

## Q3 2010 Earnings Call

### Company Participants

- Wilson Ferreira Junior, CEO

### Other Participants

- Marcos Severine, Analyst
- Tatiana Reis, Analyst
- Vinicius Canheu, Analyst

### Presentation

#### Operator

Good morning. Thank you for waiting. Welcome, everyone, to CPFL Energia 3Q '10 earnings results conference call. Today, we have here with us Executive Mr. Wilson Ferreira Junior, CEO of CPFL Energia. And other officers of the Company. This web call is being broadcasted simultaneously through the internet and the web site, [www.cpfl.com.br/ir](http://www.cpfl.com.br/ir). In that address, you can also find a banner through which the presentation will be available for download. We inform that all participants will only be able to listen to the conference call during the presentation. After the presentation, there will be a Q&A. At that time, further instructions will be given. (Operator Instructions) It is important to mention that this teleconference is being recorded.

Before proceeding, we would like to mention that forward-looking statements will be 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 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 in the future. 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'll turn the conference over to Mr. Wilson Ferreira Junior. Mr. Wilson, you may proceed.

#### Wilson Ferreira Junior {BIO 20013669 <GO>}

Good morning, to all, the capital markets, investors, analysts. It is with great pleasure that we start the earnings conference call for the Third Quarter of 2010. In the cover, you see the completion and startup of the Foz do Chapeco in the border of Santa Catarina and Rio Grande do Sul, the largest energy development project starting up. The startup was on October the 14th of 2010. We're going to be talking about that momentarily.

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Let's move to slide two, where we see the three quarter of 2010 highlights. As we normally do in two columns, we have the results reported and the recurring results. I'd like to mention the reported results because, in the next slide, I will talk about recurring results.

Here we are reporting a net revenue increase of 2.4% reaching in this quarter BRL2.758 billion. The EBITDA of the Company grew 21.9% reaching the Third Quarter of 2010 BRL817 million and finally the net income a 33.8% increase amounting to BRL388 million. These results are primarily the result of an increased growth of 7.6% in sales in the concession area.

Also affected by tariff adjustments in CPFL Piratininga, very likely because Piratininga had an 8.59% tariff adjustment in Parcel B, which impacts the result of EBITDA, et cetera. So of which 6.64% was for Parcel B on October the 23rd.

Important to highlight, the commercial startup of Baldin TPP, I believe that some of you had the opportunity to visit this plant, adding 45 megawatt of installed power. And the Foz do Chapeco startup on October the 14th, as mentioned, adding 436 megawatts for the Group. And the Group has 51% share in this power plant.

Later on, we'll talk about the participation in the third Reserve Energy Auction with wind power sales and biomass sales. We'll talk about that.

Important to highlight that we had a raising of the corporate credit rating of CPFL Energia and CPFL Paulista from AA to AA-plus by Fitch Ratings and a number of awards highlighted to award for best IRO and IR team. Gustavo is an important asset in our IR team. And these awards were by Institutional Investor; recognition, recognized as third place in the best companies for shareholders in 2010 by Capital Aberto Magazine, award of best 2009 annual report by ABRASCA. And finally RGE was awarded the best Brazilian distribution company award in 2010 by ABRADÉE (inaudible) results, RGE was also runner up of the national quality award.

On slide three, like to mention the non-recurring effects basically to last year. We had a retroactive recognition of the tariff review of CPFL Piratininga. As you will remember, this was in a so-called reference company. And it was retroactive for two years. So on the right, we see this effect recognized BRL64 million in the net revenue, BRL109 million in the EBITDA. And BRL74 million in the net income.

This year, in the Third Quarter, we had a labor contingency provision in CPFL Paulista. This is a contingency that started at the time of the privatization, even before that. It was a demand from the engineers union. And it impacts the CPFL Paulista, BRL20 million in EBITDA and BRL13 million in net income. So considering these two non-recurring effects, both last year and this year, we have a recurring effect of increase of net income which is very light, 0.01%. The EBITDA grows 7.5%, amounting to BRL836 million. And finally, the net income would reach BRL401 million, representing a 10.3% increase if it weren't for this impact on the EBITDA of the BRL20 million impact on the EBITDA of Paulista. I know that this is very useful for analysts. And that's why we are keen to make this disclaimer.

