

Q3 2021 Earnings Call

Company Participants

- Augusto Miranda, CEO, Director & Member of the Executive Board
- Leonardo Lucas, Member of Executive Board, CFO & IR Officer
- Unidentified Speaker, Unknown

Other Participants

- Antonio Junqueira, Analyst
- Carolina Carneiro, Analyst

Presentation

Operator

Good afternoon. Thanks for waiting. Welcome to the Conference Call of Equatorial Energia S.A. regarding the Earnings of the Third Quarter 2021.

Today with us we have Augusto Miranda, CEO; Leonardo Lucas, CFO; Tinn Amado, Regulation and New Businesses Director; Tatiana Vasques, IR Superintendent; Luciane Domingues, New Businesses, Superintendent; and Rafael [ph] (Inaudible), Trading Superintendent.

We would like to inform you that this event is being recorded. (Operator Instructions)

This event is also being simultaneously webcast on the company's website, equatorialenergia.com.br. In there, you will also find the company's presentation available. You will be able to control the slides. The replay of this event will be available soon after its closing.

We would like to remind you that webcast participants can post their questions for Equatorial Energy on the webcast, and they are going to be answered after the end of this conference call by our IR team.

Before moving on, we would like to let you know that any statements made during this conference call relative to Equatorial's business outlook projections operating and financial goals are based on the beliefs and assumptions of the company's management, and rely on information currently available to Equatorial Energia S.A.

Forward-looking statements are not a guarantee of performance. They involve risks, uncertainties and assumptions since they refer to future events, and therefore, depend on

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circumstances that may or may not occur.

Investors and analysts should understand that general conditions, industry conditions and other operating factors may affect the future results of Equatorial Energia S.A., and too [ph] the results that will materially differ from those in these statements.

We'll now turn the floor to Mr. Augusto Miranda, that will start the presentation.

Please, Mr. Miranda, you may go on.

Augusto Miranda {BIO 15350182 <GO>}

Thank you. Good afternoon, everyone. Thanks for attending today's call.

It is with great pleasure that we present the company's results for 2Q '21. The third quarter was a very special period for Group equatorial. After all, over the last few months, we have taken an important step towards filling our value generation strategy. We moved on in the consolidation of distribution assets with the beginning of the management at CEEE-D in July. And in September, we opened a new front for the group in the (inaudible) sector with the acquisition of the sanitation concession in the state of Amapa. But we didn't stop there recently, at the end of October, we announced the signing of the contract the acquisition of (inaudible) Energy, an operation that consolidates the group's recent trajectory of entry the renewable sector.

All these moves were made based on our strong characteristic of financial discipline in capital allocation and commitment to value creation for our shareholders. In this sense, I would like to point out that we remain paying attention to new opportunities, now expanding our focus to new sectors of activity, such as renewables and sanitation.

Now we are going to move on to Slide 3. So moving on to Slide 3. I'll start with the highlights of the period about our economic financial results. We start with our financial economic highlights.

We ended the quarter with the company's recurring consolidated EBITDA reaching approximately BRL1.5 billion, up 23.8% compared to the 3Q '20. Significant result occurs despite the beginning of the consolidation of CEEE-D, which, at first stage, will still contribute negatively to the company's consolidated EBITDA. The EBITDA growth reflects the economic recovery in our concession areas with consequence expansion in consumption in addition to the tariff gains resulting from the tariff revision and readjustment processes that took place. Leo will bring details of our evolution later on.

Regarding CapEx, we invested more than BRL816 million in the quarter, mainly in the distribution sector, always focus on the strengthening and expansion of our network. The volume of investments executed was 41% higher than that at the same period last year when more restrictive measures were in place due to the pandemic. The consolidation of

the new assets, CEEE-D and the increase in the volume of investments did not change our consolidated leverage.

We ended the quarter with a 2.1x net debt EBITDA ratio, the same level measured in 3Q '20. The maintenance of our deleveraging of the last quarters is a consequence of the better performance of our distributors, and mainly due to the start of operation of the transmission assets.

It's worth mentioning that this quarter, we raised more than BRL2.5 billion in CEEE-D as part of the management of liabilities promoted under the turnaround process. Leo will also bring you more details on that.

