

Q1 2015 Earnings Call

Company Participants

- <A>
- <Q>
- Wilson Ferreira Jr., Chief Executive Officer

Other Participants

- Marcos M. Severine, Analyst
- Vinícius Canheu, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning and thank you for waiting. Welcome to CPFL Energia First Quarter of 2015 Earnings Conference Call. Today with us we have Mr. Wilson Ferreira Jr., CEO of CPFL Energia, and other officers of the Company.

This call is being broadcast simultaneously on the Internet at the Investor Relations website of CPFL Energia at www.cpfl.com.br/ir. There you can find the presentation for download. We would like to inform you that all participants will be in listen-only mode during the company's presentation. Afterwards, we will have a question-and-answer session when further instructions will be given. We would like to remind you that this call is being recorded.

Before proceeding, let me mention that forward-looking statements that might be made during this call are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are beliefs - 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 as they may relate to future events and therefore they 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 we would like to turn the conference over to Mr. Wilson Ferreira, Jr. Mr. Ferreira, you may proceed.

Wilson Ferreira Jr. {BIO 3012118 <GO>}

Thank you. Good morning, everyone, investors, analysts, shareholders. We would like to start our presentation about the results of the first quarter of 2015. I will talk about the first four to five slides just to give you an update about the situation.

Turning on page number 3, we tell you (02:36) about the level of the reservoirs. It's important to say that we closed April with almost 35%, and right now, we are slightly higher at 35.3%. And according to our forecast and confirmed by the National Systems Operator, we should cross the green line here, which is the level of rationing - at the time of rationing in the next few days. And you can see that this shows the vitality of the system mainly with regard to thermal (03:10) generation capacity that has been the driver in the level of the reservoir, the increase in the level of the reservoirs. And you will see the level of absence and rainfall (03:22) has been lower than the average, but here just to show you that we're getting into a more comfortable situation, but of course, we still have to pay attention to it.

On page number 4, we have our hydrological (03:39) view. We see mainly the last two that - the one that we have just closed in the Southeast and Midwest region, which are main sources of water. And the good news is that we had a better situation than last year. If we take about November 2013 and April 2014, you can see that we have below average rainfall in this year. It was 32% below average and in the quarter is 36%.

As you can see and I will show you on the next slide that we have an expectation for an average in the South and the Midwest higher than the average in the South. And in the interconnected to them as a whole, you can see here 54% in January, 61% in February, 73% in March, 84% in April, and now for the first review of the National Operation, 97%, and the dispatch of thermal technically 4% (04:41).

On page 5, we have our view, and you know that for generation, it's necessary to see the thermal capacity and what kind of load we are meeting or catering to, we are working on this red curve. This is the CPFL's view, which is the original curve of the system at the beginning of the year, that was the green one. That was the original forecast of the ONS and it has already been revised by the ONS. And the black curve that you can see that is quite parallel to the red one, you can see in the case of the ONS with the dotted line and also the blue line.

Last year, we had 65.1 average gigawatts consumed, and the original forecast by the ONS is 67.3 gigawatts. That meant a growth of 3.3%, and we can see that both May review and CPFL's expectations are rather close, 64.9 gigawatts and 65.1 gigawatts.

In principle, what we can see here is the year with a very similar consumption to what we saw in 2014, and of course, this helps if we go to page number 6, our view for the end of the year, our perspective view show (06:16) with a 97% natural inflow energy or ENA that we call. You can see the level here of the reservoirs. And then afterwards, you can see that we've placed only one curve here, the 15% curve, if we follow, 87% would be the necessary natural inflow energy for June, and we would get to 15%. And the probability of

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having less than 87% is 28%, so it's a low probability. And it is the dry season, as we show on the slide, and it has been wetter, so to say, than the average. So, if we take since 2004, the last 10 years, it was 105% of the average in the Southeast and Midwest and 64% in the National Interconnected System.