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On slide four, we'd like to talk about energy sales in the captive and free market. As mentioned before, we had a 7.6% increase in the concession area sales, 4.5% in the captive market, 9,779 gigawatt hour. And in the free consumer market TUSD, a 17.2% growth. As you know, this is the result of a weak quarter last year and a great recovery of the industry, reaching 17.2%.

Down below, we see the breakdown of the concession area sales by consumer class. Sales risk increase in the residential and commercial segments, 6.1% and 7.7%. The industrial segment is a little bit more contained, 7.2%. And the other segments altogether 11.1% highlight to the rural segment since we are having a dry year. And this is -- the rural factor is mobilized by irrigation. And that's why we have this growth, total 7.6%, as previously mentioned.

On the right side of the slide, we show you total energy sales, in other words, what we bill to concession area consumers. In blue, we have sales for captive market. I've just detailed that coming from the distribution companies billed against the consumers. And in orange, we have sales from the commercialization area, where we see a drop of 4.1%. I had mentioned that in the previous quarter.

Last year, we had a large operation. We were not the single ones. Other companies had it as well. It was the so-called adjustment auction, which did not happen this year. And this is the main reason, explaining a slight 4.1% decrease. Still we have our total energy sales growing by 2.2%.

On the right-hand corner bottom part, we have concession area sales comparison by region, slightly above in the south, slightly below in the southeast. And altogether, we are growing 7.6%, while Brazil is growing 7.2%. So we maintain a behavior which is typical in the areas where we are positioned. We tend to grow more than the Brazilian market as a whole.

We are moving onto slide five. We have a series of drivers driving these results, either in the residential and commercial segments or in the industrial segment. It is important to highlight, starting with the residential and commercial, we see that these are vigorous segments, driven particularly by an increase in the number for more jobs, 2.264 million, an increase in the number of jobs. With more jobs, with an increase in the income mass, you have seen real salary increases. We also have that in the Company, 5.7%.

Credit supply continues to increase close to 20% in the quarterly comparison. And now we have an extension in the average financial maturity from 30 to 42 months, which is also positive. And finally, retail sales, which continue very hot, plus 15.1%, all of that leads to the maintenance of good results in the residential and commercial segments, which are key to the Company. These are low tension, low power building.]

On the other side, we see industrial production, which is somewhat more well behaved, plus 11.2%. And it is positively affected on one hand by an increase in the industrial production, 11.2%. We have an increase in capacity utilization. We are at a record level of capacity utilization, 83% and had a slight 2.1% in exports.

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The not-so-good part of this behavior is that we have strongly increased our imports by 29%. And this is modulating the behavior of the industrial segment. We prepared for you a summary of some investments announced in the CPFL Energia concession area just to bring you on the same page of the continued prospect of sales increase. We have announced investments in an intermodal terminal BRL5 million, shoe industry BRL4 million -- shoe industry factory BRL4 million, pharmaceutical industry, a new client BRL10 million, meat packing unit BRL100 million announced. There's a hotel, a big, high-end hotel BRL100 million, a wind farm in the concession area of RGE in Santana do Livramento in the state of Rio Grande do Sul amounting to BRL400 million. These are the projects under construction, right?

We have four shopping malls being built, two being expanded, two new ones being built, close to BRL600 million. And two hospitals, one being expanded and one being built, the Serial Lebanese Hospital in Cantinas [ph], BRL835 million. In addition, some expansion projects, electronics industry factory, food industry. And transportation equipment, BRL3 million, BRL26 million. And BRL50 million, respectively. So this total investment expected amounts to BRL2.1 billion. This is just to show you that the growth driver continues moving along with very positive results expected.

I'd like to give you more details now on the quarterly comparison, talking about EBITDA and the final net income. Starting with EBITDA, we have her recurring value growing 7.5% and the reported value of 21.9%. So the non-recurring effects are included here, both on the left and on the right. And we have detailed that.

So let's move to the recurring values, slight increase in net income affected on one hand by sales increase, increase of 7.6% in concession area sales come down into 4.5% captive and 17.2% in the distribution system used by free customers. This is the positive side. On the other hand, as mentioned before, for decrease of 4.4% in commercialization/generation sales outside the Group at the time we sold energy at BRL145 megawatt hour, which was quite a high value in an adjustment auction.