We continue to have a robust consolidated cash position of BRL9.7 billion which allows us to choose the best moments to access the market and allow us to be competitive for possible new opportunities to generate value.

In relation to the performance of our distributors, I would like to highlight the growth of the consolidated volume of energy sales of 3.3%, above the growth of the injected energy in the period of 3.2%. The highlight is the volume expansion in the states of Piauí plus 12%; and Maranhão, plus 5.5%. This another consolidated CEEE-D, the third quarter, for comparability purposes, but contributed negatively with a retraction of 3.3% due to billing adjustments.

Another important highlight is the performance of losses, especially at Equatorial Piauí, in this quarter, started to operate below the regulatory level, only three years after the position of the company. In general, all of our assets improved to their losses performance, except for CEEE-D. The operational performance of our assets will also be talked approach by Leo in the next slides.

Additionally, another example of how we continue to advance the turnaround in Piauí and Alagoas was the constitution of deferred tax assets in those companies, referring to tax losses and a negative basis of CSLL in the combined amount of approximately BRL1.1 billion. I would also like to highlight the approval of the annual tariff review of the Equatorial Maranhão, which took place at the end of August with an average effect for clients of 2.79%. The company's net compensation base was approved at BRL4.366 billion.

Finally, I would like to point out that this quarter, we began managing CEEE-D and its consolidation in our results. Since we took over in early July, we have been working hard on the turnaround process. And in a few months, we have made important advances in some of the main fronts of value generation. We completed the POS process with record addition of 46% of the workforce which allow us to make great advances in the company's operation efficiency.

Before moving on, I would like to highlight the achievements in our value creation agenda. The milestones achieved were not restricted for the quarter since important achievements were made in recent months. First, in September, we opened a new avenue

of growth for the group by winning the sanitation concession in the state of Amapa. The entry in the segment is of great importance as well have the opportunity to operate an energy distribution and sanitation assets in the same state besides the perspective of new capital allocation opportunities in the segment.

Additionally, we continue advancing in our strategy to expand our operations and presence in the generation and trading segment. In the previous quarter, we have already announced the acquisition of E-Nova, a distributed generation company.

Now in October this year, we completed the acquisition of 100% of the shares of our trading company, Sol Energias, an important step towards designing a trading strategy integrated with all businesses.

More recently, we announced the signing of an agreement to acquire Echo Energy, one of the largest player in renewable generation with about 1.2 gigawatts installed capacity. We made an acquisition of a company with scale, that is a benchmark of operation in sector with a 2-digit return on equity and options that are material in relation to Equatorial's market value. With this acquisition, we transformed the Equatorial Group into an integrated energy player, while at the same time, elaborating another growth vertical and positioning the group competitively for the changes in the energy sector.

In the sense, I would like to take this opportunity to explain the next slide a little more details about the characteristics and rationale of this acquisition. On Slide 4, it's important noting that Echo has a current portfolio of assets that already have trading contracts. However, when the energy in the current portfolio, it decontracted. And as we implement the pipeline, our strategy is to sell the energy contracts with shorter term, and greater liquidity. And thus, we can achieve high margins on trading. Historically, the difference in energy prices between short- and long-term contracts according to these data, there is between BRL40 to BRL60 per megawatt per hour.

Today, many companies do not adopt the strategy because they need to offer a long-term contract as support for the funding required for the assets. In our case, we intend to make this long-term contract at the project level with our trading company, a strategy that only large groups with a robust balance sheet and integrated options are able to adopt.

Secondly, the supply of new i50 (inaudible) energy projects will cease to exist after 2025, which means that this product in the future tends to be case, leading to an increase in the incentivized energy premium. The wire discount has even more value when we talk about the scenario of market opening for customers who pay a higher wire usage such as medium voltage. We see valuing releveraging Echo Energia which can operate with that measure by net debt-EBITDA ratio at levels between 3x and 3.5x. Additionally, we intend to fund a relevant part of the acquisition, which we cannot give further details because we are in a silent period.

Finally, the acquisition also has several upsides that can generate even more value for the group such as the opening of the low voltage market, self-production, direct access to consumers and the strengths of the Porto Alegre Energia brands as well as synergy with

other group businesses. We made the move with a good return, and these upsides in certain scenarios can become transformational in terms of value generation.

