

Q1 2010 Earnings Call

Company Participants

- Wilson Ferreira Junior, CEO

Other Participants

- David Schamus, Analyst
- Marcio Prado, Analyst
- Vinicius Canheu, Analyst
- Vladimir Pinto, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. thank you for standing by. We would like to welcome everyone to CPFL Energia First Quarter of 2010 earnings conference call. Today, with us we have Mr. Wilson Ferreira Junior, CEO of CPFL Energia, and other officers of the Company.

This call is being broadcasted simultaneously through the Internet at www.cpfl.com.br/ir. You will be able to find the presentation for downloading there as well. We inform that all participants will be in listen-only mode during the Company's presentation, and after the presentation, there will be a question-and-answer session when further instructions will be given. (Operator Instructions) I would like to mention that this call is being recorded.

Before proceeding, let me mention that forward-looking statements that are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of CPFL Energia's management and on information currently available to the Company.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of CPFL Energia and could cause results to differ materially from those expressed in such forward-looking statements. Now, I will turn the conference over to Mr. Wilson Ferreira Junior. Mr. Ferreira, you may proceed.

Wilson Ferreira Junior {BIO 20013669 <GO>}

Good morning. I would like to welcome analysts and investors that are following our call for the First Quarter of 2010 earnings. We start our presentation on page number two, so we have these highlights for the quarter.

We have very positive results, and I will start by showing you the slides. And here we have a very strong recovery in the sale of energy, especially in the industrial segment and we will have the opportunity to detail this too in the presentation.

Going straight to our highlights, we see an increase by 16.7% in our net revenues, getting to BRL2,785 million; EBITDA BRL809 million in the First Quarter. Therefore an increase of 22.8% vis-a-vis the First Quarter of '09, BRL659 million. And net income BRL390 million, corresponding to an increase by 38% over the First Quarter of 2009, BRL293 million.

In this presentation, you can see the current amounts. And due to the reason why -- that we want to keep the same criteria. Last year, we have subsequent events after the Paulista and RGE tariff reviews that established some changes in our results, recognizing in April and in 2009, of course, amounts deriving from these adjustments, and the adjustments especially of the benchmark company over the whole year of 2008 and 2009.

So in order to keep the same criteria on the right, we are putting the recurring amounts and remind you that to a great extent these amounts corresponded to the adjustments that we had in the tariff review for Paulista and for RGE.

Anyway, the results are still very strong with an increase by 16.3% in our net revenues instead of 16.7%, an increase by 16.9% in our EBITDA instead of 22.8%, and finally an increase of 33.1% in our net income instead of 38%.

At the beginning, I was saying that to a great extent, these results have as their main driver, the growth in the concession area for the distribution companies. And we will be talking in detail; it was 8.5% growth in this period compared to the same period last year.

You can see that the tariff adjustments, the main one with the Paulista was 1.55%, something lower than 2% in the Parcel B, as of April 8th. So no impact on these results.

Some additional highlights such as our funding of BRL1.250 billion that I will be breaking down afterwards in the five-year term, 107% of the CDI, and this funding refers to a great extent, two-thirds of it corresponds to the rollover of our debt and one-third to new working capital, in order to make our operation feasible.

I had already said this during our last meeting, but after that we made public announcement of three new biomass projects; Ipe, Buriti and Pedra, and these three projects altogether will mean investments higher than BRL360 million, for cogeneration plants, amounted to 145 megawatts being added to the group.

I think it is also important to stress that in our last shareholders' assembly, we approved the process of migration of minority shareholders of all the companies acquired in distribution, commercialization, services, and generation.

So at the time of the CMS, so now we have already traded the shares issuing an addition of 0.2 free floats, a 100% ownership in all these assets that you have listed there. And in an innovative manner, we also presented an inventory for the greenhouse gas covering the entire group. This was a commitment that we made by means of that open letter that we signed together with another 20 companies in Brazil, of different segments. So we already submitting this inventory. And because of all these good news, we had an appreciation of the Company's stock that boosted by 3.9%, exceeding the Ibovespa and the IEE.

On the next slide, we see an increase from 30.5 to 30.7 in free float, and the increase in our shareholdings, which were around 90% in all these companies that you see on the slide and going to a 100%. So the -- for distributors, the services company, is already corresponding to our ownership in Paulista and the Jag plant.

So these were the changes in our ownership structure for this quarter and in commercialization and services, I would like to stress the fact that we created the Ipe, Buriti, and Pedra, which will encompass investments in cogeneration that we will be talking in detail afterwards.