So, with this kind of picture, given this new rate of consumption, we can see that there is a very low probability to any restriction in the consumption of energy, be it due to the tariff increases or the pace of the economy that is lower. And so we believe there is no risk whatsoever. So these are our thoughts about the energy scenario for Brazil for 2015.

On page number 7, now, we're going to talk about the highlights for the first quarter of 2015 for CPFL, a reduction of 2.5% in sales in the concession area. And you can see that this drop occurred in a very rationalized consumption in the residential commercial areas. This is positive, but it's still low, and industrial, what we have already been seeing over 2014, the full year industrial activity is lower. In the case of this quarter compared to the same quarter last year with minus 5.1%, or a drop of 5.1%. In spite of that, we invested BRL 331 million in Q1 2015. And we had a commercial start-up (08:35) Morro dos Ventos II wind farm, CPFL Renováveis in April 2015, we will be talking to you about that later on, and the victorious (08:41) participation in the A-5 Auction with the (08:47) Boa Vista II auction, 26.5 megawatt installed capacity and physical guarantee (08:53) auction.

And I would like to remind you that we had a supplementary tariff adjustment in CPFL Paulista in April with the application of four metric formulas (09:07). And the whole set of definitions for the second phase of the Public Hearing number 23 and the 4th Cycle of Tariff Revision concluding this cycle. And we will be talking about that. This happened in April 2015.

And last week, we had the shareholders' meeting for the stock bonus approval, the issue of new stock already distributed to shareholders in May last year at May 6 this year, and CPFL Energia bearing (09:42) a little higher than 10% in BM&FBOVESPA and down in the New York Stock Exchange, but it's more related to the exchange rate. So, we will be talking about that. And we published our annual report here in March based on the GRI G4 guidelines, and for the first time, on the IIRC structure, the International Integrated Reporting Council. So, these are the highlights for the quarter.

And now on page 8, we're going to talk about energy sales. This is very important. So, we'll move (10:25) on the left, on the upper left, you have the captive market dropping by 1.8%, the free market, TUSD, with 4.6% to 2.5%, minus that that I referred to in the previous page. And now sales by consumption segment, we have already talked. And the market profile, as you can see, residential 30%, commercial 18%, we see a drop in industrial consumption, but not a drop in the contracted demand by the industrial sector. And this shows - and this is proof of that. If you look at the contracted NME, (11:15) off-peak and peak, you have comparisons with March 2014, 3.1% and 3.2% off-peak and peak, which technically (11:25) show the contracted demand is directly with the utilities with the concessionaries. And for the first time, in the year, (11:41) we had a growth lower than Brazil, 2.5% minus vis-à-vis minus 0.6%.

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And you can see that in the two regions where we operate, still (11:51) a more industrialized area. And of course, this effected our sales this year. But the expectation is that we will see a resumption of the industrial activity, and with the impact on our contracted demand and our generation in South capacity growing by 20% basically in renewable energy and the coming on stream of new projects during this year. And in this specific case, you have concession (12:22) generation, you can see that the drop is because of our partners in the projects. (12:33)

On page number 9, remarks about the growth of commercial and residential. You can see a little (12:41) growth, 0.3%, but it's important to say that it is over a higher base last year. We had a very robust 12.6% growth. And if we look on the weighted average, this would be the 6.3% growth which is fundamental and some things (13:04) that it explains behavior, it has to do with temperatures. And you can see here on the lower part the accumulated temperature in the quarter, Campinas, Sorocaba, and Caxias do Sul, the three main concession areas. And you can see that a very non-typical behavior of temperatures.

As you can see, the accumulated temperature in the quarter, 721, 713 vis-à-vis the averages that are much lower. Just for comparison purpose, 721 vis-à-vis 531 last year in Campinas and 651 this year vis-à-vis 532. If you look at the three cities altogether, the temperatures that we had last year were - it was outside of the curve. And on the upper part, you can see some kinds of equipment or appliances consume more energy. We're talking about refrigerators and freezers when you have high temperature, as we said before, and you cannot have a direct control (14:11) in fans and air-conditioning as well, 19%.