At the following slides will bring you some information about Echo and the scenarios that we build (inaudible) for the future. On Slide 5, we again present the pipeline characteristics by adding the capacity factor information for each project. It's important to highlight a few points. The first is that of the pipeline product, four of the five farms will have the wire discount. The second is that the estimated CapEx is in line with the current market with more pressure on the exchange rates and commodities. And lastly, as we evaluated a number of greenfield projects prior to this acquisition, we can safely say that the best projects are only accessed by generation platforms as the big players in the segment usually have a right of first fusion on new projects with market developers.

Moving on to the next slide, Slide 6. We bring the information that the generation scenario is influenced by two parameters. The first is the availability of the source, wins in this case, and the second, the availability of machines. (Inaudible) is a conservative metric of generation probability. It's used by (inaudible) only for greenfield projects to calculate the physical guarantee every Brazilian debt creditors and rating agencies to drive risk scenarios and calculate coverage rates for leveraging greenfield projects.

However, we are talking about funds already operational in the decision-making regarding the generation probability scenario. We cannot ignore. One, the operational maturity of these farms, the triple certification of generation carried out by qualified advisors, and the predominant of faster turbines for the wind farms as well as the contract protection for generation below the curve of some farms, resulting in a historic availability of the machines of 97% above that of other players.

All farms were recertified in 2019, incorporating the most recent generation history and the scenario outlined by the seller for 2022 is 10% higher than the current physical guarantee shown in the chart. This data, including operating assets as well as Echo 8, 9, 10 that should start operations in January '22. It's important that in this scenario, we were more conservative in the generation scenario.

Going to Slide 7. Here, we emphasize again that another crucial point for value generation is the strategy for trading decontracted energy, which is based on contracts with duration of up to four years with consumers considered middle market, which have a higher average ticket than the PPAs with long terms of 10 to 15 years with players considered large corporate. The strategy of longer PPAs is practicing the market to guarantee project funding. We will not have this condition because we will give guarantees for the purchased energy for the pipeline and operational SPEs already have their funding equated, and this energy will be decontracted target in 2021.

If we look at the scenario of historical prices of conventional energy, we see that for contracts between one and four years, the price historically was above BRL100 feet per megawatt hour. To the price of conventional energy, we have to have the premium of incentivized energy as some in the slide. The average real price by November 21 of incentivized energy with 50% discount in (inaudible) is BRL238 billion according to that

retracted from the seat. This data already includes the cost of conventional energy plus the premium of incentivized energy.

In the last five years, the only period in which the 53-week moving average price of i50 was below the average of the banter historical series was during the most critical period of the pandemic when there was a great deal of uncertainty about demand. But the best way to estimate the final price of incentivized the energy is not the past because the market is changing. The supply for this source of energy will stagnate and many consumers are migrating to the free market. And at each stage of market opening, the higher the cost of wire to consumers, making this product even worth appealing.

According to that from CCEE, the consumption of incentivized energy i50 by final consumers in the ICL was 3.9 gigawatts average in August. CCEE shows that there are already 5 gigawatts average of new consumers that are potentially free but have not yet migrated. Additionally, according to estimates by Times Energy, there are more than 4 gigawatts average of consumption of high-voltage clients with demand lower than 500 kilowatts that from 2025 could migrate on to the free market, and the low voltage consumption is 24 gigawatts ever already excluding the categories that have subsidies.

In summary, there is evidence that reinforces our belief in the increase of the provision for incentivized energy over time. And the privilege of generation of value in the scenario is for those that have the portfolio with this energy to exploit the opening of the market, hold the strength of the brand and have the ability to explore retail market.

Now I'm going to turn to Leo that will comment on the company's operational and economic financial performance. Leo, you have the floor.

Leonardo Lucas

Thanks, Augusto. Good afternoon, everyone. I hope you are all doing well. Now we are going to talk about market evolution, starting on Slide 9. The volume of injected energy continues to expand consistently, growing 3.2% in the quarter and increasing in all our concessions, especially in Piauí and Maranhão, benefited by the higher economic activity resulting from the end of restrictions and the weather component.

