

Q3 2020 Earnings Call

Company Participants

- Eduardo Sattamini, Chief Executive and Investor Relations Officer
- Marcelo Malta, Chief Financial Officer
- Unidentified Speaker

Other Participants

- Carolina Carneiro, Analyst
- Francisco Miranda, Analyst
- Marcelo Sa, Analyst

Presentation

Operator

(starts abruptly) for questions and answers, either by phone or chat. This presentation followed by the slides will be simultaneously transmitted via the Internet at www.engie.com.br-investors. A slide presentation and the company's third quarter '20 earnings release are also available on the website.

Before proceeding, I would like to clarify that all statements made during this video conference, regarding business outlook of the company should be treated, as forecast depending on the country's macroeconomic conditions, on the performance and the regulation of the electric sector, among other variables, they are subject to changes.

Here we have Eduardo Sattamini, the CEO and IRO; Marcelo Malta, the CFO and Marcio Daian Neves, Manager of Gralha Azul Transmission project. And so in this there will be a question-and-answer session, both by chat box and over the phone. We remind journalists who wish to ask questions that they can do so by e-mail, sending them to the company press office.

Unidentified Speaker

Thank you everybody. It is a pleasure to be here through a live, and well the intention, of course was to be -- to get there and to be able to see all of you and to be closer. We're going to go on to the results and we'll begin with the presentation on slide number 5, where we speak about the main financial and operational indexes And later on, Marcelo will give you a more detailed presentation.

This quarter was characterized by the net operating rising significant one, as you can see 27.8% increase. And the main thing that we had was a contribution CapEx was increased in

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transmission, and ended up giving us good operational results, being \$720 million approximately. This is the main factor. We also had an event that hadn't happened for many years. We exported to Argentina, and this was very important for us, giving us a somewhat higher result.

We go on to EBITDA, where we had a drop, greatly due to the register of the warranties, that was activated against Pampa Sul, of BRL120 million. Had we not had this in 2019 we would have had an increase of EBITDA of BRL14 [ph] and a significant increase of EBITDA. And we had another impactful event in Pampa, as well of approximately \$220 million, but once again, not a considerable impact on our financial situation. Most of the remuneration are up to date and the impact, of course is in reais and it only had an impact on our finances for this quarter.

We have had an improvement in revenues of 4.1% of BRL200 million. And because of what is happening in Pampa Sul, we will be evaluating the situation in the coming months. Now this is why we had that result of 34%, and the effective result, of course was much lower.

Now these are the main financial highlights and we now go on to Slide number 7 -- Slide number 6, excuse me. In Slide number 6, we continue on with our initiative for COVID-19 with a special highlight for the partnership, we did with the National Development Bank to service the public sector hospitals, in the State of Parana, with a donation of BRL500,000.

Once again, destined to all of these hospitals in Parana, where we began with our programs at the beginning of March, and where we would like to speak about those strategy for the operation of this project. Another highlight was the settlement of the public offering of Pampa Sur, the first issue of debentures for a total of BRL340 million. We are now analyzing this second debenture issue, amounting to BRL582 million, which will be extend to reimbursing the costs of the installing of Pampa Sul TPP.

And of course, the second issue should be able to balance out the situation of capital distribution. Another highlight is the partnership with -- well a loan from Itau Bank for Novo Estado Participacoes S.A. NEP and also Estado Transmissora de Energia of BRL500 million expected for a projects in Para and Tocantins.

We go on to Slide number 7, where we see the sanctioning on September 8, 2020 of a law recognizing the right to compensation of hydroelectric generators for the financial fallout from exogenous factors. And we are still awaiting the amounts that will be disclosed by Aneel and all of this, of course, should generate new values and the compensations will be done going forward.

We still do not feel you that this has had a good solution, and once this compensation comes [ph] will enable us to have a clear vision of what will be happening here and ensuing this, we will be able to work on our calculation made by the Electrical Trade Board and we hope to have the possibility of recording this in the first quarter 2021.