Now, let's talk about our results on page number 10. As usual, for the first time, we have the amount in IFRS much more similar to what we call them as the management results, but in IFRS, we are reporting a 35% growth in our net revenue, reaching BRL 5.059 billion. Due to the increase of the tariff banner and increase in tariffs in March, not the full is that yet, (14:51) but some part of that is already impacting this EBITDA growing by 23%, reaching BRL 972 million, and net income dropping by 18% reaching BRL 142 million. And I will be talking about this behavior very soon.

But in fact, mainly due to the cost of (15:11) proportionate consolidation that we don't have in IFRS, CPFL is not clearly (15:19) represented by the lower part, 30.6% increase in the tariff - in revenues, not tariff, reaching BRL 5.030 billion, 5.5% growth EBITDA reaching BRL 1.146 billion, and a drop in the net income reaching BRL 300 million, representing a drop of 24%.

Reconciliation of these values between IFRS and the management figures, you can see on the lower part of the slide proportionate consolidation of generation, and also sectorial financial assets and liabilities very strong last year, and the events that we are considering as non-typical or non-recurring, the GSF,

the main GSF and the energy purchase in the past, the reallocation of costs with basic - with (16:19) losses as you can see a difference between last year and this year. The

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effective tax PIS/CONFIN adjustment, about BRL 30 million (16:26) this year, and the market-to-market of Law 4,131 in distribution. So, with all these factors looking at the EBITDA, you can see BRL 1.146 billion, which is the consolidated base and except (16:53) of the non-recurring interest (16:55).

Now, let's talk in detail about the EBITDA and the net income variations on page number 11. We will be looking at inside the boxes, that is to say the BRL 1.086 billion to BRL 1.146 billion variation, due to the increase in net revenue over 30% of very (17:23) rigorous growth. And you can see that, to a great extent, all distribution, that is to say. There is an important aspect which is the exchange rate variations in (17:38) in the variation of revenues, they will come into the revenues and they will be in financial expenses.

So, here you can see, there is a small positive variation here in terms of revenues of the distribution company Renováveis, becoming our stream of assets, BRL 45 million, and in conventional generation, in commercialization and services a drop of a BRL 116 million, the main effect of GSF, (18:09) and the second BRL 33 million.

So, you have the details here of this growth of BRL 1.133 billion (18:19) in mostly in the assets of distribution the effect of banners, the effect of the tariff itself and the drop in the market and other effect as well. The increase in revenue is clear, and it's driven by adjustments in the state of distribution and the coming on stream of other assets in distribution, and the negatives are the GSF, a comparison (18:44) of generation and commercial and services.

In distribution, BRL 1.189 billion purchased energy, and CPFL Renováveis, BRL 33 million, a little of the GSF also effect. Commercial generation, BRL 98 million positive, and it has to do with the variations of the cap of BRL 388 million (19:11), and the same happened in the case of commercialization as well.

So, together with the growth of our PMSO expenses, two of them with revenues associated to them, the services PMSO, you can see that they have - and also the acquisition of (19:35), the results and associated revenues because this is reflected in (19:45). So, for comparison base, (19:49) we have to use personnel, BRL 19 million, reflecting the adjustments in the compensation of our workers, mainly in June last year. So we have the collective agreement with BRL 11 million (20:04), and also the other activities that are in-sourced material services, BRL 14 million, and in others.

We have assets write-offs, BRL 11 million; legal and additional indemnities, BRL 7 million; inspection fees, BRL 6 million; others, BRL 6 million. So except in May to (20:34) the market effect, you can see that the effect in GSF is still relevant in this quarter.

On page 12, we got a comparison about our managed - manageable - you can see our (20:51). In nominal values, we see a drop of 0.3% in a comparison of the last 12 months vis-à-vis 2014. And when we look at the MSO, the PMSO real one indexed (21:09) by the IGPM, we will see a drop of 15% or BRL 249 million, and in the comparison to last 12 months with 2014, a drop of 1.2%. You can see that it has to do with management of

personnel, materials, and others, BRL 200 million, and BRL 49 million coming from personnel and the decrease in MSO, BRL 200 million.