On the other hand, because of the conclusion of tariff adjustments, last year, we had a very -- a tariff that was pushed by financial components. You will remember that we had a thermal electric generation the year before the last, which impacted the revenue of distribution companies last year. This didn't happen this year. So we had a reduction in the tariff, an apparent reduction in the tariff relative to a decrease of these financial components. And as mentioned before, although we increased by 17.2% the TUSD, the sales of free customer TUSD was -- showed an increase of 47.7% in the TUSD free customer of BRL99 million.

We had a decrease of 5.9% in the energy cost and charges, close to BRL100 million. And that is composed of two parts, reduction in the cost of Itaipu energy -- and the foreign exchange issue comes to play here -- and the reduction of amortization of ESS, the volumes of thermoelectric power last year.

Then you have the end of Parcel A 2001 amortization. This is just for comparison sake. Last year, we completed this amortization. And this year, we don't have it, which gives an

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impression of a greater reduction. Finally. And this was part of our business plan, purchased energy for EPASA -- EPASA's the thermoelectric plant that we contracted since January. And the power volume is replacing the delay in the plant. It's incorporated here. And we had some days of delay in Foz do Chapeco HPP. So altogether BRL52 million, about BRL47 million for EPASA and BRL3 million for Foz do Chepeco.

Finally, we talk about an increase of 14% in operating costs and expenses, BRL43 million. First, the effect of the collective bargaining agreement amounting to BRL7 million, the payroll expenses in June of 2010. In addition, we have two increases, which are due to business expansion. We increased our activities of CPFL Atende, the full service, right. We will be inaugurating our RR Aguarra [ph] facility. It's already operational. We had a position in Oreans [ph]. And now we're expanding our RR Aguarra site and the CPFL Total in terms of billing. We more than doubled the structure. And we are now the largest collector of payment for power in our concession area.

And finally, CPFL Servicos or Services, it is responsible for the -- for connecting our EPASA plant. It will be completed around the month of November, beginning of December. So we had intense activities. These are non-recurring accounting and adjustments because they're due to a business expansion. Altogether, they amounted to BRL10 million. And we had maintenance and assets disposal, negative result of BRL9 million.

Excluding the non-recurring effects in blue, the recurring effect is a P/M/S/O growth which is compared -- a P/M/S/O adjustment of plus 7.8% compared to an IGP-M of 7.8%, totally predictable after my explanations.

We now move to page seven, where we give you details on the net income. We'll start with an increase in the recurring EBITDA that we have just detailed of 7.5%. We had a decrease of 23.1% in the financial income or interest income, BRL16 million. It's as a result of two factors, an increase of 45.2% in financial revenues. CDI is paying more. Selic and CDI are higher than in the same period of last year and a higher volume of cash, which has dictated an increase in the interest income. On the other hand, we had an increase of BRL55 million or 35.2% in financial expenses, mainly due to increase of debt and financial indicators.

We see the Selic increasing from 2.19% in the Third Quarter of 2009 to 2.62% in the Third Quarter of this year. Then we have the increase of 1.9% in depreciation and amortization.

The private pension fund, in the four quarters, we're going to have this positive effect of BRL23 million. We have explained in the last two earnings calls about that. And because of the increase in the EBITDA, we had an increase in income tax of BRL24 million. With all that, we have a recurring net income, as you can see on the slide, BRL401 million and net income reported BRL388 million.

Now on slide eight, I'd like to give you a little bit of our expectations for the future. At the end of the year, we're preparing for the entering. We're going to have the third Reserve Energy Auction and the A-5 Auction on the Fourth Quarter of 2010. My impression is that we're going to have these four projects as part of this auction. They're in final stages of

licensing the system. And we're going to have new opportunities for hydroelectric share, amounted to 2,672 megawatts. I'd like to highlight the Teles Pires plant with 1,820 megawatts, an exceptional plant. We're involved in the study of this plant.

In the third Reserve Energy Auction, which I mentioned in the beginning, we had the sales of Biomass Source, 70 megawatts of installed capacity in CPFL Bio Pedra for the price of BRL145.48 per megawatt hour. This point, to remind you, we'll have a commercial startup in the Second Quarter of 2010.

On your right, we also participate in the Wind Source. We were able to sell just one of our projects, Campos dos Ventos II, installed capacity of 30 megawatts. We sold at the highest price BRL126.19 per megawatt hour. And this wind farm sits right next to our other seven wind farms being built in Rio Grande do Norte. And this one will have a commercial startup in the Third Quarter of 2013.