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Yeah, in the State of Parana, what we have had is a partial regulation for the Gralha Azul Transmission System and now again, we have received an injunction order on October 15 in the form of action against the process that we have ongoing in Gralha Azul, in Ponta Grossa and Ivaipora. Once again, we have carefully surveyed this implementation. We are working with a new technology that we have already put in place and the impact on the results of this projects have been reduced, impacting only 4% or 2% of the environment, or areas and we are trying to overturn this injunction to convince the court that these environmental licenses are adequate.

We hope to be able to get over this injunction order and submit this for review in the State of Parana. And we should be able to obtain this in the course of Porto Alegre in Rio Grande do Sul. And once again, we're doing, whatever we can to keep within our allocated deadlines.

ENGIE launched the Energy Place, its digital relationship and sales platform for clients and managers in the free energy market. This is the first platform that will simplify the management of contracts and servicing with ENGIE's clients and partners. Now this is a product, where you can enter the platform, see the price and everything else, with an automatic registration at the Electrical Trade Board, the CIEE [ph]. And eventually we will have more products to navigate to on this platform. Once again, this is a digital marketplace for the entire country and a very significant landmark.

We're now going to go on to Slide number 8, referring to the most recent highlights. For the 11 time the company has been awarded the Transparency Trophy organized by Anefac, Fipecafi and Serasa Experian. Now this is one of the most important trophies in our segment in Brazil. The second award refers to the energy sector champion in Epoca Negocios 360 degrees, once again in the field of energy for 2020.

We go on to the next Slide number 10, showing you our shareholding structure. I think that most of you are familiar with this and we remind you of the acquisitions in the next slide, and alteration that we have in the amount of energy that has been generated in each of our different businesses. This is the energy infrastructure that we have. And once again, very few alterations here. You can observe our growth in the energy operation and the very clear leadership that we hold in the market. There is significant market share in most of our operations and once again we continue to grow our market share.

In Slide number 13, we speak about the TAG Company, that we have the natural gas market. And when it comes to transmission, we have a significant new project, that is foreseen for 2020. And we are working of course with several interconnection points that are represented here in the Slide, if you can see. For this transmission of natural gas.

And here in distributed solar generation, we're trying to, of course, always come closer to the final consumer. We worked with some solar installations that we ourselves operate and we are working on this business model with 9 megawatts of installed capacity. And of course, this is a growing activity. And all of this has been set forth to create a new business model, in which we are interacting with our clients to have a very long lasting relationship with them.

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We go on to Slide number 17, the energy market in Brazil. We are at the moment -- we have the settlement of price differences because of the hydrology situation. We are, as you can see to the left, we are looking at the theoretical supply versus demand. Of course there have been some structural problems and what we are showing you here is not only our commercial capacity, but also the reduction that we have had because of the generation scaling factor. And there is excess of supply, and what you see is the commercial capacity that we would have and once again, we seem to have a greater supply than what the market needs at present.

We go on to Slide number 19, to speak about our sales and energy trading strategy and show you a very diversified portfolio. In Slide number 20, you can see the diversification that we have been able to achieve among the free customers portfolio. And all of this based on the consumption of our customers. And as you can see our sales volume, this has enabled us to go through the period of pandemic without significant impacts. And with an evolution of free customers.

And as you can see in the next slide, the significant growth that we have had because of our commercial strategy and the importance that we have, in terms of the market, in general.

We go on to Slide 21, once again, without great alterations. Once again, speaking about the uncontracted energy as of September 30, 2020 and our marketing strategy, and how we are able to service our customers. And of course, always facing the great price variation that we have year-after-year.

In the next slide, which is Slide number 22, we're going to look at our energy balance that we have. This is a very important tool and we are presenting to you this quarter what would be our average contracting period. Now if we bring together all of our capacity and the way this is based on the years of contracting. We have approximately 18 years of contracting at the Trade Board with an average term of approximately 13 years, I believe that's exactly, the figure 13 years. And this shows the great resilience that we have on the guarantees that we will be able to continue on with this diversified contracting. To speak about expansion we have Chesf [ph] which is our market regulation manager and we speak about our project, JIrau HPP. And as you can see the situation is quite calm and this project will continue to proceed with the work of our company and here they're simply referring to all of the data that is important for this.

