Q1 2013 Earnings Call

Company Participants

- Wilson Ferreira Junior, CEO

Other Participants

- Felipe Leal, Analyst
- Unidentified Participant, Analyst
- Vinicius Canheu, Analyst

Presentation

Operator

Good morning. And thank you for waiting. Welcome to CPFL's Conference Call about the results of the First Quarter of 2013. Today with us, we have Mr. Wilson Ferreira Junior, CEO. And other officers of the Company.

This call is being broadcast simultaneously on the internet at the Investor Relations' website of CPFL Energia, www.cpfl.com.br/ir where you can also find the respective presentation for downloads. (Operator Instructions). I would like to remind you that this conference is being recorded.

Before proceeding, let me mention that forward-looking statements that might be made during this conference regarding the Company's business outlook, projections, opinions and operating targets are assumptions on the part of the Company's management and information currently available. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties. And assumptions as they refer 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 will affect the future performance of CPFL Energia and may lead to results that differ materially from those expressed in such forward-looking statements.

Now, we would like to give the floor over to Mr. Wilson Ferreira Junior. Mr. Ferreira, you may proceed.

Wilson Ferreira Junior {BIO 20013669 <GO>}

Hello. Good morning everybody, investors and analysts that follow our first Q1 2013 Earnings Call. And today we will have a longer presentation where we will try to talk among other things, about the changes in the profile of consumers of the Company and we have to deal with very bullish future perspectives. And I think it's important to share with our listeners during this call, some of the regulatory evolutions that we have finally achieved and that have a major impact on our results of this quarter.

Of course we will be talking about results and the market perspectives for our companies and conclude by talking about the main projects and the major investments made, especially in CPFL Renovaveis.

Now let's go to slide number three because we have an important fact that occurred in Q1 that corresponds exactly after 12 years to the consumption, to residential consumers of CPFL Energia, once again going back to the level of the pre-rationing situation in 2001. I think it's very important to tell you about the relevant change in the energy consumption scenario and the macroeconomic scenario in terms of the demographics; and all of those together leads to a very good perspective.

You can see that in this period, we reduced by over 50% the unemployment rate in the country, reaching 5.5%. Total income with a favorable behavior in real rate up 57%; minimum wage also in real terms, growing almost 60% at 59%(inaudible) assignments; each one of these elements has an impact on household consumption and commercial consumption, increasing 63% credit granted organization rate of the group reaching 85%. Gini index that evaluates income concentration where income distribution dropped three points, reaching .52; as you can see the ownership indicators all appliances; refrigerators 93%, TV sets over 95%.

That shows Brazil with a potential of growth which is very important and we are placing here the washing machines, for instance only 44% of households have, not to mention freezers and microwave ovens. And this kind of appliance is becoming an integral part Brazilian's life and they have an ownership indicator, all of them lower than the washing machine indicator. Household density and inhabitants/residents, as you can see, from 3.5 to 3.1 people per domicile or per residence. And at the same time we see an evolution in energy efficiency; refrigerators, for instance, with a unit consumption 20% lower than we had 2004 and washing machines with a consumption 7% lower than in 2004; all these variables lead to important changes in the profile of future consumption.

I think it's also important to share with you on page four, in general, the change in the position of consumers (inaudible) the rest of the world. You can see that at the turn of the century or a little bit before, we viewed the major players who were developed economies and this is totally changed. The central players are in emerging economies, the crises spread very quickly and drastically in three or four countries, the emerging markets I presume was a victim at the end of the '90s and not a major impact from these crises. And today, crises affect mainly the greater economies, the European and the U.S. economies.

There was a high financial volatility at the turn of the century in the world and emerging countries today have a much higher level of autonomy and Brazil is a major example of that. And as you can see that indicator for Brazil the major changes that we had were at the turn of the century, interest rates were close to 20% in Europe and today interest rates are lower at a stable 7.25% a year. And also we have a domestic market that is very robust. Nowadays public debt of the GDP went from 60% to 35% of the GDP; the country risk that was over 1500 points is 147 points. And we didn't really have international reserves; BRL38 billion, today we have BRL279 billion.

There was little attractiveness to foreign capital we have an intensification of social policies; about 20% of the richest Brazilians corresponds to 57% of the income. When in the past, it was 63% at the turn of the century. We started the century with a necessary learning curve with the theme of the energy crisis and we will be able to talk about that, how much we have evolved during these years.

GDP in the last decade of our century was growing at 2.7% a year. And now it is 3.6% a year. So I think it is very important to mention this change in the level of Brazil and of course to this change corresponds our very intense work in the area of infrastructure and in the area of energy; maybe is the best example in Brazil to be followed by other sections of the economy in infrastructure from the viewpoints of regulation and the actual size of agents and their investments.

On page number five, we have an evaluation of our demographics. As you can see, that the prospective for the Brazilian economy; it is the seventh largest economy in the world. The GDP is (inaudible) and it should be growing the next 18 years over six-fold and is presumed it will be among the four largest economies in the world by the end of 2020 with $12.2 trillion and that valuation is very important. The relative participation of Brazil increases substantially and you can see on the lower part of the slide this is not the average for CPFL; it's the average for Brazil and it appears in the next ten years we're going to have a great perspective of 23% in energy consumption per consumer per month going from 186 kWh a month to 229. And I would like to emphasize it's not necessarily [ph] in the concession area. Consumption is even higher than this already, as I said before.

At the same time the ownership of appliances increases and increases, the efficiency of each one of the appliances. So these driver is very important as you know; only 90% of consumers of one concession in our residential consumers that (inaudible) and indicates a cyclical expansion has occurred in that outlook.