It's worth noting that this variation considers CEEE-D in 3Q '20 for things of comparisons - for purpose of comparison. The number of clients benefiting from the social tariff of continues to grow as a result of the company's reregulation its initiatives. More than 270,000 clients were added in our concessions, including CEEE-D distribution with the main advances occurring mainly in the states of Pará and Maranhão. The last 12 months, the number of customers that benefit from our products increased by approximately 11.4%.

On the next slide, are going to give details on the build amounts. Moving on forward here on Slide 10, we break you a look focus on distributed energy. The volume of energy continues to grow in our concessions. And it's important to note that the volume of distributed energy has grown even above the injected energy in consolidated terms.

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In the quarter-on-quarter comparison, energy consumption grew 5.3% if we consider only our oldest concessions with emphasis on the strong growth in Piauí, the result of initiatives to fight losses at the end of restrictive measures, which were enforced in the third quarter including CEEE distribution, the variation is 3.3% in the consolidated numbers. That's because the new assets in our portfolio contributed negatively in the period due to billing adjustments.

If we disregard this effect, CEEE distribution would have presented growth of 2.2%. As in previous quarters, the recovery of the economic activity at the end of restrictions started to drive growth in the other classes in a homogeneous way, previous highly concentrated in the residential class with all consumption classes now presenting growth. The highlight is the commercial class, which grew 9.8% in the quarter-on-quarter comparison. The maintenance of the growth of distributed energy at levels above injected energy is also very positive as it indicates a reduction in the level of losses as we are going to see later on.

Going to Slide 11. Here, we present the performance regarding collection and default rates of our distribution companies, including the performance of our most recent assets incorporating comparison. The strong recovery presented 3Q '20, partially due to the urgency in place at the time, meant that the collection levels presented this quarter were lower than that of the same period last year. However, the improved scenario in the context of the pandemic, and the initiatives and programs to foster revenue collection launched by the company, having set a level of revenue collection, close to recurring levels, especially in Porto Alegre and Piauí, which continue to perform close or above 100%.

It's worth remembering that the company has adopted a series of actions to encourage and facilitate the payment of invoices by our consumers. We highlight campaigns with boards [ph] and facilitation tools, such as negotiations through the website and a virtual assistant, among other initiatives implemented and presented in previous release.

As a reflection of these efforts, we ended the quarter with a consolidated collection rate of 98.5%. The indicator is mathematically affected by the significant growth in billing in 3Q '21, especially in Piauí and Maranhão. The level of consolidated provisioning for bad credit consolidated was 1.3% of gross revenue, the latter benefiting in part from the reversal of more considered provisions, the largest made in previous periods, and are adjusted.

Finally, it's worth noting that until September 30, the suspension of energy supply to low-income clients established by ANEEL remained in effect.

Move on to the next slide. On Slide 12, we saw total losses in the distributors. With the exception of our newest concession CEEE distribution this quarter, all of our concessions recorded a reduction in the 12-month loss levels. a significant and consistent results. The highlight this quarter is Equatorial Piauí, which, in less than three years from the beginning of its operation by the group, reached the regulatory level, and now performs below the limit set by ANEEL 20.5%.

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It's worth noting that for the tenth consecutive quarter, it's impossible to observe a decrease in the percentage of losses in Piauí, and for the eighth consecutive quarter in (inaudible). In Pará, the reduction for the third consecutive quarter reflects the success of the implemented tight actions, such as the expansion of the centralized entry system, the SMC, which has been taken to other concession areas.

As for CEEE distribution, the increase in the indicator is negatively impacted by the adjustment related to the billing process, which ultimately reduces the volume build in the period, was an impact on the level of losses. Here, we have a great opportunity to generate value with the reduction of the gap to the regulatory level.

Moving on to the next slide. On Slide 13, we see quality indicators. Here, the highlight particularly the result in (inaudible) in just one quarter. CEEE-D already show the reduction of 1.1 hour when compared to the immediately preceding quarter 2Q '21. This result is a consequence of the maturity of our processes and of the initiatives implemented as part of the turnaround process. In general, the challenges faced with respect to CEEE-D in the quarter impacted the indicator of the group's other distributors.

In Maranhão, it's important to note that the indicator in the last 12 months continues to be impacted by the typical events recorded in the first half, especially to suppliers in addition to the sharp increase in events related to network interference in remote and rural areas of the state.