On page number four, we can start to breakdown the market effects that were the drivers for our results.

As I said last month, and also because of that ordinance regarding revenues from free consumers, I think we should stress the performer value that is the one which can be compared to last year's. So we can see 8.5% growth in our energy sales in the concession area for these eight distributors. This amount is made up by a 5.5% increase in the captive market, that is to say those sold directly to other utilities to final consumers, and a staggering volume of 20.3% increase to free consumers served in the concession area of the eight distribution companies.

These are very important highlights that you have on the lower part of the slide as well; the behavior not only of the industrial segment that you can see very clearly with the 20.3% of increase in free consumers, but also the industrial increase. Those who receive energy directly by the distributors, 14.3%. And here we also have the behavior of the residential and commercial areas, 4.7% and 6.9% respectively.

Here more details about the moment that we are living in the Brazilian economy, a very bullish one. Some drivers in the residential and commercial segments that didn't go down even in spite of the crisis. So important increases in these two segments reminding you that these two segments are very important because they are low voltage, and this is where the company has the higher tariffs.

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So besides the increase in the number of customers, something around a 140,000 new customers, the temperatures this year were higher as well than last year, up to 15% in Santos for instance, an important area for the company, 4% in Campinas.

Macroeconomic drivers; payroll continues to go up 2.3% in Sao Paolo, 5.1% in Rio Grande do Sul, Brazil 3.3%. Retail sales continue to go up; 7.9% in Sao Paolo, 4.7% in Rio Grande do Sul, Brazil 6.9%. And still considering Brazil, the creation of formal job positions reaching 1,698,000; 2 million new job positions will be created by the end of this year. This is the estimate.

And the maintenance of the credit supply, and with a slight growth even in March 2009, we have BRL27 billion of credit in the market, and today in March 2010, we have around BRL31 billion.

And here on the upper part, we have total energy sales. I had already talked about the 5.5% increase. But here we also have the 2.7% growth in our sales to the free markets which were already sold last year.

We didn't have a decrease last year because we did that sale operation in the adjustment auction. And now we are operating with large customers and we got 2.7% increase total energy sold by the company; 4.9% increase if we consider the free market and the captive market altogether 12.233 gigawatt hours. So we are very consistent with a very bullish outlook for the future as well.

More details on the next page for the industrial segment. The first thing is to consider that consumption in industrial area, vis-a-vis last year, grew by 14.3%, exceeding the pre-crisis level. On the right, we see some figures referring to industrial consumption and where we see that minus 0.3%, 18% in the comparison between the periods and these amounts are followed by 0.2% positive in Rio Grande do Sul, 16% in the quarter. In Sao Paolo, minus 1.4%, 18.1% in the comparison between the quarters.

Installed capacity already exceeds 80% in February 2010. On the lower part of the slide, we see industrial consumption performance per sector with the companies that are served by the group. So we have the breakdown of the segment that are served in terms of volumes or their share in the industrial class among the eight distributors of the group.

And you can see the importance of the metallurgic, food, and chemical segments and the comparisons that evidenced what I said at the beginning that we already have the volume of energy sold to the industrial segment which is higher than before the crisis, and this is why we make a comparison with the First Quarter of '08.

It is true that the segment, metallurgy for instance and transportation equipment have a lower performance. But in the comparison between the First Quarter of 2010 and 2009 that the recoveries are very vigorous; 30% in metallurgy, 18% in chemicals, and textile is very good as well, transportation equipment 27%.

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And the most relevant item here refers to the fact that under the viewpoint of economic recovery, you can see this chart. We had a drop at the time of the crisis 24.5% in exports of goods. We recovered 14.7% since then, so we still have a gap to be bridged, of 13.4%. And when we talk about the domestic market, the situation is more comfortable today, and using the same criteria as last time, we had dropped 20.6% in industrial production in Brazil and we have already recovered 21.9%.

So you can see that the gap is very small and what we see is that the segments that have not recovered fully are segments that have in their sales profiles, the issue of exports included, which has not recovered completely.

As I said before, on Page number 6, we can see an overview. And people have been asking us, well, what about this growth in the residential energy consumption; is this sustainable, is this robust? And we have made a comparison here for you in South America, and you can see that Brazil among all countries has the lowest per capita consumption of energy, residential energy.