We go on to Slide number 26. Our Campo Largo Wind Complex project Phase II, where we have progressed to approximately 40% of the work so far and what we can foresee now is a commissioning of this project in the month of November. We will have the first commercial operation for the fourth quarter of 2020 and the average date for the operation of generators will be only in February. So November, January -- sorry November, December, January and February, it will be in operation, but the full operation will only take place in the second quarter of 2021. We had a slight delay and we mentioned this in the call the last quarter, but once again, we are trying to make up with this delay with greater activity, in terms of the assembly of all of this.

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We will now speak about the transmission line under construction, the Gralha Azul Transmission System and I will give the floor to speak about this, and then I will return to continue to speak about other projects.

Good morning, everybody. The Gralha Azul Transmission project is doing very well. Of course, we have faced some difficulties, as mentioned by Sattamini at the beginning of November. We had 77% of uptime, which is a relevant number, and we're one step ahead, in terms of what had been foreseen. We should conclude the fourth supply of these contracts until the end of the year. This is a critical step and despite the pandemic, we have been able to anticipate the process vis-a-vis what had been planned. We have 10 substations, 5 new substations and 5 expansions, all following a very interesting pace.

We are now going into the mechanical assembly to energize the first part of the sales, until May of 2021, which means that at the beginning of September, we can have a complete commercial operation. The project is made up of 15 transmission lines, at a very high rate of progress. We did have an injunction that brought these activities to a standstill. More specifically, the four lines of 500 kV and to avoid impacts in this project, we were able to relocate all of our teams to other work fronts. So that we can evolve and anticipate the other front to then return to the 525 kV lines and we're of course taking all possible measures to be able to overcome this injunction to avoid impacts on the commercial operation foreseen for September 2021.

We have developed several projects jointly with the communities. From the environmental viewpoint, there are 27 municipalities. There are several projects associated to fighting the pandemic. And as was mentioned, the partnership with the BNDES, we're also developing projects to ensure that we will have longevity of (inaudible) trees and to the preservation of the environment. And as was mentioned, the suppression of vegetation has been extremely low, thanks to the adoption of measures such as drones for the towers.

Now this project, of course has had some hindrance, but it should come into operation in September of 2021. And once again, we are ahead of our contractual schedule. Should you have any questions, I can respond to them later.

Thank you. And perhaps, I can add some significant information. We have a proposal for the compensation of araucarias trees. For each tree, that is extracted in the process of reforestation, we will plant three additional trees and this is an idea that came up. And to give you an idea, last week, we planted 2,000 araucarias trees on a single day. And the impact of this is equivalent to more than one-third of the araucarias trees, that we have to add through the project.

And of course, the environmental impact of this project is minor when compared to the benefit that it will bring in terms of supplying energy to the State of Parana and the energy that is generated in Ivaipora in the state itself will flow within the state, without having to be transmitted through Sao Paulo and then return to Parana. This is a project of supreme importance for the state therefore and in general.

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The next project that we would like to refer to Novo Estado Transmissora de Energia in the State of Para and Tocantins. We have contract for the financing with the BNDES and the Bank of Amazon S.A for the installation of the project. We have already set up the transmission lines, the towers and we have begun the imported for the expansion of the existing substation. The forecast remains the same, December 2021. We have had very few problems, and of course, the CapEx has been for steam, as part of our investments in the coming years. Now when it comes to projects under development, we would like to welcome the renewable energy on several fronts. As you can see, we're developing new plants, both solar and photovoltaic, most of which are concentrated in the state by Bahia and in the North of the country.

We're still analyzing, the Sto Agostino project in Rio Grande Sul market with an installed capacity of 800 megawatt. We should begin very soon as soon as we are able to fully negotiate conditions with the vendors.

I would now like to give the floor to our CFO, who will speak about the financial performance for this quarter. You have the floor, Mr. Malta. Please mute Marcelo Malta.

Marcelo Malta {BIO 21276941 <GO>}

Thank you. Sattamini and a good day to all of you. On slide number 31, we can show the evolution of our net operating revenue for the quarter. As has already been mentioned, we have had a variation of almost 29% between quarters. Once again as mentioned by Sattamini due to the recognition of revenues and the transmission assets because of the class-action in EBITDA.