On Slide 14, we are taking a look at (inaudible). Naturally, the challenge of grid outage as mentioned on the previous slide is also kept by (inaudible), which measures the frequency of outages and here, we evidence this behavior.

However, I would like to highlight on the slide that once again, for the seventh consecutive quarter, we have our fourth distributor below the regulatory limit. Of the current portfolio, only CEEE-D, our newest company currently operates outside the line. It's worth noting, however, that despite the short time, CEEE-D has already shown an evolution of the indicator, showing a reduction of 3% when comparing the period.

Now we are going to talk about the economic financial performance. On Slide 15, we saw the evolution of manageable expenses the adjusted PMSO and its variation per asset. It's important to remember that in the third quarter last year, we identified some savings due to pandemic restrictions. Although the adjusted number reported at the time did not include these amounts. We have identified them just for comparison.

Additionally, I note that in the first quarter of this year, we implemented another stage of our organizational restructuring with the strengthening of our regional structures, aiming at improving results. the comparative impact of this redesign remains.

As we can see, Maranhão registered a 6% reduction in the comparison between periods, adjusted for the savings recorded in 3Q '20. Disregarding the effect, Maranhão presented (inaudible) in line. In Pará, the increase is mainly due to higher personnel expenses identified in previous quarters due to the organizational redesign and the acquisition of

the (inaudible) work. and also to higher spending on outsourced services, particularly the interdiction of collection and loss fighting fronts.

In Piaui, the increase is mainly due to higher expenses for the intensification of the customer collection strategy, and expenses with the return of the face-to-face service at the branches and also alternative fees on success. In Alagoas, the variation of 5% was below inflation year-to-date for the period. And if we adjust the 3Q '20 by the savings from the pandemic, there was a reduction of 7.9% in the adjusted P&L. In (inaudible), CEEE-D show the reduction in its adjusted PMSO mainly due to the positive effect of lower expense sharing compared to 3Q '20 and lower expenses with maintenance and disconnection/connection teams.

In addition, it's important to note that in this quarter, there was a accounting recognition in the amount of BRL108 [ph] million in part of the effect of the provision for bad credits closing occurred in October '21 [ph] with 48% of the staff joining. Finally, in transmission, the increase due to the entry in operation of our assets, whose expenses until last year were activated are now being recorded in the result.

Additionally, in the information, PMSO ratio, I highlighted that the performance of Piaui and Alagosa, despite still having opportunities operating line with our more mature assets, and illustrates the size of potential that we have in (inaudible).

On the next slide, Slide 16, we have the adjusted EBITDA for the third quarter '21, which reached BRL1.45 billion, an increase of 23.8% compared to that of 3Q '20. Excluding from the adjusted EBITDA, the noncash effects of the financial asset adjustment and IFRS 15 transmission as well as new assets, CEEE-D, the growth this quarter is 51.4% or BRL462 million, going from BRL898 million in 3Q '20 to BRL1.36 billion this quarter. The significant growth is mainly due to the strong performance of the Distribution segment driven by tariff and volume gains in addition -- into the start of operational -- of commercial operations in the transmission assets.

Now on the next slide, we are going to give you a breakdown of EBITDA per asset. On Slide 18, we can see the adjusted EBITDA for nonrecurring effects. Excluding CEEE-D, the highlight here is the significant growth in the adjusted EBITDA recorded by all our distributors, which together contribute with an increase of BRL486 million in 3Q '21. This result is due to the strong performance of our assets.

And here, I draw your attention to the performance in Para and Piaui, a reflection of the significant increase in wire tariff and market growth, also benefited by the better performance in the pipe against losses.

If we just consider CEEE-D, the adjusted EBITDA increased 32.7% in comparison between quarters. This quarter, CEEE-D reported a negative adjusted EBITDA of BRL105 million, reflecting the still early stage of the turnaround process. In transmission, the variation captures the CapEx slowdown, which leads to a reduction in contract asset revenue due to IFRS 15.

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In the graph below, we show the contribution per asset in the adjusted EBITDA, disregarding the effects of the financial asset to [ph] date and IFRS 15, where we can observe the evolution of the transmission EBITDA due to the entering commercial operation of part of the assets -- then the remainder assets -- than all of them are operational now.

