects after the decision by the Federal Court of Auditors (TCU) that prevented the automatic granting of discounts on tariffs for the use of the distribution (Tusd) and transmission (Tust) systems?

Gomes: Aneel [the National Electricity Agency] has a deadline to publish a new regulation defining the criteria for whether or not a concession of less than 300 megawatts will receive the Tusd discount. This issue arose from the TCU's interpretation, which is based on a presumption of simulation. I believe there is ample room for legal discussion on this point.

Assuming there is a simulation, the TCU orders Aneel not to apply Law 9.427/1996. In other words, there are two basic legal issues: (i) simulation is not presumed. This doesn't exist legally in Brazil or shouldn't exist; and (ii) if there is simulation, it took someone a long time to see why the law is from almost 30 years ago.

The decision is so technical that Aneel has suspended the issuing of any licenses. Now, after the embargoes, it will start issuing licenses without a discount for up to 180 days, before issuing a new regulation.

What is the outlook for the electricity sector with the approval of the tax reform (EC 132/2023)?

Rafaela Canito: The tax reform will radically change the way consumption is taxed in Brazil today. We have inheritances from the previous system, such as non-cumulativeness, but the idea is to really change the logic of the system. In other words, broadly taxing all activities and taking credit for all the costs that taxpayers have in their production chain. Inevitably, this will have an impact on the way business is done and how the Cost and Risk of Brazil are calculated.



The idea of Tax Reform is to change the logic of the system. Inevitably, this will have an impact on the way business is done and how the Cost and Risk of Brazil are calculated.”

Rafaela Canito

It was not a reform made with the direct aim of increasing revenue for public bodies. What lies behind it is a call for simplification because the current system is complex and doesn't serve anyone's interests.

On the one hand, we have the expectation of efficiency gains, which will inevitably reverberate in the long term in the economy - at least it should, because with a simpler system, there is a lower Brazil Cost - and, on the other hand, the need for a transition that will generate a learning curve.

Brazil is a country that culturally likes everything to be very well documented. This means that any major change in the logic of the tax system brings with it new declarations, obligations and ways of declaring the tax.

In the electricity sector there are a variety of business models that have different consequences and repercussions. Traditionally, for example, transmission companies have deferred ICMS and are not worried about paying it. But, on the other hand, they fulfill many accessory obligations. During the transition period, these obligations will be doubled and then simplified. Before simplifying, we will increase the workload on this learning curve - which is not only for the taxpayer, but also for the tax authorities. It's a new system for everyone.

INTERVIEW



Before simplifying the system, we will increase the work on this learning curve - which is not only for the taxpayer, but also for the tax authorities. It's a new system for everyone."

Rafaela Canito



**Rafaela
Canito**

Tax Counsel
Energy
Specialist

Will there be an increase in the tax burden? Will there be a need to review prices and investments?

Canito: It is not yet possible to say whether there will be an increase in revenue or in the tax burden specifically for the electricity sector. There is a projected tax burden that is not intended to be higher than the current one, but is intended to be lighter. But some activities will be taxed in a way that they aren't today. For example, business models based on leasing infrastructure and providing services that have an ISS [Tax on Services of Any Kind] rate of 5%. All of this will be redesigned and we'll have IBS [Goods and Services Tax] and CBS [Contribution on Goods and Services] levied on everything. This will mean that at a certain point in the production chain, specifically, there will be an incidence that may or may not be higher than the current one. This is because there will be a system of broad non-cumulativity, meaning that every cost will generate a credit for deducting these new taxes.

The focus of tax experts has been on maintaining competitiveness. Because if it increases for all competitors, there is no relevant market impact. The idea of the reform is to tax the end consumer on everything. This way, there won't necessarily be an increase in the tax burden.



INTERVIEW



The idea of the reform is to tax the end consumer on everything. That way, there won't necessarily be an increase in the tax burden.”

Rafaela Canito

The Constitution has been amended and we are in the second step, which is the discussions on the complementary bill. When it comes to taxes, the complementary law plays a very important role because it provides the rules that will define both the tax burden and the Brazil Cost, as well as tax compliance - the costs of which are sometimes greater than the tax itself.