So these are the 2007 data, which are the most recent ones that we have for comparison purposes. So the concession area of our distributors exceeds slightly Chile, about 631 kilowatts hour per inhabitant, which corresponds to the per capita consumption in the areas that are served by our eight distribution companies of CPFL Energia Group.

You can see that we have some comparisons with Argentina, Venezuela, Uruguay here. And if we only use the comparison to Uruguay, we can see an outlook of 38% increase outlook. And mainly, we made a comparison with Australia because we have similar characteristics, as you can see that it is 370% higher in Australia than the one that we have at CPFL Energia.

So they're still talking about a very important outlook for growth in this area. You can see on the right that be it, per capita income or average tariffs or the Gini coefficient or the Human Development Index. When you look mainly at Venezuela here on this chart, on this table, we can see that the average tariff of Venezuela is the lowest among all the countries that we are comparing with. And this leads to a certain waste, and it's different from other countries that have higher tariffs. And it is unfortunately very different from Brazil, which has the highest residential cost.

But the Brazilian residential tariff is affected by taxes that are higher than the ones levied in other countries. If we compare with the average studies, we see about 40% between charges and taxes, and other countries have about 6%; Portugal and Spain for instance have around 6% taxes and charges on energy for the residential segment.

So about the outlook for Brazil, increase in employment and income growth in the formal labor market, a better income distribution with a smaller gap between income brackets with the Gini coefficient.

Inflation under control, increase in credit availability, reduction in interest rates to the consumer, which we have been seeing for a long time already, and a better access to

credit as well -- access through the banks and differentiated credit lines, besides more recently, the program that exists in order to bridge the gap in the housing area. I would say that the outlook for the residential segment is still very important for Brazil in the platform of our distribution companies and for our Group as a whole.

Now, let's break down our EBITDA and our net income on page number 7. Here we report an increase by 22.8% in our EBITDA, BRL809 billion, increasing EBITDA margin to 30%. We can see three components.

The increase in our revenues is the most important one and it is much more based on the increase in our total energy sales, 4.9% increase. Slightly increased by tariffs and contract adjustments, and the main one is the Paulista. And finally, the third component is the vigorous recovery in free consumers which was 20% in volume and in TUSD revenues 33.2%. So revenues are explained by these three components with a higher participation of the increase in the total energy sales.

On the other hand, we have an increase in costs in terms of volume of energy bought and charges as well. We can see an increase by 13.5% here in energy cost and charges, but if you incorporate the non-recurring effects -- that is to say the RGE agreement last year with ANEEL vis-a-vis (inaudible), and mainly the tariff review or the final tariff review for Paulista and RGE, both giving us a negative result last year and this year. In order for us to have a more adequate process and recurrent comparison, we are putting this as a highlight here.

So this increase by 13.5% is very much impacted by the second component, which is the 31.9% in charges for the use of the system, mainly due to the higher amortization of this charge, what we call ESS.

And finally, the increase by 19.1% in costs and operating expenses at BRL54 million, and the value adjusted 6.1%. We would have to say that the First Quarter of last year, we really squeezed our expenses because of the beginning of the crisis. And very soon it ended, but this quarter was the one where we were more cautious than ever regarding our expenses, as we didn't have a very clear outlook of what the crisis would bring in the future.

So in terms of cost comparison, this is not a very fortunate comparison, because this is not a typical quarter. We also had an adjustment in our salaries, around 6%. So when we eliminate the non-ex, it would be 6.1%. But I would like to give you some highlights. So we are increasing our call center operations, which is called CPFL Energia, and we are decreasing our own payroll in the distribution company.

So we have some adjustments, some provisions for layoffs et cetera, and we have an increase in the SAT, which is the labor accident insurance, BRL9 million in our Group as a whole. And the non-recurrent effect in our loan loss provision for one of the areas of CPFL Energia, and the free energy BRL2 million, and the premium paid by Epasa in energy contracts, and also authorization was delayed, and because of that it generated an additional amount in BRL5 million.

In a nutshell, so we have an increase in revenues, both market and TUSD with a correspondent increase in costs, percentage-wise, referring especially to charges. And from the viewpoint of operating costs and expenses, the recurrent 6% with some non-recurrent effect events that I have already talked about. But anyway, the result is very important and the increase in our margin is a clear evidence of that.