Let's go to Slide 19. As shown in the slide, we invested BRL816 million in this quarter, BRL41 million higher than the previous quarter. As a consequence of the end of the restrictions that were in place in 2Q '20, which consequently had a negative impact on the volume of investments made that period.

The main highlight is the increasing investments in the distribution segment, especially in the state of Para and Maranhao, focused on strengthening and expanding our network in addition to the consolidation of CEEE-D, which contributed with an additional BRL60 million this quarter. The total investments allocated to the segment amounted to BRL783 million, a significant increase of 72%. The investments in the transmission segment were reduced by the conclusion of projects, all of them with an active RAP. In total, since the first quarter '17, more than 5 to -- BRL5.2 billion were invested in transmission projects.

Let's go to the next slide, Slide 20. We show that the leverage level measured by the net debt-to-EBITDA ratio remains stable compared to previous quarters at 2.1x, even after consolidating CEEE-D in our results, and adding BRL1.4 billion in net debt and negative EBITDA.

Net debt totaled BRL11.4 billion in 3Q '21, an increase of 9.7% versus the position in June. This variation is fully offset by the significant increase in EBITDA, a consequence of the performance of our assets as shown above. This quarter, we continue to show a very robust cash position, ending the period with BRL9.7 billion, enough to pay more than three years of debt maturities whose average term at the end of the second quarter was approximately five years. The balance of available cash, combined with the lengthening of our profile of obligations results in a short-term debt coverage of more than 2x.

In this quarter, it's important to note that we advanced in the restructuring process of CEEE-D liabilities. We've raised BRL2.5 billion in the distributor, with highlight to the company's first debenture issue in the amount of BRL1.5 billion [ph] and BRL500 million in promissory notes.

On a consolidated basis, the operations raised the CEEE-D have an average term of 3.5 years and an average all-in cost of CEEE-D plus 1.6% a year, and were used for the settlement of the shorter and/or more expensive obligations such as the liability with the (inaudible) approximately [ph] BRL400 million at a cost of 1% amount in dollars and the (inaudible).

Now I'm going to turn back to Augusto for his final considerations.

Augusto Miranda {BIO 15350182 <GO>}

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Thank you, Leo. I would like to close by highlighting our recent achievements and perspectives. Among the highlights of the period as we commented through the presentation, perhaps the main one is the acquisition of Echoenergia and already consolidated platform for renewable generation. The group's strategic plan has already been complicating a long-term vision for the segment, as registered with the recent acquisitions of E-Nova, of distributed generation and the shares of Sol Energy, the group's company. With this acquisition, we have repositioned the company in a relevant way, starting to act as an integrated player, a fundamental step to face the challenges of the electric sector in a future of market opening and energy transition.

Still this quarter, we opened a new avenue for growth for the group accomplishment of the sanitation concession in the state of Amapa. This is a very important move because it represents our entry in a segment that provides a promising avenue for growth, considering the current infrastructure benefit that we have in the sector today. Currently, about 100 million people do not have access to sanitation, 40 million do not have water supply in their homes. We will pay attention to investment opportunities in this sector.

We also have the tariff review process in Maranhao with subfactor results for the company, especially for its capacity to capture adequate rate the investments made in the concession over the life cycle and the tariff readjustment in Parana, capturing the full (inaudible). As many perspectives for the year in distribution, we will have the tariff review process of CEEE-D and also the beginning of CEEE-A management in Amapa, both process that should take place at the end of November.

Finally, we remain committed to generating value for our investors and continue to evaluate possible opportunities to strengthen our portfolio, especially in the recently business fronts.

Now I will turn to the operator to start the Q&A session. Thank you very much.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Carolina Carneiro from Credit Suisse.

Q - Carolina Carneiro

I have two questions. First is about CEEE-D. You talked on the release and you talked about the release, the provision for bad debt that had an impact. So if you could give a bit more color of what we could expect for the fourth quarter, both also for the result of the provision of bad debt and the strategy that you are taking for CEEE-D, so that we have an idea of more recurring cost performance in this asset.