So you - we are growing our operations without growing our expenses, as you can see. And on page number 13, we talk about net income. We will be explaining the drop of 24% here on the slide. We had already talked about the 5.5% increase in the EBITDA, BRL 60 million, from BRL 1.086 million to BRL 1.146 million. And you can see our negative net financial result.

On one hand, we have a very strong indexation with the CDI, over 90% of debt stock. And as you can see on the right, 10.3% in the first quarter of last year to 12.1%, beside (22:31) the exchange rate variation. And as I said before, the exchange rate variation (22:39) so it has a positive impact on revenues and a negative impact of BRL 75 million in our net financial result. The effect of mark-to-market operation under Law 4,131, non-cash effect, BRL 34 million, and others, BRL 5 million. We see an increase in depreciation and amortization because of the age of the assets and the decrease in income tax and social contribution of BRL 16 million.

Page 14, just to report our net debt EBITDA ratio, it went up from 3.49 to 3.54, a slight increase, in spite of the adjusted EBITDA going up as well. On the lower part, the good news is that the real cost is dropping. The bad news is that the nominal cost continues to go up for the third consecutive quarter reaching 10.5%. Although the real cost is 2.2, (23:48) and here you see the breakdown of our gross debt. 73% CDI, 20% long-term interest rate, 6% prefixed, mainly PSI of the BNDES, and one-fourth BNDES, three-fourths (24:09).

As you see with the (24:14) debt with the safety (24:16) foundation, on page 15, we show you that we are in a comfortable situation. We closed the quarter with almost BRL 4 billion in cash and this covers almost two times our short-term amortizations. 3.67 years is the average tenor of the debt, this will turn into (24:39) 12.4% of the total. And you can see that it's a very well-balanced situation in terms of debt amortization schedule.

And on page 16, some remarks about the Morro dos Ventos II that started out just now. 29.2 megawatt installed capacity, 15.3% average megawatt assured energy. PPA A-5 at BRL 133 per megawatt hour until 2035, annual estimated revenue, BRL 17.9 million as of 2016. And funding by the BNDES already approved, so it was a great pleasure for us to bring this forward, so this brings us this additional revenue.

And on page 17, we see the generation and our greenfield project that we are building Campo dos Ventos and the São Benedito Wind Farms, commercial start-up for the Free Market, 231 megawatts installed and 120 megawatts average, financing being structured by BNDES, Mata Velha small power plant contracted with the (26:06) 2013 at 143 megawatt hour, also being analyzed by the BNDES, and the Pedra Cheirosa Wind Farms for 2018 commercial start-up, 51 megawatts, so during the 18 new energy auction (26:29) in 2014, 133 megawatt hours until 2037. And a couple of weeks ago, we had Boa Vista SHPP, 26.5 megawatt hour and BRL 207.64 megawatt hours until 2049. So these four

projects amount to 333 megawatts of installed capacity, 174 average megawatts to be delivered as of 2016 and up to 2020.

On page 18, our stock performance, as I said, the behavior of our stock was positive vis-à-vis 2014. So we performed 10.7% vis-à-vis IEE (sic) [IEE] (27:18), which was 1.3% and IBOV with 2.3%. And in the New York Stock Exchange, you can see a drop of 8.4% vis-à-vis a drop of almost 15% in the Dow Jones and the increase in the average trading volume at FBOVESPA, 1.1%, reaching BRL 5,600 per day. You can see here FBOVESPA and New York and CPFL continuing to be present in the main industries, as you can see in this box.

On page 19, our Annual Report of 2014 has already been published, but here we would like to mention the IIRC structure where information is already placed and organized based on human capital, social capital and relationship, infrastructure capital, knowledge and skills capital, natural capital, and also financial capital, and audited by PwC. And this is very important for the company that is to say the way we report our results. Besides the transparency that this give you (28:35) some more friendly way to talk with all stakeholders in the company.