So let's go to page number eight, our net income, which is very strongly impacted by the EBITDA growth, BRL150 million, as I said before. And in this case, we have an additional two events in fact, a very positive one last year when we had actuarially, a surplus of our pension plan and we report now because of the actuary that had its manifestation in January at BRL23 million for the quarter, and this is expected for the whole year. So these are two elements that drive the results, the EBITDA and the pension plan entity.

On the other hand, we see a reduction by 20% in the financial results of the company. A reduction in our financial revenues, in our cash investments explained by the variation of the SELIC rate which is positive, a variation downwards, and in spite of the new financing lines for the conclusion of our projects, we see a reduction by 2.2%. That is to say BRL4 million in our financial expenses.

The net of that corresponds to in growing EBITDA, and based on which we have the BRL54 million income tax and over the BRL150 million additional EBITDA. So from BRL283 million we have BRL319 million as a result, and an increase in our net margin from 12.6% to 14.5%.

Now, I would like you to turn to page number 9. And we have already had the tariff review process, and I would like to stress the importance of synergy, the efficient management of our operations in all companies of the Group. You can see in the case of Paulista, Piratininga, and the RGE.

We still have reductions in the comparisons with 2006 vis-a-vis 2009, after the tariff review. However, here we've already seen more clearly the importance of scale and the importance of geography and the reduction in personnel, third-party services and others for Santa Cruz and CPFL Jaguari coming from CMS with reductions by -- between 28% and 45%. With an increase in EBITDA margin after the tariff reviews in the consolidated distribution, 20.6% to 22%. But you can see that in each one of the companies, you can see the same behavior.

So this shows the importance of our being able to evolve more and more and having more synergies and sharing best practices and sharing technology. All this ultimately creates value to our platform.

And on page number 10, I have two important examples of that. The first case we have the delinquency rate, and this is a very positive brand for the Group, so to say, 1.28. And after the incorporation of RGE at the time in 2006, we had something close to 5% delinquency there, and in January 2008, it had already dropped to 3%, and now in March it dropped to 1.6%.

So bridging the gap between RGE and the values that are achieved by the Group, and this stems from our showing our vendors for delinquency management. On the lower part, the ongoing increase in productivity and then the comparison with the crisis here, you can see 5.5% increase in productivity and in sale through employee, and an improvement by 2.1% in energy sold per consumer. So you can see the great impact of these best practices and the higher efficiency levels.

Now, on page 11, this is something that we told you about during our strategic planning process. And it has to do with the authorization by the net and it has already been regulated which is the incorporation of private networks. In the past, customers didn't have this kind of program. When they were very far from the network, the participation of the company was smaller because of deny rules, et cetera.

And the fact is that in all companies, and more particularly, the large ones here in Sao Paulo, like the one that we have, still have consumers that are served by networks that belong to the consumers themselves, and then our new methodology allows us to incorporate these networks to the base of the distributors. And this will represent an increase in our AB, and on the other hand the recognition of the value to be incorporated into the benchmark company.

If we talk only about the base, we are talking here about BRL387 million additional that will be incorporated when this is concluded over this period. And as you can see here, we started earlier this year with Paulista, and over the year we will start for all the other companies of the Group.

So we have just started that. So BRL7 million of the BRL387 million. And this represents to somebody who still has BRL4.7 billion, we were talking about something like 8% increase in our base because of the incorporation of these private networks. So the methodology has been defined by ANEEL, by the book value of the assets ended with a 20-year depreciation. So we started to do this according to what you can see on the slide, and during the next tariff review we will have already recognized these incorporations.

Now Page 12, where we show the generation projects. The first one -- the most important one is the Foz do Chapeco HPP. We invested -- of the BRL1,347 million, so we will be starting to fill the reservoir this month so that we can have the machines and starting up in July 2010. This is the most important project of the Company, started in December 2006 and getting close to the conclusion, and that will bring to the group something around BRL300 million per year.

On page 13, we can see CPFL Bioenergia with our Baldin plant. We have already concluded the project practically in April and we started the group -- we're starting out the plan by the end of May. The production volume, the biomass volumes are to be available to the plant. So our production of energy will be the during the whole year the harvest started a little bit later this year for CPFL Bioformosa. We have already started construction in March, something like 10% already developed so far. So I mean, in real, we're already invested.

On page 14, we have Epasa and wind farm Epasa, already with practically half of the job concluded; will be started up between September and October 2010. So this plant will bring a major contribution BRL85 million per year our part or share, and finally the wind farms that will add a BRL100 million per year. We will start construction in August, second half of this year. Investment BRL768 million expected in Rio Grando do Norte.