We had a reduction of 9.4% due to the recognition of that recurring effect that is caused by the indemnification that we had in the third quarter of 2018 and net income besides this impact of the indemnification and as commented by Sattamini an important impact in the monetary restatement and some of the concessions that we need to pay.

On slide number 32 and the top graph, we see the distribution of effects on the net operating revenue of the variations between quarters and years which normally occur because of non-recurring effects and also due to the coming into operation of some assets. Now this behavior can also be seen in the evolution of EBITDA and net revenue in the graph below the positive effect of the transmission assets of BRL718 million and all of this will increase as we are able to use our CapEx in these projects.

And here, we see the increase in the average sales price with the positive effect on the CCEE and we exported energy to Energia [ph] that we carried out this quarter. We would like to underscore that the increase of the average price was of approximately 3.8%. As a counterpart we also had a reduction in the volume of energy of 4%. I mean due to the reduction of consumption. But again because of the impacts of the pandemic in Slide number 33, the results of our equity income and the results of TAG and our share on this profit of BRL302 million with a positive impact on our EBITDA.

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In Slide number 34, in the graph below, we see that non-recurring effects of the indemnification of BRL320 million. We had a positive impact, in terms of the TAG equity income, a reduction in the purchase of energy volumes in the portfolio, and in terms of revenue, a positive impact of the Electrical Trade Board and the export of energy to Argentina. We had a negative impact, due to the combination of a price increase and a reduction in the energy sold.

In Slide number 35, the change in our net income, as has already been mentioned, we have that impact of the injunction for Pampa Sul in the third quarter '18, leading to a negative variation. This has already been mentioned. Without this impact, we would have had an increase of EBITDA 14% and a significant impact in the variation on concessions to pay, which have significantly impacted our financial results.

We also had a reduction in the social charges. As you can see in Slide number 36, an increase in our return on equity, thanks to the reduction of revenues and an increase in equity. And in terms of return on invested capital, a reduction mainly due to the increase in capital invested during the quarter.

On Slide number 37 we show you the variation of our debt which is of approximately BRL3 million. Thanks to the financing of Campo Largo Gralha Azul and Novo Estado, our leverage ratios, as you can see our very well behaved. We can mention the prepayment of a debt about 3.5 times at that net debt and it is important to mention that this prepayment was done in more favorable conditions.

Because of the cost of the debt that we had with BNDES, and what we expect is to be able to incorporate this to ensure that we will have no debt, and this incorporation will of course lead to a reduction of S&T [ph] cost and simplify our company structure. We ended the quarter with a robust cash and our total debt EBITDA is of BRL11.2 million.

In slide number 38 the evolution of our net debt, the main impact has been the operational cash generation and the variation of working capital and the acquisition of TAG in the quarter.

In Slide number 39, we show you our debt profile and the maturity of our debt. We have a concentration in the coming 12 months. And this results from the maturity of some loans, and to a lower degree the maturity and amortization of some contracts with BNDES. In 2022 we will have a reversal of that debt amortization and amortization of debt with the BNDES. We also have a significant concentration of the some of our debts with BNDES. We have (inaudible) when it comes to the breakdown of our debt.

What we did this quarter was to swap part of our debt to CDI. We assess this has been a significant opportunity offered by the market. We're referring to a debt of approximately BRL8 billion with maturity in '21-'22 with an average contracted rate of 9.2% and the nominal cost of the debt continues to be low for the quarter and stands at 6.8%.

In Slide number 40, we show you the evolution of our CapEx. In 2020, we highlight investments in Gralha Azul and Campo Largo and we will continue on with investments,

perhaps not in the same amount in Campo Largo and Novo Estado.

In Slide 41, we refer to our dividend policy. In the first quarter of 2020 we proposed a payout of 55%. This because of the uncertainties that we were faced with, at that moment and the impact of the pandemic. In the coming quarter we will decide which will be the payout for the year 2020. This is what I had to share with you. And once again, I am at your entire disposal to respond to your questions or doubts.