On page nine, I think it is important to bring you a little bit of our future prospects, the result of a startup of a number of projects. Some spend in the case of Madera [ph] are quite advanced. So we expect in red it is the demand for the system projected by the system. As you can see it is showing an upward trend. And in blue, we have the supply supplying the demand. And green is what is surplus. So the system operating like this for the next five years is doing quite well.

The top part, that is what is given by ONS. We see a drop in the price of megawatt hour to BRL99 per megawatt hour. A lot of it depends on the climate conditions. But structurally speaking, the system is very well behaved. And the moment the industry is expanding. This is an important opportunity to buy energy at a cheaper price. So we don't envisage any kind of surprise as far as energy supplies go for the future. And the prices reflect that impression.

Now moving to page 10, we show the schedule. That's an important process. It has a clear impact on groups related to distribution, such as we are. And that's the schedule of the process and the approval established methodologies and criteria for the third tariff review cycle that will begin next year in March, more specifically with Gurell's [ph] process. This process was opened on September 10 last year, as said of technical nodes, very expensive, close to 400 pages, subject to our attention.

And this process follows with two important dates in the month of December, December 2nd, a face-to-face session. And also our agents, who will be there placing our ideas publicly. And we also have another period that closes on December 10, where we follow or we submit our contribution. So that proposal submitted by the agency is submitted by a debate on December 2, face to face. And input has to be delivered up to December 10th.

On December 10, we believe that we will be -- well, up to February or late February, the agency has some time to disclose the final result of the hearing so that in March we can put the methodology into practice for Gurell. And there's several other companies that as of next year -- and we will highlight ElectroPaulo [ph], ElectroPiratininga [ph]. And Bundedentes [ph]. All these companies will have the methodology applied.

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Naturally and clearly, there is a surprise in the sector when it comes more specifically to the level proposed, a regulatory walk. It is a relevant topic. And maybe that's what comes to the regulatory EBITDA. So there is a set of opinions. The Company is directly involved via Abratti [ph] more specifically. They have interacted with the agency trying to show, to manifest the surprise. The capital markets would work with 8% to 9%, on average 8.4%. The proposal was 7.15%. And I believe that undoubtedly, the sensitivity of the agency should set something to be reasonable to sustain the sector.

Obviously, we have a proposal or the proposal introduced by the agency's not restricted to that, that our innovations that have been considered during debate interaction and obviously in the formulation of new proposals to be submitted, as I said before, by December 10. I must admit I have high or very positive expectations in the sense that the argument submitted may improve the proposal set by the agency.

Now moving to page 11, just some details or a breakdown of our Group's CapEx and some operating results. We've already invested for distribution BRL801 million this year alone. That's the final phase to compose or to have the base of access for Piratininga. So we have some growth compared to last year by 54% and absolutely in line if we compare quarter by quarter as we plan BRL1.57 billion for the year. In other words, we have already invested 76% this year of what we mentioned before.

Obviously, this CapEx is oriented to support in a way the growth in the number of consumers. The growth in the sales volume has been very strong, as I said before. And naturally also addressing the concerns of the agency vis-a-vis service quality. It is duration and frequency of our interruptions, lower than the Brazilian average and continuing decreasing constantly over time. But naturally, as a Group, we'll have six interruptions per year, 6.05 or average duration slightly lower than eight hours per year. One year, we have about 8,700 hours per year. So that's a value that has deemed to be very reliable, highly reliable.

So I'll also give an example of the kind of investment we make. We're automating our network. We're the Company that has a distribution, the most fully automated distribution network. And we prioritize automation. Therefore, we're implementing more than 1,600 keys this year and about 2,400 for next year.

These keys are amounting to -- well, over these two years, BRL50 million. And they're important to operate the system, to provide protection. But on the other hand, key automation or switching also allows us to reduce operating expenses, therefore reducing cost with displacement of teams, improving quality. And therefore leading to higher flexible operations and as a result reduce the duration of interruptions. So these are switches and keys electric assets that are incorporated to the net payment base. So this investment has further remuneration.

Now moving to generation, here we have some highlights, just a snapshot or a photo of Baldin plan, started up with 45 megawatts, our first biomass plant, allowed us to generate more than 400 direct and indirect jobs during construction. And it took about one year and nine months to be built and to start up.