And finally on page 15, we have the disclosure of the three projects that we talked about last year, and that were not concluded yet but the transaction has already been concluded. So now we can talk about the implementation of cogeneration plant in three plants Buritizal, Nova Independencia and Serrana in the state of Sao Paulo, as you see here adding 145 megawatts of installed power, installed capacity, 19 megawatt of exportable power per harvest and an investment of BRL366 million by CPFL. With the five plants under construction and these three, plus the other two I mentioned before, we will have overall an additional revenue of BRL120 million per year.

And on page 16, we can see that the company is now going very strongly towards the third position in the ranking of generators, celebrating 10 years of this distance. So we started with the Paulista SHPs, and at the end of the year, we will get to 2700-and-something megawatts.

And in the pipeline, we have an important growth with the incorporation of biomass that next year will start producing some of them, some of the ones that we announced during this quarter. And in 2012 we will become the second largest players for generation in Brazil with a chance of continuing to grow.

You can see the new energy auctions that we will have in 2010 on the lower part of the slide. And we are sorry, we were not able to participate in Bellemonte, where the county has a whole set of opportunities built for hydrogenation, be it for Biomass, many auctions will happen, be it for wind energy.

So we will have a reserve auction in the Second Quarter already. So there is a whole set of opportunities in biomass, wind and hydro where the company has already established its participation, and we will have the A-5 auction with a demand for 3,000 megawatts with the auction scheduled for the first and the second half, beside the A-3 auction for 600 megawatts.

On the next page, we can see some of the opportunities that we will have in the hydro area in A-5 auction. So here, we stress 12 opportunities, 12 HPPs -- total 4,400 megawatts. This is a major opportunity for Parnaiba and for Teles Pires. Here you can see right at the border of Mato Grosso and Para. We are talking about the northern region of Brazil and in Maranhao as well.

So here, we are talking about relevant opportunities besides Garibaldi, which is a plant that CPFL is involved in since its first project. So we have the opportunity to continue growing in replacement to our strategy that included Bellemonte. But anyway, we have 12 opportunities here; 12 very good HPPs. And the good news here is the preference to hydropower plants to sustain the Brazilian growth that we mentioned a while ago.

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On page number 18, I was talking about services. So we have our service business units here. We continue our expansion in CPFL total, reaching 2,200 points of service, 34% increase in the gross revenues, BRL4.2 million this quarter. And on the other side of the slide, on the right, you see the implementation and consolidation of CPFL atende, which is a company created -- which is in fact a call center, mainly for our distributors -- Santa Cruz and the four other distributors of Jaguari, and already helping the other companies taking advantage of the whole IT infrastructure where we are investing for CPFL atende. So this is two very good news in this area.

We talk a lot about biomass, and I would like to stress the fact that CPFL is already the largest buyer of biomass. But the expansion of this sugar and alcohol area in Brazil has allowed us to, besides investing such as in the cogeneration plants, has already allowed us to buy energy from incentive energy sources; biomass, SPP, SHP, wind and solar energy.

So these sources are for the growth in the free market between -- consumers can only be served by this kind of source. They have a 50% discount in the PUSD, and we have 51 contracts, energy contracts already enforced between two and five-years term only from these contracts since 2010. We will have about BRL100 million revenue and the contracts that we started this year are BRL66 million. So you can see that this volume in the ethanol production mainly have been mobilizing some entrepreneurs to sell energy in these markets, and we are paying keen attention to that through CPFL Brazil.

On page 20, our CapEx for the group. BRL1,851 million is the outlook for CapEx for the group with a major growth higher than 35% vis-a-vis last year, which had already been the year with the highest investments of the Group so far. And here we stress the incorporation of investments for biomass.

So in generation, close to BRL800 million as you can see, keeping -- up to BRL700 million or close to BRL700 million for 2011, showing that this recovery in the investment need during the quarter alone of 2010 is close to BRL300 million already, corresponding to 9% increase vis-a-vis last year.

So I believe this is one of the biggest investment platforms in the power sector, BRL6 billion for the next five years only, with the generation project already taken by the Group.

On page 21, some details about our debt. At the end of the quarter, we had BRL6.1 billion in debt, mainly due to the drop vis-a-vis last year, and BRL1.7 billion in cash and cash equivalent. So you can see that this increases in our net debt results. And two important breakdowns here. The first one has to do with the EBITDA over financial expenses. The improvement in the microeconomic scenario has very positive impact for the Group.

