

BR-L1090 Energisa Debt Restructuring Brazil

Environmental and Social Strategy¹

A. Project and Company Overview

- 1 *Energisa S.A.* (“Energisa” or the “Company”) is planning to undertake a debt-restructuring operation, after which, Energisa’s ability to service its debt is expected to improve due to the longer tenors provided by the operation. In addition, the transaction will allow Energisa to free up funds for investing in its subsidiaries for improvements in their quality of service. IDB’s participation in the operation will be made by either a loan or a partial credit guarantee.
- 2 Energisa is a holding company currently undergoing an unbundling and restructuring process after which it will directly control: (i) five distribution companies as subsidiaries: *Companhia Força e Luz Cataguazes-Leopoldina* (“Cflcl”), *Companhia Energética de Borborema* (“Celb”), *Companhia de Eletricidade de Nova Friburgo* (“Cenf”), *Empresa Energética de Sergipe S.A.* (“Energipe”) and *Sociedade Anônima de Eletrificação da Paraíba* (“Saelpa”); (ii) the generation company *Juiz de Fora* (“Ute-jf”), and (iii) the services companies: *Cat-Leo Cise*; *Cataguazes Serviços Aéreos* (“Csa”); and *Teleserv*.

B. Environmental and Social Issues

- 3 The Project under consideration is a debt-restructuring operation that does not involve construction or implementation of any infrastructure or civil works and is expected to have minimal environmental and social impacts. Therefore, as per IDB’s OP 703 Environment and Safeguards Compliance Policy, the Team proposes that the Project be classified as a Category C operation.
- 4 Nevertheless, there may exist some limited environmental liabilities associated with Energisa and subsidiaries existing facilities and operations, which go beyond the project that is being considered for financing by IDB. However, those liabilities are expected to be of limited magnitude as: (i) the information provided by the Company indicates that they are in compliance with all applicable environmental licenses and permits; (ii) possible negative environmental impacts and risks are expected to be non-significant in view of the nature, location and magnitude of the facilities involved; (iii) Energisa and subsidiaries have specific procedures and resources to address these impacts and risks; and (iv) the companies involved indicated that they have capacity and commitment to address and manage environmental matters.
- 5 Regarding environmental licenses, Energisa and subsidiaries have valid environmental operating licenses for facilities that may require this kind of permit (e.g., some substations, high- and moderate-voltage distribution lines, and power plants), except in one case where the distribution company is in the process of obtaining such license (one of Celb’s substation and associated high-voltage distribution lines).

¹ This Environmental and Social Strategy (ESS) is being made available to the public in accordance with the Bank’s Policy on Disclosure of Information. The ESS has been prepared based primarily upon information provided by the project sponsors and does not represent either the Bank’s approval of the project or verification of the completeness or accuracy of the information. The Bank, as part of its due diligence on the feasibility of the project, will assess the environmental and social aspects. This assessment will be presented in the project Environmental and Social Management Report, prepared by the Bank, which will be made available to the public prior to consideration of the project by the Bank’s Board of Executive Directors.

- 6 Some of the companies involved are service providers in activities that have low potential for generation of negative environmental and social impacts and risks (Cat-Leo-Cise – provides services for third parties related to construction, operation and maintenance of small hydroelectric power plants; Csa – provides services of aerial thermographic inspections and load hoisting; and Teleserv – provides services of TV and data transmission (Internet). Others are exclusively electric energy distribution companies (Saelpa, Celb, and Energipe). Two are both electric energy distribution and generation companies, with generation based on small hydropower plants (Cfel and Cenf), and the Ute-jf is an electric power generation company relying on a modern natural gas fed thermoelectric power plant inaugurated in 2001 (87 MW installed capacity). However, the companies involved can be considered of medium or relatively small size compared to other electric energy companies, and the possible impacts and risks are expected to be commensurate with the magnitude of the companies' activities and facilities.
- 7 In addition, Energisa and subsidiaries indicated that they have capacity and commitment to address and manage environmental matters. In each regional system they have: (i) an environmental policy; (ii) specific procedures and standards to manage environmental and social, and health and safety issues, including environmental and social, and health and safety instructions for contractors; (iii) internal staff and unit to address and manage environmental and social, and health and safety matters. The companies often act proactively in dealing with environmental and social matters and have created two private natural heritage reservation areas around two of their hydropower plants.
- 8 The companies have also implemented a series of social responsibility initiatives and programs, including programs to curtail waste of energy and promote more efficient use by residential, commercial and industrial consumers, as well as other educational and cultural programs for the communities involved. In each regional system the companies operate under an Ethics Code that contain policies to prevent discrimination based on gender, race, age, religion and sexual orientation, in hiring and promotion processes. The companies adopt also specific programs to promote hiring of workers with disabilities.

C. Environmental and Social Strategy

- 9 The Team proposes to perform an Environmental and Social Due Diligence ("ESDD") to: (i) review Energisa's and subsidiaries main activities and relevant existing facilities to identify possible liabilities associated with environmental and social, and health and safety impacts and risks; and (ii) assess their commitment to address these matters, applicable licenses, and Environmental, Social and Health and Safety Management Systems. As part of the ESDD process, the Team will prepare an Environmental and Social Management Report ("ESMR").