Right after that, we have a view of our -- on page 13, our Foz do Chapeco plant. This plant -- well, the installed power per area or reservoir is 10.7 megawatts per flooded square kilometer, five times more efficient than the national average. It's an extraordinary plant. You can see the spillway of the plant. It's the second largest in Brazil, second to Tokolene [ph] alone in terms of water passing by. It allows us to add 436 megawatts of power to the Group, placing us as at the startup of this plant as the third largest private generation Company in Brazil.

And I believe a relevant fact is that it accounts for 25% of energy consumption in the state of Santa Catarina. So it's very, very significant. And it's the first hydropower plant in Brazil to use asphalt nucleus to seal the dam. This dam therefore in the future -- well, it has a system -- transportation system over it. And it connects Santa Catarina state with Rio Grande do Sul.

We invested BRL1.3 billion or 51%. And they will allow the Company when it comes to this stake to have an additional revenue close to BRL290 million per year. Considering the efficiency of our operations, around 80%, 85% with the EBITDA margin, you can come to an estimate of the impact on CPFL generation and CPFL Group as a whole.

On page 14, we just report another venture to be concluded this year, EPASA TPP. In this case, we already have 51% stake and the whole energy volume purchase in A-3 auctions. And our stake will add an annual revenue of BRL85 million fixed, naturally, because that's a TPP. And it can be ordered. Well, we can increase the revenue. But naturally, you have to consider transfer in terms of fuel cost. So that's the fixed amount coming from BRL310 million invested, out of which in September we had already used 84%. And now I'll show you that in October we had already concluded 89%. And we are about to conclude. Our best estimate is to have it concluded and up and running in the first days of December.

So this land was a record time in less than one year. For about a year to be built, that's when we began to build in -- that was in October 2009. As you can see, we are moving forward, already commissioning all the machinery. And the challenge in this plant is have it connected to the shet [ph] network. And that's where we devote our effort, our activity. And we account on CPFL Services to make this venture feasible.

On the right, we can see biomass and Bioformosa plant. Total investment is BRL117 million. We have already invested BRL50 million. It is in Rio Grande do Norte state. And it had already 55% of the works concluded by December. In October, we already have 62% of the plant. And we're about -- we're in the final stage and early next year. It will be up and running by the end of the First Quarter, first half of the year, or beginning of the quarter.

Now on page 15, our eight wind parks or farms, the seven first, Santa Clara. We began the construction work in August last year. We have already 9% of the project concluded by September. This project might add BRL100 million as revenue and, as the only farm, Ventos II at additional revenue. More specifically, for the wind farms in Santa Clara, startup in the Third Quarter of 2012, for Campos dos Ventos, Second Quarter of 2013. So we already have them under construction.



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Now on page 16, just a report, naturally we are diversifying our matrix. And here you can see the initiatives for biomass, wind power. In orange, you can see the conclusion of the building works and at the bottom have 177 additional megawatts as building works in addition to what has already been concluded.

And as a highlight is at the initial megawatts, we added 659 megawatts in 2010. We only have EPASA down here. And by year end, we'll be close to 240 megawatts. At the top with those projects, we'll reach 2,800 megawatts. And then we'll become the second largest private company for electric generation.

Concluding this presentation on page 17, just the debt profile, it increases slightly as a result of the funds to conclude these plants. Adjusted net debt is BRL7.2 billion. EBITDA ratio here -- but please note that we have all the investments for Balda, EPASA. And at the end the Foz do Chapeco. But still generation net -- that's the net cash.

If we only consider then their startup, our debt-EBITDA ratio would be 1.87 normal. So we have a real increase in our cost, financial cost, naturally resulting from the main index CDI. And this has been broken down before when we address financial expenses.

And you can see the present 7.45%. And this is just once again our better rating for CPFL Energia and Paulista by Fitch Rating. So no significant changes or no changes at all in the main debt indexes.

On page 18, our stock performance, it has been highlighted before. And now we had 18% increase compared to 5% and 1% for Ibovespa. So that's compared to Bovespa. Now compared to Dow Jones, Dow Jones goes down 1% over the period, resilient tightens [ph] correcting 1%, Dow Jones go up 3%. And CPFL goes up 23%.

Over the period, we had an increase in the average volume on a quarter-by-quarter basis, 31%. And as I said before, Institutional Investor and Capital Aberto Magazine awarded us.