At the end of 2008, we had 3.2 EBITDA to cover our financial expenses, and now we have 4.62. So you can see this is an improvement in the behavior of this ratio. And on the other hand, we have a drop here because of the increase in our EBITDA of 2.1 in adjusted net debt over the EBITDA. And when we exclude investments that are being concluded now Foz do Chapeco project in Baladin, which do not produce EBITDA yet.

We would have about 1.7 times here, which is close to the lowest ratios ever in 2006 and 2007. So this is about a comfortable situation.

On page number 22, we have part of this potential. The company is always paying attention to market opportunities. So we have rollover of our debt and funding here on the upper part of the slide; BRL883 million rollover and new resources for working capital, BRL418 million for distribution and generation. The total is BRL1.248 billion.

So these resources were borrowed at 107% of the CDI, and it bring forward some maturities of 2010 and 2011 in conditions that we consider very important, at 107% of CDI five years, which places our debt with 4.7 years average term.

So the profile is not changed, we have 34% in long-term interest rates, 59% in CDI, and once again we are getting to the real cost of debt which is close to 3.8% following the whole positive macroeconomic scenario of Brazil, very positive one, 9.1% a year in nominal terms.

So this is very good news in the financial front. And as you can see on page 23, this is seen and acknowledged by the market. This is a positive variation of CPFL both in Brazil and abroad in our --- in capita markets. A recovery of our average daily trading volume and number of trades and the evolution of ownership by foreigners, 74% in the First Quarter.

So they are still placing their bet in Brazil by choosing assets like CPFL. So I would like to conclude our presentation showing you on page 24, a timeline of the major concern of the world, with sustainability and sustainable companies. And all the indices more recently Bovespa itself, the ICO, the carbon index, and the company with a commitment of the green gas house inventory, our objective is to align the company to the demands by society in relation to climate change and this involves 100% of the group.

All companies in the group are included in this inventory that reaches 132,000 tons of carbon. And the important point is that with this result, we start to manage all the opportunities that we have in order to reduce our green gashouse emissions, our carbon emissions. So the Company is already recognized by its carbon credits in its plants; about 1,000 tons of carbon equivalent and the Company -- 130,000 in all its activities.

So you can see that we still have a lot of work to do in this area and we will be informing you very soon about the results achieved with this endeavor, with the incorporation of electric vehicles to our fleet, energy-efficiency projects in all our facilities, reforestation programs, and the measures to reduce water and energy consumption by all our facilities.

So we have a whole array of opportunities here for the company that is already synonym to sustainability, and so we will be able to show you our management of carbon emissions.

So this is all I have to say and together with my colleagues I will be available to you to answer your questions now. Thank you very much.

Questions And Answers

Operator

Ladies and gentlemen, we will now start our Q&A session. (Operator Instructions) Our first question comes from Mr. Vladimir Pinto from Bradesco.

Q - Vladimir Pinto {BIO 1554020 <GO>}

Good morning, Wilson. Good morning everybody. Going back to the incorporation of the private networks, I would like to understand this.

The BRL387.5 million amount that will be incorporated to the CPFL base will represent a cash investment to the consumers, or will they have a special obligation or will you only consider depreciation in the tariff review? And the second question has to do with the biomass project. I would like to understand CPFL has 100% or the investments refer to proportional share of CPFL?

A - Wilson Ferreira Junior {BIO 20013669 <GO>}

About your first question, yes, they will have to disburse some amount of course. The network will be incorporated and they will have a cash disbursement that will be remunerated such as is the case with the other assets of the company. We have to know in which conditions this acquisition or this incorporation can be realized, and the conditions where -- this is not a special obligation, this is an incorporation of assets to the Company's base.

And after that, there will be a need for updating and repairs in the networks and this was defined by the regulator, biomass exception made to Baldin where we already had 51% interest. In the other projects we have 100% stake. So the amounts that you see on the slide are for the 100% stake of the group.

Operator

Mr. Vinicius Canheu from Credit Suisse.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Good morning, Wilson. Thank you for the call. About the incorporation of assets, so this has to be seen as an acquisition, right? Then you have a new asset that is incorporated to your base for the next tariff review; is this how we have to deal with that?

A - Wilson Ferreira Junior {BIO 20013669 <GO>}

Yes, exactly. Yes.