What is your recommendation for agents in the sector?

Canito: Spreadsheets the business at this point is very important. In order to calculate the increased burden, the ideal is to model the business, identify the impacts, the list of expenses, what you need to get the business up and running and how much credit this will generate - even if it's at an estimated rate.

Our clients are moving to review contracts, since the clauses for new taxes - which are usually in the contracts - may be insufficient for the changes that are coming, especially since we have a long transition regime, until 2033. You have to be alert and on the front foot.



INTERVIEW

Can the Complementary Law define what the transition period will be like? Is it necessary to wait for this rule to be published to understand the size of the bureaucracy and the Cost of Brazil?

Canito: It can and it will. The great expectation is that the law will detail what the transition period will be like. A major concern for our clients is the type of ancillary obligations that will be created during the transition period. Invoice systems and parameterization are the main costs for taxpayers.

PIS and Cofins contributions will be abolished in 2027, but ICMS will continue until 2033. During the transition period, two taxes will have to be paid. The field on the invoice in which the ICMS is entered shall remain. Where will IBS come in? Will it be necessary to change tax systems and make an IT effort to insert a new field? Should IBS be included as additional information? Will the legislator want to test the new system and create another invoice, i.e. issue two documents? All these answers will come with the supplementary law.

The message is: let's all be present at these discussions, which are in the public interest, because the discussion goes far beyond the tax rate. We are 100% focused on debating which accessory obligations are coming. Everyone is worried, but the debit and credit system tends to neutralize the tax issue. We have a much bigger problem with the execution and implementation of the reform.



The great expectation is that the Complementary Law will set out in detail what the transition period will be like.”

Rafaela Canito

How can the delay in obtaining the Special Incentive Regime for Infrastructure Development (Reidi) for distributed mini-generation projects affect the business models and timetables of these projects?

Pedro Dante: This is a point of concern. Obtaining this special regime had not initially been approved in the Legal Framework for Distributed Generation, but the veto was withdrawn. In practice, the market has been without the tax benefit for almost two years.

Ordinance 78 regulating the procedure was recently published and it was clear that there was going to be a very dense operation for a tight deadline. There are thousands of projects that will have to be registered with distributors who have generally not structured themselves for this demand for DG. The projects will then have to be analyzed by the regulatory agency before the Ministry of Mines and Energy can grant them approval.

Since the legal deadline for building projects is not interrupted by not obtaining the benefit, the market will then have to work on strategies to obtain financing.

INTERVIEW



The DG market is waiting for Reidi, but has been looking for alternatives, such as incentivized debentures, as well as operations backed by real estate receivables.”

Pedro Dante

What's wrong with not speeding things up? Smaller solar projects have a timeframe for viability. The deadline is very tight, the market has not been able to obtain this benefit and, if the incentive is regulated and approved, there shouldn't be much benefit for Reidi in these projects.

The DG market is waiting for Reidi, but has been looking for alternatives, such as incentivized debentures, as well as operations backed by real estate receivables. The distributed generation segment is going through a consolidation movement. Medium-sized companies that have hundreds of access reports are looking for investors and new companies with financial capacity, precisely so that they can get funding and develop their projects.

Canito: Reidi is a tax benefit that exempts PIS and Cofins, which are two of the taxes being abolished in the tax reform. They will be extinct in the short term - by 2026. On the one hand, there is the slowness and lack of manpower and systems in the Ministry to assess these requests with the necessary speed. On the other hand, all this being resolved, soon afterwards, in 2026, the contributions that Reidi intends to relieve are extinguished - and the CBS appears in their place.

It can be a whole "you won, but you didn't take it" effort. This reinforces the need for the sector to act on tax reform regulations to guarantee exemption for Capex and capital goods - which benefit from rate reductions or credits. One discussion is

whether it is possible to include services within the concept of capital goods because Reidi currently covers equipment, goods and services used to build farms and power plants. It's a discussion that other infrastructure sectors are having and it's extremely important that the electricity sector is also attentive so that the benefit is effective with the new taxes.

Is it time to fight for this benefit or is it better to look to the future and focus on the complementary tax reform law?