On the last page, finally just showing the other awards, best companies to work at, we ranked 10th in this ranking. And we were fighting for some time to be acknowledged by ABRASCA. For the first time ever, we were acknowledged as the best report, the best annual report. And also, an interesting award, the fourth intangible award in Brazil by Consumidor Moderno Magazine. And once again, we were the best in terms of intangible assets for utilities and also corporate governance. And it also includes the list of the 1,000 best companies in Brazil according to Valor Economico Magazine.

So basically, these are my remarks for the Third Quarter. And with our officers, we are all available to take your questions. Thank you.

## Questions And Answers

### Operator

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Ladies and gentlemen, we are starting now the Q&A session. (Operator Instructions) Our first question comes from Vinicius Canheu from Credit Suisse.

**Q - Vinicius Canheu {BIO 6300903 <GO>}**

Good morning, Wilson. I have two questions on two different topics that you address in your presentation. First question has to do with distribution. We are in a regulatory transition period now with a new proposal for the cycle. I'd like to hear from you to what extent it affects the Company's appetite for acquisitions now. The process has not been defined yet. So how does CPFL see distribution right now?

And the second part of the question is more focused on generation. During auctions, we see an expectation on the rate of return for projects, big projects. At least in our opinion, this is very low. And sometimes, it's even questionable. And what we see CPFL doing is to go for smaller projects with better rates. What about the future years and auctions? What is the composition when it comes to the rate of return for big projects? Is it about time to lower the hurdle rate of the Company and get into a large project? Or will the Company stick to the same movement, in other words, focusing on smaller projects but with smaller rates?

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

Thank you for the question, Vinicius. When it comes to distribution, I understand the composition. Well, you want to know to what extent it affects the Company in terms of future ambition, right? I understand we define our strategy for distribution based on some pillars. We have about 60%. We keep on growing in generation. So obviously, our interest is the main thing in this structure. In other words, we are keeping our eyes open to movements of consolidation, especially because, in my opinion, in order to improve our service quality and our tariff, consolidation is relevant. With our gains of scale, these ambitions -- well, they are legitimate by the society or by the government. They will not be feasible.

Right now, considering the lack of definition, well, there is a proposal by the agency on the negotiation table. Agents provided their opinion. We believe some conditions should be higher. And we also believe there are some mistakes or some misunderstandings of a more aggressive position when it comes to revenue sharing. But they should all be discussed.

And I think it takes the Company, the society, the regulating bodies so we can have a sustainable process over time. And I believe we'll reach a point or maybe we can come to a common ground vis-a-vis the arguments that can be proposed. I would tell you that we are keeping our eyes open when it comes to consolidation opportunities. They have already been shared with you in terms of the Company's preferences, in terms of region, sizes. I'm not going to get into details right now. They have been mentioned before.

But the challenge right now, obviously, is if these processes occur or when opportunities come up, we have to work on pricing. Please know that we have the benefit of synergies. In a way, they can mitigate at least part of the risk, undoubtedly. So I want to stress that

this group is highly committed with this kind of activity in Brazil. And we'll keep on being attentive to opportunities. And we won't change our strategy.

We believe that on behalf of regulating bodies, they'll keep on being reasonable for the final platform. And certainly, they understand the importance of constant and stable roles. And they have plenty of conditions to assess the sector sustainability.

Now for generation, I agree with you. I'm not -- I won't say that we are trying to replace it. But our ambition when it comes to volume tells that it is not possible to consider 5,000 megawatts in 2014 just by focusing on small projects, 40 or 50 megawatts for wind projects underway right now or biomass projects. But undoubtedly, because we have not identified big opportunities right now, we do have some competitive advantages. So we'll be sharing them with you on a quarterly basis, what the opportunities are.

We have several in our pipeline we haven't disclosed in the Third Quarter. But this is more related to schedules. More specifically for biomass, we're considering better conditions to generate earnings in several regions. But we'll be sharing this with you in the near future. So we keep on being ambitious. We want to have a platform, a renewable platform, a big platform, because we do have comparative advantages.

Now, Vinicius, we should also admit -- well, we already had three projects, big generation projects, two from Adata [ph] and one for Bella Monte. And the three projects, we have a lower ambition when it comes to rates of return. There is a set of elements that determine this lower rate.

First, the cost of capital of the generation sector went down. You report that in your own reports, right? Now we, in terms of criteria, to be involved in projects, for each one of the projects, we included this cost of capital seen by the market. And we added to it the spread, a risk spread of what we envisage to -- well, based on our experience, we've just concluded the sixth plant in five years.