Q - Vinicius Canheu {BIO 6300903 <GO>}

And the second point is the following. About the consolidation process. Whenever a consolidation is mentioned in Brazil, CPFL is one of the names that comes to mind. We saw that there were many news in the newspapers about possible M&As, and but in practice, only a handful have been realized. So could you update us about your process of consolidation?

A - Wilson Ferreira Junior {BIO 20013669 <GO>}

Well you know that newspapers always publish things like speculation. And of course, the Company having made acquisitions in the past and more recently, always pays attention to the opportunities. This is our strategy and we understand that for this sector, such as other consolidated sectors in the world, consolidation is a necessity.

And we have been showing this with improvements in our parameters of efficiency in all companies in the Group. And because of all that, we can aim at having more moderate tariffs, better services. and I believe that the government in their manifestations, they have a more clear understanding of this need. However, the suggestions are rather complex.

This week I saw, and I believe all of you saw an article on Valor newspaper about this theme. And of course, if the rationale of consolidation is just acquiring more market share and that at too high price, of course the Company will not be interested in that, because we do not want market share, we want to create value to our shareholders and we want to share this with the best possible efficiency in our operations. And because of the -- getting to the benefits to the consumers as moderate tariffs -- and you have to follow this rationale.

Of course, we are always paying attention on everything that is in on our radar screen and these things are not simple, ever, and they are affected by a major set of factors, including external factors. This is why you have to pay a lot of attention to that.

We have the evaluation of many companies that could have some meaning, and if we need to be quick, we have the technical capacity to do this, and the financial capacity -- I believe that the figures that I showed you speak for themselves. However, we've not -- we do not have any transaction underway right now, and we see the market and the press speculating a lot about that. And if there is anything more concrete, we will be sharing this with you. We are very well-prepared technically and financially to do this.

However, as I said before, we will share this with the market, with our analysts and investors and with the necessary rationale, because you have to have value creation for all the stakeholders -- mainly the shareholders, consumers, who will be affected by any further action that we may carry out. Thank you very much.

Operator

Mr. David Schamus from Raymond James.

Q - David Schamus {BIO 20124504 <GO>}

Good afternoon, William -- Wilson. Good afternoon, everybody. In generation in the free market, what about prices? Have you, any new contracts with a longer term, and when do you believe there will be a higher pressure on these prices, will it be the second half of 2010 or only 2011?

A - Wilson Ferreira Junior {BIO 20013669 <GO>}

The free market is recovering now and mainly in biomass, the so-called incentive energy. The market is very volatile; we see something around a BRL130 or BRL140 the megawatt hour. However there is some volatility there. And the other markets, be it because the transactions were already contracted, mainly large customers. You remember last year, it was difficult for them because they were contracted. However, there was no demand for that energy of all the energies, so the market maintains the volumes but in previous contracts.

Large customers, be it because of the volatility that we saw earlier in 2008, or be it because of all the rules for re-contracting that have to be complied with the announcement five years before, they are more prudent. They are more cautious, and the markets have long-term contracts and mainly previous contracts. Some plans are being concluded now, and of course when the plans are concluded, we will have a higher inflow of volume for the free market, taking advantage of this upswing in the industrial segment.

It is vigorous, the growth is vigorous but it more or less offsets the drop that we saw last year. In our assessments, we didn't identify any problems regarding future supply in all the scenarios that the company drafted. The market will have enough supply, so we do not expect any kind of volatility regarding these prices, and especially because many plants are being concluded. We are one example of that.

But for the Chapeco, Epasa and others, only in 2010, we are talking about 1400 megawatts with our group alone. And there are other plants being concluded elsewhere, and we believe that the prices will keep stable because of that. Thank you.

Operator

Marcio Prado from Santander.

Q - Marcio Prado {BIO 15398968 <GO>}

Good afternoon. Thank you for the call. Three questions. First about possibly one company reported yesterday in the release, the company talked about the impact of the change in the tariff methodology, not for cash. This company will have its tariff adjustments in November only, so they are already provisioning for that.

So I would like to know how you see this and what you did about that. Do you have an estimate of how much the EBITDA would be impacted downwards because of this additional change and are you provisioning for the impact?

The second question has to do with Foz do Chapeco, which will be started up soon, real soon. Could you tell me about the project in a timeline? I believe that the CapEx was higher than you believed it would be. So now that it will be started up, could you tell us about the development mainly regarding CapEx and return. And the third question has to do with the renewable energy auction. What is CPFL's position if you intend to participate, et cetera?