On page 20 we have the conclusion of the tariff, 4th Tariff Review Cycle, positive factors in general are better than the negative ones. And you can see that our WACC went up, and we included the remuneration over special obligations. On the other hand, we have not included yet the remuneration over fully depreciated assets, and we will have to continue to fight for this with the agency. In terms of operational cost, we simplify the model, in addition of labor contingencies, and this is a plus. And the sharing of other revenues as well, the simplification of the methodology and 60% related to activities commonly rendered and 30% related to activities still on the learning curve.

Non-technical losses, we created an exception rule for companies - well, an exception rule was created for companies with low losses like CPFL Paulista and CPFL Piratininga and RGE, where the average of the last four years is used without a trajectory. And for Xq, we still need incentives, and with this methodology, logically, we stop losing. But we do not have a positive sign to continue to invest in the reduction of these losses. And finally, in the Xq factor, we have the addition of commercial indicators.

It's not just the Xq factor that determines the quality of our operations. But we should mention mainly Xpd, there was a decrease vis-à-vis the first proposal, but it's still very high, 1.53%, it's too high as an Xpd factor. And recoverable revenues, we see an increase in delinquency rates, regulatory delinquency rates, and because of this increase in energy various (31:03) tariffs, but we see an increase of the aging from 49 to 60 months.

So for the short run, we see an increase in delinquency. And the balance is positive overall. I think there are two elements for us to continue to interact with the agency to get the regulatory model, but we must recognize that, beside the transparency, there is a whole set of action being taken.

On page 21, it's important to mention infrastructure improvements that can enlarge the expansion provided the Brazilian market potential. You can see the Global

Competitiveness Index, including Brazil and some Latin American countries. Basically, we can see something to show the size of our market, and when we focus on the right, we can see that very clearly, comparing Brazil, for instance, with a couple of other countries, emerging countries or in the region.

You can see in terms of residential consumption per capita, there is a slight difference. Just compare Uruguay. Uruguay is twice as much, almost four times in Venezuela. This then (32:25) shows potential for growth, for instance, with washing machines, computers, microwave ovens, air-conditioning. And I think Brazil continues to be a country or we cannot ignore it is the leader in agri business, coffee, soybeans, orange juice, the fourth largest in green and renewable energies, the third largest computer market, the fifth largest market for phones and mobile phones, vehicles, and the fifth country for foreign direct investments. So we do have potential for growth. We are still making some adjustments, but we have a lot to do with our country.

On page 22, just to share investments and highest rate of returns by projects, and more in the private sector and financing. That's the condition for the future. We keep on investing close to BRL 200 billion in recent years. And it is critical to mention that 10% to 15% of investment were financed with debenture infrastructure, and we do have the need - if we consider the lower flow, (33:49) we have to consider the volume of funds available so we can build and develop our structure. We have been working with the management, so we can also include distribution and infrastructure and debentures.

So we need to improve public financing and private financing. Naturally, that is a set of measures to be taken, but on behalf of the government and regulatory stability, we are giving a large price (34:22) and also improve the selection of entrepreneurs and internal rate that is compatible with the risks taken. Sometimes I have a hard time acknowledging this. And finally, introduce terms and processes of environmental licensees.

Part of the companies are still critical to have more efficient performance of projects to prevent delays and naturally to meet the deadline. So we have a lot of opportunities for 2015, more than BRL 13 billion in distribution, in generation, with two auctions with BRL 10 billion invested and another two auctions to take place for the next three months. Not to mention all the volume to be included, transition, (35:17) for instance, more than BRL 13 billion of investments necessary for expansion, and also a new potential, which is the extension of generation - cogeneration capacity.

So there are gaps in infrastructure. On the other hand, these gaps are also our opportunities for the future. In the electric system, we have more than BRL 200 billion of investments required from 2015 to 2018.