So we do have some experience to say, well, in the past, we had a delay in financing 45 days, for instance, for that plant compared to the original schedule. And it had the chance to be concluded two months before. And we were affected by a strike in the Ministry of Environment. Well, you're all familiar with the data disclosed during CPFL Day.

So this kind of experience has to be included in a way in our vision for rates of return. And undoubtedly, it has been higher than the rate of some competitors, who were more strongly dedicated to it. There were three big projects. So we also have to come to a common ground for these three projects. I've just shared with you that by year end, we're about to have five projects. From the moment you had more opportunity, more opportunities that can make us or potential investors aware, I believe these rates may be more compatible with a risk involved in a project like this.

Now on the other hand, Vinicius, rates as a whole go down, be because projects are better or they already have the environmental licensing, which is different from our experience with our six projects or just because now we do have financial conditions

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provided by BNDES. Some are better compared to what we had in the past. Projects have 70% to 75% of financing. What we had more in our Group was for Foz do Chapeco, the first project involved in PAC [ph] close to 70%. And the others were around 40% and 50%.

So this does have an impact undoubtedly on the ambition by (inaudible) for risk. My expectation is that the three projects were the fruit of fierce competition or the government's will to set prices. It will have potential players. But in order to make it stable or to have more groups involved, it takes more projects. And it also takes more real or actual rates. So I believe we'll have a normalized ambition in future years.

## Operator

Our next question comes from Ms. Tatiana Reis from Citigroup.

## Q - Tatiana Reis

Good morning, to all. Thank you for the information. My questions complement the previous one. You mentioned that in the CPFL Day that you were always with your ears and eyes open to opportunities. Can we expect any announcements by the end of the year? Or are you more focused on working on the content to the public hearing at any hour in December?

Finally, you talked about the regulatory whack. What other points [ph] of the proposal by ANEEL concerns you at the moment? Thank you.

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

Undoubtedly, we are very focused on the public hearing. Even last Friday, I was talking with them in a platform of eight distribution companies. This is the most relevant for us [ph]. However, we do not neglect the others prospecting, et cetera. But the focus of the Company has been on interacting with the regulatory agency in this review process for the moment.

The main impact coming from the proposal comes from the regulatory whack. There's a removal of the regulatory risk. We think it is inadequate. At least half of the reduction effect that you analysts have tried to include is derived from the regulatory whack. It's not the only ones, though. We understand that there are proposals related to factor X, which are different than the concession contracts. The concession agreement talks about sharing improvement of productivity past. It does not set for that you can dictate X empty [ph] this factor X. So the factor X is somewhat concerning because we carry all the market risks. If there is a market decrease, the proposal of the agency does not take into account factor X.

Two values can be derived from factor X, notably for concession companies in the northeast, which are growing more. And they'll be very big comparing with AGBM [ph]. And this can cause a serious problem in the balance of these concessions in the future. There's also a theme related to base of regulatory end-wall [ph] payments. It's also

another mathematical formula in comparing the primary costs approved by the agency themselves in second cycle of review, which was completed two years ago.

They're considering some kind of simplification that can impact the concessioners. So we're debating that. We are exchanging ideas, meeting so that we can propose to the agency some improvements and clarify a number of issues, which are not totally clear to us.

## Operator

Our next question comes from Mariana Coehlo from Itau Securities.

### Q - Marcos Severine {BIO 3322666 <GO>}

Actually, it's Marcos Severine from Itau BBA. Two questions, if you could talk about expansion and generation, it's a question related to wind, wind farms, wind projects. You have 218 megawatts that you have sold in the auctions. Do you intend to increase that for coming years? What can we expect in terms of projects? Will it reach one gigawatt?

And what about the -- your effort on renewable sources, wind farms and biomass? Where do you think you're going to grow and grow faster and with a more attractive return to the Company? Thank you.

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

Thank you for the question, Marcos. Well, indeed, we are focused on this area. And I believe that during CPFL Day, I shared something like adding around one gigawatt in the next three to four years.

We understand that there is some room. It really depends more on us for biomass. We have 235, 240 megawatts in construction. We have a pipeline to extend that to 500 in the next month. Now in wind, we see that business very positively. We have rights on some remaining farms that participated in the last auction. But which were not winners.