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A - Wilson Ferreira Junior {BIO 20013669 <GO>}

Okay Marcio. Our position is maybe a little bit different from the others regarding your first question because our companies, five of them already had the adjustment in February. So when we signed, we already considered the elimination of these charges in the tariff adjustment itself.

In the sequence after that, we had Paulista and the treatment that we gave was well, we evaluated the impact of these operations, and it was small because it started in February - and in some of them it was February but there was no effect. And there is the specific treatment by the agency. Our viewpoint is around 3% of the regulatory EBITDA as impact. Always considering the market a little bit before the crisis, I can tell you that possibly this year, it will be slightly lower because the markets have a higher value. So the gains coming from the other power source, which are energy bought at less charges, could partially offset the loss of the so-called 3% of the regulatory EBITDA.

Regarding Foz do Chapeco, the information that you gave about the CapEx is not true, because during the construction our CapEx was lower than what we expected. With the monetary correction, maybe the effect that you saw was the monetary indexation, monetary correction of the contracts, because these plant give the highest return for the Group. We have had no surprises whatsoever with this undertaking since December 2006.

And I confess to you that we have one concern here because now, we are about to obtain our operation license that we need to obtain in order to fill the dam, and we are having to cope with the strike of the Ibama, and we are in negotiations with the government and with the authorities in order to minimize the effect. We believe that the lake could be filled in 30 to 40 days, but we have to be careful with that.

So what happens is that it will be slightly lower than our original budget according to the contract parameters, and based on the parameter of the Company, increase in the share from 40% to 51% and the sale of energy of this volume after 2013 or as of 2013.

So besides concluding this in advance vis-a-vis this schedule, I would say that among all our HPP, this will give us the highest return rate. It is a very good project with very good tariffs and there is a third point that you have to remember vis-a-vis the original project that we have already got into the new moment of the PNDS where we have an extension of the volume financed. It was around 74% for this, so the equity was lower and the term - besides the cost, the term is 16 years and the spread is lower than the one that we had before.

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So as we don't see any problems in the last two months now, I can tell you that this is the best work ever in terms of rate of return. We intend to have something slightly higher than this, but the cost is lower. Regarding the renewable energy auction, right now, we have 250 megawatts under construction for biomass, and something close to 200 megawatts of wind energy project, 450 megawatts under construction.

So we have at least this in our pipeline. And this is being observed by the Company. You mean at these auctions mainly, the wind energy auctions, so we are paying close attention and we intend to increase our share in wind energy by means of this auction.

I have not have this approved by the Board yet, but in our pipeline, I believe that we will have the possibility to participate in this auction at least in wind energy volumes similar to the one that we had at the first auction. And we are also considering other projects in biomass. Biomass gives us the possibility not only for the auction, but for the free market also.

As you know in these 503 megawatts, this is a buyers' market. So the strategy in this market will probably not be by means of an auction, but it could be depending on the auction conditions. All this will be considered.

Q - Marcio Prado {BIO 15398968 <GO>}

Thank you, Wilson.

Operator

(Operator Instructions) The question-and-answer session is closed. I would like to give the floor to Mr. Wilson Ferreira Junior for his final remarks.

A - Wilson Ferreira Junior {BIO 20013669 <GO>}

First, I would like to thank you all for participating in our conference call. I believe that the fundamentals that were the basis for our results related to energy consumption in the First Quarter. Now, in April, we had something close to 10% in our concession area. So we're just still strong and our expectation is to get in our concession area, to something close to 7.6 based on the data that we have in the First Quarter of the year in the concession area of our Companies.

What we see here is a very major recovery in consumption with many sectors being recovered as well. We are very bullish about that. And the Company also has to conclude many of its projects. So the next six months, we will be focusing on Foz do Chapeco, Epasa, Baldin, and the others because they are initiatives of the Company in all areas.

And this consolidates the Company as an integrated company with important capacity to grow distribution vis-a-vis its market, paying always keen attention to the possibility of acquisitions, always based on the rationale of value creation, and always focusing on commercialization of energy and services, because we have been achieving very good results in all these areas.

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So I would say that the outlook for this year, we already have the effects of the tariff review already incorporated. So this is important moment for the power sector in terms of future in CPFL Energia, with its strategy and with the discipline that is our brand will benefit from this positive moment of the Brazilian economy.

I hope to be with you in our next call, and thank you very much for participating in this one.

Operator

The CPFL Energia First Quarter of 2010 earnings conference call is closed. Thank you very much, have a good afternoon.

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