Canito: I believe that every effort in taxation makes sense and is worthwhile because it costs a lot. Some players in the sector are resorting to the courts to try to speed up obtaining Reidi. Some have been successful, others are struggling. It makes sense to walk on both fronts in parallel. I would not lose sight of any of them because if you can save what you have today, that's great, but it's important to be aware that the tables will soon turn.

Dante: I agree that you have to work on both fronts to try to get the benefit through. In practice, what we see is that the financing of energy projects is extremely complex. When the market realizes that it does not have a short-term scenario for obtaining Reidi, it looks at other financing strategies. Sometimes they are not the most advantageous, but at least they're the most concrete, even in terms of meeting the timetable.



INTERVIEW



When the market realizes that there is no short-term scenario for obtaining Reidi, it looks at other financing strategies.”

Pedro Dante

Canito: From a tax perspective, there is a third front. The application of Reidi for DG is quite recent, dating back to 2022. Before, these projects were structured differently. There has always been a "copy and paste" of tax benefits from taxes other than PIS and Cofins, so this is still a possible tool. There are other tools and systems

for achieving tax cost efficiency. An example of this is the assessment of ICMS and Import Tax benefits, since most of the equipment and components for these plants are imported.

What are the main opportunities in the sector at the moment? And the main points of attention for companies?

Gomes: Green hydrogen is an opportunity. This is a very important technology. We don't have the resources available in the United States to be able to create billions of dollars in subsidies, but we do have an abundance of natural resources and renewable sources that can help us become a leading player in the sector.



There are other tools and systems for achieving tax cost efficiency, apart from Reidi. An example of this is evaluating ICMS and Import Tax benefits.”

Rafaela Canito



**Pedro
Dante**

Energy
Partner

INTERVIEW

Gomes: If we have a legislative and regulatory pathway and a very well-designed matrix, Brazil can be a leading player in green hydrogen. Currently, the generation sector has an additional challenge: lower than expected growth in demand due to various factors, but mainly due to slow economic growth and the pandemic. This scenario creates uncertainty about new projects, reduces demand for energy auctions and jeopardizes the national production chain. In this scenario, in addition to the benefits of the source, hydrogen could also solve the issue of idle capacity and the slow growth in demand in the country.



If we have a legislative and regulatory path and a very well-designed matrix, Brazil can be a leading player in green hydrogen.”

Raphael Gomes

A major difficulty and point of attention is the linking of public policies. For almost two years now, we have been receiving promises - almost weekly - to restructure the energy sector and issue measures to contain high tariffs, but in practice what we have are one-off measures that end up not solving the problem in a structural way.

We need to listen to the sector, as was done in the Public Consultation 33, which gave rise to PL 414. It was the largest public consultation in history and brought a complete and concatenated treatment of the various activities within the energy sector, the result of a dialog between the government, the regulator, businesspeople and society.

Rehder: Green hydrogen and the public policies to encourage it can boost many of Brazil's other competitive advantages. With an energy matrix that is already primarily renewable, Brazil has great capacity to produce and supply green raw materials for the manufacture of sustainable end products, which are increasingly demanded in global markets.



INTERVIEW



Before we get to that final point of electrification, we have to look at the whole chain and think about how we can transform it to achieve the result we want.”

Christiano Rehder

The main one is steel. Brazil is one of the largest producers and exporters of iron ore in the world, and the iron ore mined here is of unrivaled quality for the production of "green steel" from low-emission hydrogen. We talk about the electrification of the fleet and end up forgetting that all this will require the production of a large quantity of steel. Not to mention the important reserves of other strategic minerals in Brazil, essential inputs for the manufacture of batteries and the electrification of industry.

Today, the steel industry accounts for 8% of all greenhouse gas emissions in the world. It is the industry that emits the most carbon dioxide. Before reaching that final point of electrification, we need to look at the whole chain and think about how we can transform it to achieve the result we want. In addition to preserving a clean energy matrix and reducing rates of deforestation and misuse of land, decarbonizing the steel industry - as well as others, such as aviation and fertilizers - with green hydrogen as a vector could be one of Brazil's great next frontiers in the energy transition.

This involves revising policies and advancing regulations that will create a favorable environment for investment in the entire chain of alternative energy sources, from infrastructure to sustainable industrial developments. We don't currently have the infrastructure for everything that will be needed to completely decarbonize the industry.

