

SUBSIDIES FINANCED THROUGH THE ENERGY DEVELOPMENT ACCOUNT

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Overview

Subsidies are results of government actions that give to group of producers or consumers advantages to supplement income or reduce costs. The granting of subsidies is accepted to fulfill certain objectives: (i) to foment the development of a certain activity; (ii) make a product more competitive; (iii) allow the product access to population; (iv) correction of market failures.

On electricity sector, the adoption of subsidies in electricity tariff is justified by the market failures, such as the unequal distribution of income and externalities positives or negatives. The corrections of these market failures consist on the pursuit of efficiency and must be supported by the government revenue, otherwise, it damages and distorts the economy's performance. In Brazil, the subsidies have characteristics of "crossed subsidies", which occur when the difference between the price received by the subsidized agent and the market price is financed by agents of the same sector, and direct, since the discounts are applied directly in the billing of the beneficiaries.

The tariffs discounts conceded for certain electric energy consumers are inserted on the Energetic Development Account (CDE) and, in 2018, they were responsible for approximately 65% of the amount of final expenditures financed by this account (R\$12,94 bi out of R\$20,05 bi). The "CDE" is responsible for financing seven types of subsidies which are inserted on the Brazilians' electricity bill: Irrigation, Water-sewage-sanitation, Rural, Low-income, Encourage source consumer, Encourage source generator, Small Distributors. Each subsidies follows its own way and magnitude, the tariff discount percentage vary from 10% to 90% of the final tariff amount.

Methods

ANEEL publishes monthly data of the total amount of subsidies granted, and it is possible to analyze the data by type of subsidy and the amount that is destined for each region of Brazil. The evolution and destination of tariff reductions for certain consumers leads to conclusions about: i) aid needs vary according to per capita income, geographical aspects of the region; ii) the application of subsidies are related to political promotion objectives; iii) increase in the amount of subsidies, without reduction or extinction.

Results

Regarding the evolution of total subsidies granted in Brazil during the period 2013-2018, the three categories of subsidies that receive most of the resources from the CDE are those of the source consumer, the rural consumers and low income consumers. Between 2013 and 2018, there was a 32.05% increase in the total amount of subsidies granted in Brazil. The subsidy provided to encourage the use of electricity consumption generated by clean sources was the one that increased the most during the analyzed period, this can be justified in large part by the increase of the migration of consumers from the captive market to the free market and in condition of consumer.

The distribution of the seven types of subsidies varies in relation to the Brazilian regions, because they have very different economic and geographical characteristics, which means that consumers have

different needs. The Southeast region received the most subsidies for consumers from incentive sources (US \$ 299.75 million) and rural consumers (US \$ 204.12 million), on the other hand, they are concentrated in the northeastern region (US \$ 197.24 million). The data were released by the Regulatory Agency (ANEEL) until July 2018.

Conclusions

The tariff discount offered on the electricity sector shows lack of transparency, in the sense that the consumers who afford this amount aren't capable of discriminating the size that these subsidies represent in the final account paid to the area's distributor. As appointed by the Ministry of Mines and Energy, the main problems with the method used are the lack of quid pro quo, absence of focus, absence of leaving criteria, lack of deadline, of limitation of the amount which is subsidized, of limitation of the accumulation of part of the subsidies.

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