In wind, the price determines the ambition of -- we'll still need some regulatory actions. But we could consider wind farm for the free market because of the price that it reached. So the ambition is that, for the next years, we will expand that platform to about one giga in the renewable sources piece.

We are in very good shapes depending almost exclusively on us to grow the biomass power in wind. We have some reserves because, like I said, we have rights over some farms and alternatives here, one in the free market. Well, it really depends on some regulations or alternatively our new auctions. I think that in this front we can advance.

In the most recent auction, we ended up competing with just one farm. Actually, we had included two. But it was almost like a draw for one of the farms. There were two offered at the same price, which only one of them came into compose the demand. But we

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could've won with both at the highest price of the auction. So we are somewhat reserved in this area. And we have two 800. And we can add another gig. We can complement that demand with a hydraulic project. And that's why we are focused on some projects that (inaudible) will be started to be bid in the beginning of next year.

**Q - Marcos Severine** {BIO 3322666 <GO>}

A quick follow up, we saw a marked drop in the CapEx of wind projects. In the past auction, a 4.3, 4.4 per megawatt. And now there was a marked drop. Do you believe that there is room for additional drops, particularly foreign exchange bearing a role here? Or do you think we have reached a bottom threshold?

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

It seems that we have reached a bottom threshold. Most investors have given preference to the acquisition of turbines in the Brazilian market because now we have a set of new plants being installed in Brazil. And acquiring turbines manufactured in Brazil has an additional advantage, which is financing, financing from BNDES, the Brazilian Development Bank. So this is more related to the fact that these few plants -- I think there are about four in Brazil. And they were installed in the past two to three years.

In that competing, the competition is not only by investors. But it's of investors and manufacturers. So we reached a price, which on an international comparison is leveled with the international prices. I do not believe in a greater reduction here. And I do think it's difficult.

**Q - Marcos Severine** {BIO 3322666 <GO>}

Thank you. Thank you, Wilson.

**Operator**

We are closing the Q&A session. I would like to give the floor to Mr. Wilson Ferreira Junior for his final remarks.

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

Just complementing, I'd like to complement because I forgot to tell Marcos it was not just the reduction in the cost of the turbines but also suppliers reduce the cost of OEM. And that is what led to greater financing conditions, lower prices for the turbines. And lower OEM prices. And that led to a reduction in the final price. If we think about the first and the second auction of wind power, it was about 148 down to 136 and 125 in the second auction. Okay? All right.

My final remarks, this has been an easy quarter. It was comfortable, not a lot of variation in the results. Results were mobilized, particularly by sales. All prospects are that we will continue doing well. We have a new President, who fortunately has a lot of experience in the energy sector, particularly in electricity. So was responsible for the regulatory model that we currently have and which is very successful, either in generation or in distribution.

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And with that, I want to show you that I am confident in the future on the market side, both on the market side and on the regulatory side. I think that we had a great achievement in infrastructure in the recent past. We had an important coverage by BNDES in the financial system to finance the companies that are in very good shape. The challenges when things are doing well is keeping them well and sustainable. This requires care and attention from each and every one of us.

And for CPFL, I'd like to state that we are confident. We didn't talk a lot about these initiatives related to service. Given the vast experience that the Company has accumulated in building substations, connections, transmission lines. And some of them serving the projects of -- that the Company is leading in the area of generation. And I mean biomass, thermoelectric. And more recently wind, where our service area will also be responsible.

In the next -- in the coming earnings conference call, I would like to give you more on that. And at a moment where consolidations are possible, the Company is attentive to this versus always with a clear vision. Like to summarize my last remark saying that it's a very platform that bears a lot of responsibility. And this is in the hands of the controlling shareholders of the Company, traditional Brazilian groups, Camargo Correa, Previ. There are the four pension funds, Gabbadetbonair [ph].

And there is an important driver at our top management of creating value for any project, Greenfield, renewables, large power plants, any acquisition. We always have a vision to create sustainable value. All our systems to evaluate projects, whatever their size, incorporate that vision so that we can ensure value creation in a sustainable fashion to all our shareholders.

This is a permanent commitment of ours. And I would like to highlight that we always bear it in mind, all but not buying market share. We're buying prospects to create value over time in a sustainable fashion.

Thank you, very much for your attention. And have a great attention.

## Operator

That concludes the CPFL Energia audio conference for today. Thank you, very much for your attention. Have a good day.

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