Questions And Answers

Operator

Ladies and gentlemen -- you can continue, ma'am. Thank you. So, we will now go on to the question-and-answer session. (Operator Instructions) The first question comes from Francisco from XP Investment.

Q - Francisco Miranda {BIO 17544160 <GO>}

Hey, good morning to all of you, and I have two questions. First of all congratulations for your results. And I would like to first ask about the payout of dividend. It was mentioned that in this type of scenario and in a scenario of uncertainty in the capital markets, there could be a reduction in your payout practice or perhaps even a reversion. A call back as this would have been more prudent. Well, now it seems that the scenario has improved.

The second question, if you could speak a bit more about your long-term strategy, if we keep in mind that approval of that law of compensation and it has several implications of course, especially when we speak about the cash conservation [ph], transportation and what will happen with the approval scenario in this format. And which will be the strategy of the company with network going forward? Thank you very much these are my questions.

A - Unidentified Speaker

Francisco. Thank you very much for your questions. The first question, it's easier to respond to. As has already been mentioned the payout reduction was meant to be a protective measure. You know that whenever we are able to redistribute the full percentage, at present we have quite robust cash. It will enable us to comply with our obligations and it is very possible that we will re-evaluate this, and have a more generous payout at the end of the year.

This decision should be made the coming year after the presentation of results for the year 2020. But of course there is a better outlook. We have seen that the economy has resumed. We have gone back to some of the consumption levels of electrical energy last year and if we continue to have the impact of the pandemic, we will have to reassess the payout for the first semester of the coming year.

Now the second question about our strategy. Of course there is the strategy that this law will be enacted and the only measure that we have is that we already have a company to

commercialize gas. Now preventatively we had already registered this and this trading company will operate pending the approval of the agency.

And this discussion can also be taken the regulatory sphere, a legal sphere so that within specific conditions companies will have to comply with certain rules on operating and other links of the chain. This is what we expect. Now this is an investment that we did in the field of gas transportation. It remains fully contracted and has spend years [ph] with an average contracting of 11 years of operation. And with a satisfactory churn, according to our expectations, because of the reduction of the interest rate, and some fiscal things because we were able to recover some credit.

So this operation continues to be a robust one and everything will depend on the release in the market. We do have some opportunities for expansion and this could lead to additional growth of our operation. Obviously we are still active, we will continue to be active. We are in the gas segment through transmission. We're here to stay and we of course would not like to have that many restrictions. But we do understand that there is a very dynamic gas market and this will be propitious for our business in general.

Q - Francisco Miranda {BIO 17544160 <GO>}

Excellent. That was very clear. If you allow me a follow on question for the gas. One of the gas pipelines comes from Manaus [ph] and the assets, supplies that belongs to Petro Brazil undergoing a phase of disinvestment. Now would you have ability to perhaps work with this gas pipeline. And I would like to gain a better understanding of your outlook if you would consider assessing this. So if there is still too much uncertainty, in terms of tariffs and rates and if you would not be willing to proceed. Once again, this is my last question. Thank you for taking them.

A - Eduardo Sattamini {BIO 16648085 <GO>}

This last question, we are going to look in the presentation on Slide number 45 and you can see that the gas pipeline in Manaus has been contracted from November 2030, which means that until 2030, our revenues are guaranteed with Petrobras for the full capacity of this gas pipeline. Now, if there is any availability of capacity, because of the deactivation or decommissioning of this gas pipeline of Petrobras and if there are other parties interested in operating and transporting through this gas pipeline, well the regulator will set forth the way in which this will be done.

And for us, this will be excellent yield and if there is the need for a specific investments in the gas pipeline for that, of course, we will consider this. I think it is normal, natural that this will happen, and we will be there, as the response of our operator to support the gas market and to support new entrants.

Q - Francisco Miranda {BIO 17544160 <GO>}

Thank you, Sattamini. Very clear. And thank you for taking my questions.

A - Eduardo Sattamini {BIO 16648085 <GO>}

Thank you, Francisco.

Operator

Our next question comes from Carolina Carneiro from Credit Suisse.