The point of attention is the lack of, and even a certain delay in, the regulations we need to make these projects viable. Brazil could lose its natural leading role if it isn't quick to respond to all of this, given all the difficulties we have in terms of slow legislation and public policies. The current question is how to sustain a primarily renewable matrix and make progress in the energy transition in the face of so many issues to be settled so that we have an adequate regulatory framework, legal certainty and the right incentives and paths.



INTERVIEW



The current question is how to sustain a primarily renewable matrix and advance the energy transition in the face of so many issues to be equalized.”

Christiano Rehder

Canito: From a tax point of view, the points of attention are linked to opportunities, such as reviewing contracts and current practices and procedures. During this review, taxpayers can identify opportunities to make the most of the current system. For example, to find out where there are credits in relation to the current taxes that the company can accumulate, because there will be mechanisms for using these credits in the new system in relation to the new taxes. Pay attention to the tax theses and see if any make sense, so that they can be judicialized before the current system is abolished.

We have the lawsuits over Reidi, the discussion of TUSD and TUST that was decided by the Superior Court of Justice, there is the discussion about the possibility of charging ICMS on TUSD G. The time to discuss this is now, while there is ICMS and some distributors are making the move to charge tax on this portion.

Another point of attention that could become an opportunity is to follow the unfolding of the tax reform. Ensuring that what is being decided and defined by Congress meets the interests of the sector and simplifying tax obligations to ensure a lower Brazil Cost. The points of attention are exactly where opportunities can be identified to optimize business in the coming years.



**Christiano
Rehder**

Partner specialized in
Corporate and M&A in
the Energy sector

INTERVIEW



From the tax point of view, the points of attention are linked to opportunities, such as reviewing contracts and current practices and procedures.”

Rafaela Canito

Dante: The opening up of the free market in January 2024 for group A of self-production opens up opportunities for the sector and industries. We are seeing financial institutions, telecommunications companies, oil and gas companies looking at the free market. We have a potential 80,000 consumers, 20,000 of whom are in the process of joining the CCEE [Electricity Trading Chamber]. We are going to pass 30,000 consumers very quickly.

This has brought in a lot of business. The retail model - in which large players represent consumers with reduced load on the ACL - shows that the market is maturing. It is essential that this model is implemented with a robust regulatory framework and contracts that guarantee legal and economic certainty for representatives and consumers.

Although the current government does not indicate that opening up the market is healthy - in fact, it indicates the opposite - we hope that with the movement of retailers and the opening up of the free market consolidated without any setbacks, there will be the desired opening up, including for low voltage. It's an interesting product for which companies are structuring themselves. The big risk is precisely that the market will be properly structured in accordance with the rules in force, so as not to breach contracts with traders, which would jeopardize the opening up of the market.



We hope that with the movement of retailers and the opening of the free market consolidated without any setbacks, there will be the dream opening, including for low voltage.”

Pedro Dante



Stay ahead in the market:

check out the opportunities and points of attention in the energy sector



Main opportunities

- _ Development of green hydrogen and iron ore as renewable energy sources;
- _ Export and use of steel for fleet electrification;
- _ Monitoring the development of EC 132/2023 with a view to simplifying tax obligations;
- _ Opening up the free energy market, including for the low-voltage group.



Points of attention

- _ Lack of concatenation of public policies towards a common path between subsidy rationalization, tariff reduction and creation of funding sources;
- _ Review of current contracts, practices and procedures in view of the changes provided for in EC 132/2023;
- _ Structuring free market projects without breaking contracts.



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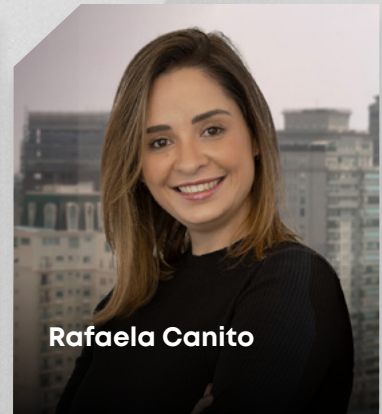


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