So, these were my remarks. I would like to tell you that we have Gustavo Estrella with us. I think it's important to highlight that we did have changes in our organizational chart, approved by our meeting last week, and we also appointed in our shareholders' meeting the new members. And I'm happy to have two of the new members attending this meeting today, Wagner (36:22) Freitas Schneider, who joined us as Vice President for Management Planning, and Karin Luchesi, our Vice President for Regulated Operations

and Market Operations. Karin used to be (36:42) and now took the new challenge to be with us today.

So, we are very happy to see that this is our future. Naturally, we always work together so we can have a structure that is on the same page with the whole group. They have now that additional upgrade and bringing new people that are being very successful so that, in future quarters, we can show our potential and the capacity these people have to bring and add more value to our company.

We are happy to take questions now.

Q&A

Operator

Ladies and gentlemen, we are starting now the question-and-answer session. The first question is from Marcos Severine from JPMorgan.

Q - Marcos M. Severine {BIO 3322666 <GO>}

Good morning, Wilson. Good morning, everyone. Wilson, my first question is about this clear sign given by the government vis-à-vis the return to the electric sector. It is very clear in the 4th Cycle of Tariff Review, as we mentioned, well, some pointers still (38:05) pending like compensation or remuneration of our CapEx for 100% depreciated assets, but we might expect to see a regulatory growth.

As to greenfields, we also see an increase in price, return in the margin improving and cost particularly CapEx is growing a lot. So, my question – actually, I have two questions about the same topic. First question about generation, do you expect to see a review of the cap already announced for recent auction particularly A-5 in order to include this CapEx increase that has been seen so far and therefore you have higher remuneration or a better IRR to shareholders matching (38:54) better the equity that also went up this period?

And the second question is about opportunities for M&A. When we have improved return in distribution, probably Eletrobras will consider the assets for sale, North and Northeast. Do you have any interest? Are you keeping an eye on these opportunities in the North and Northeast? And what about the Southeast, do you also envisage any opportunity now – well, maybe now less risky considering the better returns? These are my two questions for you. Thank you.

A - Operator

Severine, thank you for your question. I agree with you, and I believe this is public already. The electric industry, the Ministry of Mines, all stakeholders have made significant efforts, this has to be acknowledged. In the sense of bringing capital for investments, this is reality, I have to agree with you that, when it comes to generation, this already happened in the previous two auctions. For about four years now, we hadn't seen small hydro plants

participating in auctions, but now, they brought more interest to capital with returns that are compatible. And compatible returns means that, with this price, it is enough for you to cover an increase on costs, for investments and increase in financing.

This applies to all recent auctions and there is no reason not to believe that, in future auctions, this same system will be applied. We have talked to the Ministry and this circumstance of any challenge that we have now when it comes to supply will be solved from the moment we have new investment and new projects in operation.

So the government has spared no efforts (41:07) to work on prices that have been attracting all projects in all auctions and private capital. So I do believe they'll keep on doing that during their auctions. As to M&A opportunities at distribution companies, I agree with you, I think we're coming to a point, well, maybe because some of the ones that you mentioned, they give us clear message in terms of making use of renewal so they can have a structured process to dispose of some of these transactions.

In addition, with this improved condition that we can see now at the end of the 4th Cycle, it is true that distribution companies are small. I think considering what we've been following up in the renewal base (42:10) concession, when we talk about investments, I believe that, for small players, if they are consolidated with larger players, we have challenges, and also the larger companies that you made reference like Eletrobras, for instance, naturally, we are interested. We pay keen attention to these opportunities and we'll be assessing each and every one of them.

We understand the distribution system, like I always say, is a tailor system, (42:37) and therefore, growth is critical. And naturally, from the moment, (42:42) you can include geography so much the better, but if you can't, scale remains the big driver of the business. Considering the current opportunities, we keep our eyes open and be actively engaged in the process. It is important to the group and it will also be important to the sector from the moment (43:08) you also have more proposals so that, further down the road, you can consolidate operation and make it easier for reassessment from the agencies.

So we're very bullish in terms of a higher generation price coming back to the level that is high enough to attract capital and a result of the renewal process of distribution. There is a set of opportunities and (43:33).