And the second question, if you could talk about the new business of renewables. In the call of Echoenergia, you talked about price curves. But I would like to understand given

that you are exploring the segment, what is in your mindset in terms of trading of energy for this business segment and its prices. Because lots of people talk about prices between 170 -- BRL180 per megawatt hours. But we know that depending on sales strategy, if it's more focused on short retail contracts, prices can be higher. You said that you're not going to give any guidance, but I would like to understand your rationale on the price dynamics and contracts for the segment.

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A - Augusto Miranda {BIO 15350182 <GO>}

Carolina, thanks for your question. Well, I have all here team and Rafael, (inaudible). So we have the whole team to be answering your questions. And I think that we can address your first question, how we see our provisions and then Rafael could add to the answer.

A - Leonardo Lucas

This is Leo speaking. So I'm going to start with the provision. We estimate the cost of provision, a payback of nine months, which is equivalent to savings of BRL15 million. Level of cost of this company is higher than any other that we have joined. On the other hand, the concession area has appeals, and it's not that complex. So it's quite reasonable to expect that this cost for consumers in CEEE-D distribution to convert to the levels in which we operate. And in the longer term due to its complexity, perhaps it's also possible to go past this level.

As for energy prices, I would like to ask Rafael [ph] (inaudible), our Trading Superintendent, to talk about your question.

A - Unidentified Speaker

Thank you, Leo. Thanks Carolina, for your question.

It's interesting because we can go back to the slide that we developed for this presentation, Slide 7. That brings exactly this rationale of commercial model that was used by the team of Echo Energy. Basically, we used a mobile of the profile of contracts of shorter-term contracts, three to four years, vis-a-vis what the market has been doing, which is contracts from 10 to 15 years.

Generally, the market works with 10- to 15-year contracts because of the funding that we mentioned in the presentation. But we have a platform that is already operational with funded projects. And in addition, we have a pipeline to be built and contracted where we have a platform for trading inside Equatorial Group that can be used for us to conduct our models.

And with that, we can capture market prices that are more appealing. And that is what we show on Slide 7. When we analyze energy prices, and the curve that is provided by the CEEE-D, which is a risk appraisal company for the energy market. And in their models, the way they capture information in the market, they have a landscape of nine years of data. And we can see that contracts with lower duration than four years have prices BRL40 to BRL6 [ph] higher, reals per megawatt, than long-term contracts.

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And in addition, when we seek the sale of energy, given that to the whole Echo portfolio is incentivized energy we are talking about energy price plus the wire discount. And the wire discount that is going to be granted for those consumers that are migrating now retail smaller consumers, the cost of wire for those consumers is much higher. So the cost of opportunity for these consumers is much more appealing. So we believe that we can capture this premium.

And as we can see on Slide 17 -- I'm sorry, on Slide 7, there is also a model in which average prices of the last five years, for example, captured by the seat, show a historical price of incentivized energy for four years of contracts of BRL238. I think it's very important to realize that we were conservative in our model in prices, but we do believe in the valuation of incentivized energy, okay?

Operator

Our next question comes from the web from Antonio Junqueira, Citi Bank.

Q - Antonio Junqueira {BIO 15403195 <GO>}

I'd like to hear from you your prospects for the completion of revision of CEEE. How confident are you that RAP approved is close to that required?

A - Augusto Miranda {BIO 15350182 <GO>}

So I'm sorry, we have a bit of a technical problem. Junqueira, we still do not have the base formally posted. It should be in a while. We expect the meeting to take place next Tuesday. But given what we observed in the inspection process and how it occurred, we are not expecting significant variation compared to the number that was posted in the public consultation, okay?

Operator

(Operator Instructions) We are now closing the Q&A session.

I'd like to turn the call back to Mr. Augusto Miranda for his final remarks. Please, Mr. Miranda.

A - Augusto Miranda {BIO 15350182 <GO>}

Just a minute, I'll be with you in a second.

Okay. I'm ready now. I'm sorry. I had a small problem here.

But in closing, I would like to reinforce our commitment to generating value for our investors, which we seek to deliver through the operational excellence of our assets and our financial management focus on the efficiency of capital allocation. These are the principles and values that have guided our movements towards growth.

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Also, I'd like to remind you that our Investor Relations team is available to support you with any questions you may have after the call.

Again, thank you all for being part of our call. Have a good afternoon.

Operator

The conference call is Equatorial Energia S.A. is now closed. We thank you very much for attending. We wish you a good afternoon.

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