Q - Carolina Carneiro

Thank you for the call. And I have two questions relating to the commercialization. First of all, if you could speak a bit more about your new platform. Which is the idea, which is your target audience, so that we can better understand the strategy of the company? Are you going to work with this platform, based on the certain size of your customers, or are there specific customers, that will be serviced through this platform. As far as you could give us more color in terms of this platform and which is your strategy?

The second question I look at your balance, and it seems that sales had been concentrated more in the long-term going forward, compared to the balance of the second quarter. Therefore, if I could better understand the sales, because the scenario is somewhat different to the one that we had before, where the sales were concentrated more in the short term.

And if you could give us an indication of the average price going forward, and if all of this will be in accordance with what we have seen before? Thank you.

A - Unidentified Speaker

Thank you, Carol. The first question we have four different tables for sales in the commercial area. All of this is segmented and we're segmenting based on the size of the consumer. Of course it's natural that the more electrical intensive customer will tend to request special attention and more tailor made service based on their needs.

And as the consumer has less relevant consumption, as part of the cost structure of course perhaps they have, they will have less interest or they will require a more practical solution. And this is very broadly the structure that we have is favorable based on the volume per customer. And this platform in truth will service all segments, because initially at this phase of re-inception we are not paying attention to the size of the customer. It's something that is much easier to operate, a very short term operator -- you record the operation, you take that pain and then everything is done automatically.

Of course, when we speak about products with a longer-term this situation will change. Customers with greater volumes will want to negotiate their contracts and we will also offer customers a differentiated treatment. But when it comes to a specific demand or a standard product they can do this through the platform. And the platform has been developed for that.

Now if you are a private client, at your bank for example, your bank is private. It is not a retail bank, the private will want special treatment when it comes to purchasing energy.

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So this is very broadly how the platform works. Now you referred to pricing in the longer term. What happens is that our portfolio basically is completely sold out [ph] until 2022. And we're now focusing on 2023 as well. And what we do is to carry out sales with a somewhat longer profile beginning in 2023, 2024 and this is a trend that we have observed in the market because of the more favorable price that we have in the long-term market, reduction in the future price.

And we see that consumers have a greater appetite for this compared to the traditional system that we have in the market for six years ago. This may be a one-time event, but this is what we have observed in the last two years in the energy market.

It's a feature that I don't know if it will continue on. We do attempt not to make very term contracts or to fully supply a customer to be able to have this amortization in terms of market movements. We have a problem with the hydrological situation in Brazil, the prices goes down. They again increase once again.

The market at present is working with a high spot price. At present the market for 2021 has had an increase of 10% to 15% and a slight increase in the market in 2022. So we have these impacts, that have to be amortized through several contracts or several term, once again avoiding those long-term contracts, unless the price is so inviting that it has -- well offers non-conventional renewable energy because of the extinction of fixed tariffs and we will have a greater volume of those projects in the market with a surplus applied and perhaps this will be the moment for the consumer to capture longer terms. This is what we imagine, in terms of movement at this point in time.

Q - Carolina Carneiro

Thank you. Thank you very much.

Operator

Our next question comes from Marcelo Sa from Itau Bank.

Q - Marcelo Sa {BIO 16454581 <GO>}

Thank you for the call. Good morning to all. And I have two questions. On Slide 17, you showed us this year rather good demand and you're trying to eliminate the impact of the GSF. So in factors that surplus of supply we have is not that great. And we have to think of the auctions that the government will be holding going forward. So what is your expectation for the auction considering supply and demand and the fact that most of your energy has already been contracted? Thank you.

A - Unidentified Speaker

I'm sorry the microphone for Sattamini is muted. Very well, let's begin again. It will depend on the type of demand. If we have powerful demand it is our understanding that this will not be necessary very soon. As you can observe, despite having the effect when we have tower of potency [ph], we're speaking about the power of the installed breaks and we

have a surplus of installed capacity. This will be until 2026, and this is what is mentioned, according to the studies of API.