The next question is from Vinícius Canheu from Credit Suisse.

Q - Vinícius Canheu

Hi, Wilson. Good morning. My question is about GSF. We could see in the release on your message efforts by the company and the industry to discuss that. When you say that you talked to the government, you have contradiction messages. Sometimes you have signed up some kind of help and sometimes you have signs (44:13) that - well, there might be some kind of benefit that is not included in this quote (44:20) considered by the government. Do you have a more recent update, any news to share considering you views (44:29) have been contradictory?

A - Operator

I believe this topic is significant enough, and by the way, just as a follow-up to Severine's question, GSF is critical not only to ensure the financial health of companies that are already operating, but it's also critical to make sure or to assure attractiveness for hydroelectric generation, which is our main source of expansion for energy in years to come. It remains the main source.

From everything, from all conversations that I have with the government and related agencies, there is strong concerns. They recognize that that this topic has to be addressed, and it has to be addressed in such a way that brings stability on a permanent basis and recognizing actions that we had in the past. We grew in thermal power generation, non-dispatchable, (45:36) so to speak, in terms of wind farms and the circumstance became more severe for GSF of generation companies and hydro plants.

So, it is a strong impact and strong enough to be considered priority. I have to resonate that our group has the expectation that, in May, we will have a solution to this topic that could be applied to companies, to some extent, mitigate part of the risk that is not their risk. What I mean by dispatch or alternative energies that cannot be dispatched, we are speaking of an effect that is attributable to hydropower plants GSF as they cannot be defended otherwise.

So, the government admits that these are items to be addressed properly so we can really ensure good conditions in the future. So, I expect that this May I wouldn't say we'll have the solution, but, well, maybe we have conservations that we will allow (46:51) companies that are operating now to come to a balance. And as a result, we hope to have conditions to have attractiveness in hydraulic generation, which is still important for the future of the company. Thank you.

The next question is from (47:13).

Good morning. Thank you for the call. I would like to hear from you, considering improvement in the water scenario in April and also the better forecast for May, I wonder if this changed your previous estimate for GSF in 2016. Thank you.

A - <A>

This improvement is very slight when we consider the full forecast for the year. Right now, if we consider the effects of drop in consumption or drop in stable consumption, we're speaking of GSF for the year around 16.5% or 17%. We haven't changed our forecast yet.

A - <Q>

Okay. What about next year? Will it still be around 8%?

A - <A>

Yes. Around 8%.

A - <Q>

Okay. Thank you.

Operator

This concludes the question-and-answer session. I would like to give the floor back to Mr. Wilson Ferreira, Jr. for the closing remarks.

A - Wilson Ferreira Jr. {BIO 3012118 <GO>}

Once again, I would like to thank you all for your attention. Thank you for attending our earnings presentation call. I wish to highlight, when it comes to the outlook, I would like to highlight our opportunities that the electric sector will provide to the society by bringing capital to investment and boosting our economy and infrastructure, this should be our main path.

Once again, I would like to underscore a phase (49:27) that the government is very much involved in all topics that affect the sector. We have at least two good pieces of evidence. One of them is the promptness of the process vis-à-vis distribution companies like flags, (49:45) Extraordinary Tariff Review. In addition, we also have the conclusion of the 4th Cycle of Tariff Review.

And the second point is the effort to attract new funds and investments and also auctions with prices that are compatible and attractive enough for companies and CPFL to be involved. CPFL already attended the previous one and we expect to be present in future ones because we believe this outlook, while maybe the only element that still prevent us from improving GSF, we believe that is still in progress - is already in progress. So, naturally, we expect the potential of the country's after-tax adjustment, we hope everything will be concrete when it comes to the electric industry. It's up to companies to go back to their investment of work along with infrastructure in energy to support a rebound of our economy, that's what we'll be doing. CPFL will be supporting the whole process. Once again, thank you all for joining our call.

Operator

This concludes CPFL Energia conference call. We thank everyone for joining us. Have a good day.

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