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We hope you enjoy this issue. If you have any questions, please call me at (978) 287-0301.

Best regards,
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Brazil's New Alternative Energy Incentive Program

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Brazil recently launched a program to foster private investments in the production of energy from alternative sources, the PROINFA - Alternative Energy Sources Incentive Program. The program benefits wind energy, PCHs (i.e., hydroelectric plants of up to 30 MW) and biomass projects. Selected private producer projects will be ensured special long term power purchase agreements with the *Centrais Elétricas Brasileiras S.A.* (Eletrobrás), providing for the supply of energy at predetermined prices.

Originally created by Law No. 10,438, of April, 2002, PROINFA lacked certain regulatory definitions until Decree No. 5,025 was enacted, in March 2004. The first round of PROINFA will benefit projects with an aggregate capacity of up to 3,300 MW, equally divided amongst wind energy, biomass and PCH projects. This is expected to double the participation of such three alternative sources in the total electric energy production in Brazil, and the corresponding projects may also qualify for Kyoto Protocol treatment.

Banco Nacional de Desenvolvimento Econômico e Social (BNDES), the Brazilian development bank, will finance in local currency up to 70% of the total amount to be invested in the PROINFA projects. Meanwhile Eletrobrás will, during the financing period, ensure payment to the relevant producer, also in local currency, of at least 70% of the energy contractually acquired, even if the producer does not deliver such quantity in any given period. Funding and sale of energy in local currency reduces the foreign exchange risk, which is always a problem in long term agreements.

The BNDES credit line for PROINFA projects amounts to R\$ 5.5 billion (approximately US\$ 1.9 billion). The facility agreement will provide an amortization period of 10 years and a grace period of six months counted from the start of operations. BNDES interest rates are lower than the rates otherwise available in the Brazilian market.

The prices for the acquisition of the electric energy generated by PROINFA projects vary according to the source of energy. Actual prices were established by Resolution No. 45/2004 recently enacted by the Mines and Energy Ministry and exceed the minimum amounts provided for by Law No. 10,438/2002. Ac-

ording to the recent Resolution, Eletrobrás will pay R\$ 117.02 per MWh generated by PCHs (equivalent to approximately US\$ 40.21 per MWh). For biomass plants the price will vary according to the product used, as follows: R\$ 93.77 (US\$ 32.21) for energy generated using sugar cane residues; R\$ 101.35 (US\$ 34.82) for wood chips; R\$ 103.22 (US\$ 35.46) for rice peel; and R\$ 169.08 (US\$ 58.10) in the case of garbage biomass. Wind energy will have prices varying from a minimum of R\$ 180.18 (US\$ 61.91) to a maximum of R\$ 204.35 (US\$ 70.22), depending on the nominal capacity of the wind farm.

The above-mentioned prices are subject to increase according to the IGP-M/FGV, a general price index calculated by the *Getúlio Vargas Foundation* of Rio de Janeiro, over the 20-year term of the power purchase agreement with Eletrobrás.

Eletrobrás has already published the first Public Bid to select projects under PROINFA rules. Interested producers should present to Eletrobrás the necessary documentation by May 10, 2004. In this first stage, Eletrobrás should observe the limits of 220 MW of wind and biomass alternative sources and 165 MW of PCHs per Brazilian State. If, however, after the selection process, Eletrobrás is not able to acquire all of the 3,300 MW of energy, Eletrobrás will be authorized to acquire energy without regard to said limits.

Law No. 10,762/2003 contemplates a second round of PROINFA, which is not yet entirely regulated. However, the rules for such second round may not be as favourable as those mentioned above. For example, the local content requirement may be raised from the 60% that applies to the first round to as high as 90%. Energy prices may also be lower, even though the independent power producer might be entitled to an additional credit, depending on the source of energy.

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