When it comes to the energy per se, we may have demand for energy for 2025-2026 going forward as well. And we do not see a need to have an auction, because the free contracting market has offered a great deal of opportunity of a new capacity for purchase in corporates, public-private agreement. So that topic of the auction will be something that will be ever more frequent, less frequent because we already have the contracting of distributors. At present we need distributor. But the release of captive customers to the contracting market will end up being offered contracted, and they're going to have to find a solution for their portfolio.

So Marcelo. I don't think there is a great expectation for auction soon, unless there are auction in a very specific context, regional development or the development of energy sources. We have heard a great deal about inflexible thermoelectric plants. Now if this is done, if you don't have displacement of the electrical energy, you're going to be embarking in the build for the development of the gas segment, which doesn't make sense to us. And we have observed enormous resistance on the part of authorities, at least on behalf of the electrical sector of the country of accepting these inflexible thermal plants, that are literally being shut or pushed and that has companies from the gas market showing interest in this.

Of course it's positive to have developments in the gas market. We are part of that, but we do have to be very cautious, so that this gas market is not developed at the cost of the electrical sector or agent who had nothing to do or do not provide any benefit in terms of development. So if something of that sort could -- and yes of course it could, once again, you would have to set up a specific system for these inflexible thermal plants. And the electrical sector would have to be compensated for this and all of this will end up in the consumer's pocket, and will subsidize the gas consumer. These are situations that, of course, we would like to fully avoid those cross subsidy, where we begin to cause friction between agent. Formerly they were agents for the electrical sector. And now, the discussion is with agents working in different sectors. We need to be extremely cautious with this.

And this is the message. We do not need the auction. The market is adjusting and we are creating elements for a power auction to guarantee that they will not be a lack of supply and we have to decrease regulations to ensure that the market will become ever more free and that allocation of resources will be rational.

Now the use of subsidy certainly are not helpful to the sector.

Q - Marcelo Sa {BIO 16454581 <GO>}

Thank you. And a second question, replying to the free contracting market, you have shown us the preliminary calculations and I remember that there was the request of some companies to select the plant that you will tier your extensions to. Now, which would be the impact of this, but if you could remark on which would be your deal and if you could allocate this too specific plants.

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A - Unidentified Speaker

Thank you, Marcelo. A very pertinent question. Yes, we did present a request directly to -- and all of this is very important because we have several aspects. If you look at the calculations, you will see that you have plans with several different condition. One takes 5 months together one takes 10 or 15 months. You will have to work with multiple contracts of concession, practically every day, while improves [ph]. This is a regulatory asset and this regulatory it can be allocated to a specific plants that will be selected by the hydroelectric generator.

Now this will generate an incredible amount of energy for A, agency for the agent. And additionally, it would have a positive factor. You have some plants, where you have partners in different situations. Partners that sell energy in the regular contracting market like we do and that has no right whatsoever over GFON [ph] and other partners are consumers that would have a right because of that GFON themselves are responsible for the process.

Now what happens there would have to be a very complex commercial agreement for this and on the other hand you have the contrary situation. We have -- we are entitled to some credit because of plants where we have partners, but these partner do not run any risk. So these issue can be addressed very simply.

If you could ensure that this will be a regulatory asset, I mean this regulatory asset would fall under the criteria of taking generator. Now this is not a specific issue for this, we see this in several companies that generate electricity. It could also impact some state companies with restrictions say MIKI [ph] for example is entitled to some values, is entitled to this regulatory asset that is now in the hands of other agents and other case that we can observe is the expectation of privatization of some of the plant -- skilled players that could only make this auction, even though the state would like to capitalize, resolve the problem of the asset to be able to invest the proceeds in activities more connected to those.

So well-being for example. So I think the idea is very interesting. I support the idea and we believe that there is no obstacle, no impediment for this, and I think there's interest in all of the stakeholders, without harming any of the interested parties.

Q - Marcelo Sa {BIO 16454581 <GO>}

That's very clear. Thank you. A point that you just mentioned that I find curious the idea of synergy and the sales compensation account that is active since 2013. So the plan should be entitled to this compensation and even though you have retired that plant, you will still be entitled to that compensation because of the period in which we (ends abruptly).

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