Now let's go to page number six; and I think it's important to share with you in this first moment, the resolution CNPE no. 3 that established a perspective for change in the spot market to better reflect the hydrologic effect or risk and increase efficiency of the system. Up to March 2013, spot prices determined the reference of the merit order. But due to energy safety reasons, it is important to have dispatch outside the merit order and this is called energetic safety and it was due to the demands all the captive and free consumers and this of change CNPE no. 3 establishes a completion period that corresponds from April 2013 to July 2013 and if we--

On page seven of our presentation, we can see that dispatch out of the merit order starts to be shared by all the agents that supply 50% of its volume and the other 50% are averaged to the spot prices within a portion. And among the agents that are exposed in the short term, for this before this transition occurs after July and most relevant date from here, it's what happened and what can be seen on page number eight, the spot price starts to reflect more adequately the cost of the dispatch.

In this way, as of August when the methodology is already consolidated, we will have a reduction in the dispatch out of the merit order and it will be a clear sign regarding the price that establishes the merit order and the charges, the charges that are necessary for the dispatch for energy safety outside the merit order and will be shared among all agents. And we should think about the reduction in 2013 alone, due to the fact that we have a major start with this sharing as of April, about BRL900 million already or 15%. So this should be reflecting more adequately the pricing signal and as there is a burden on the agent exposed to the short term, there will be certainly a better allocation of the energy price among these agents.

Please turn now slide nine. It is important data coming from this learning. Please note how much we have evolved in terms of the level of our reservoirs. As much as we have in the initial integrated system, the hydrothermal system, with the possibility of dispatching by different electric hydro plants; the bottom left-hand corner makes reference to that the ending of the year being at the lowest storage level groove; over 30%. And in this period for the last three months in 2013 we were able to increase the level of reservoirs about 61.5%, getting closer to the highest levels of previous years.

So clearly coming away from our storage in 2001 which is the bottom curve which is (inaudible)in the transmission systems, interconnecting all the regions of Brazil and allowing for better distribution of power to the set markets. And in particular the recovery. After a while it will level off by a decent amount dispatch. It's almost as if we're working in insurance, the premium only when we have an expectation of a claim.

On the top of the page, we see the main basin with the heading of year, the rainfall, rainfall below the average; where we are already showing in the last three months a good recovery in Paranaiba which accounts for a little over of one quarter of the Brazilian storage level; the Rio Grande Basin; almost 20% SIN; and the Sao Francisco in the southeast these two basins account for almost 50% of the Brazilian accumulation and they are performing close to 100% of the average indicator.

Grande and (inaudible) are 14% of the average; all of that allowing-- and we would like to share the rationing risk mentioned by the DSE consulting reducing from 9% in January to 0% in May.

The lessons learned; the systems are evolving. There is still room for improvement. But here we have an important lesson learned in shared and giving some safety to give to the Brazilian system.

Moving on to slide 10, I'll give you the highlights for the First Quarter of 2013. Energy sales increased up 4% in the concession area. We can give you more details on that. We have the completion of the tariff review process at CPFL Paulista in April with a tariff adjustment of 5.48%, according to previous forecasts shared in the public hearings.

An important fact that we are going to comment later on, we achieved the disbursement of the CDE sector fund CPFL charged to associations to resolve not only the financial fee but also the economic fees relative to CDE. The Company has received an amount close to BRL698 million, very important to preserve the financial capacity of the Company regarding better investments to be made. And given the regulatory agents and the way they do their accounting, this produced a reduction of current expenses and we consider this kind of treatment in the accounting balance of the Company.

We made investments amounting to BRL532 million in the quarter. At the end of April, we paid BRL456 million in dividends. We had an average increase of more than 8% in the average penetrating volume of CPFL shares. CPFL Santa Cruz was the winner of IASC which is ANEEL's consumer satisfaction index. Santa Cruz was ranked first in ANEEL's service quality ranking. And in other concessionaires of the group; Paulista, Piratininga and RGE were recognized for the high quality of their services, ranked among the top 12 in the country. I would like to remind you that the country has 63 distribution companies.

In first place in utilities sector, in the section leader award, 23 teams, which is recognized by the Environmental Tracking Global Carbon rankings. So this was an interesting quarter such as from an important regulatory decisions, for the infrastructure sector and energy in particular.

On slide eleven, we have the sales of energy, a 4% growth. It is configured by sales increase direct of 1.9% for captive distribution customers and a very a high 9.6% sales growth for free customers, the big industry. We're already showing an outlook for growth. In the bottom, we have a marked, vigorous important growth of 8.3% in the residential segment, 6.3% in the commercial sector. This early decline from the evolution is the macroeconomic scenario of consumption that we talked about in the beginning of this call.

In the industrial poll, we already see a positive 1.5% growth which again is a comfortable ratio for the industrial [ph] of Brazil.

Because of that, we have grown in our concession area, (inaudible)an average 4% against 2.5%. And in the south east, in the concession area, the distribution companies of the group compared to the region; we grew to 5.2%.

Moving on to slide 12; we have global energy sales. Looking at direct sales to end consumers we had talked about 1.9% for captive customers. We see here two blocks; the commercialization block in the free market and that was conventional generation, growing 8.7%. And Renovaveis growing 5.2%; and we will give you more details on that momentarily.

But given the performance of the wind system this year, or in terms of the expansion that (inaudible).

It is important moment to talk about free customers. And the bottom if you can see, the Company has been working in a very organized discussion in this segment that has an important growth cycle in the coming years. And important in the First Quarter of last year we had 172 free consumers; just by the group, 38 of them are of Company's concession area, 134 inside the concession area of the distribution companies of the grid.

This year, you'll well note, we had a growth of about 19 new free consumers, total number of 179 in this quarter alone, 31 new customers; 18 in the concession area, 13 outside the concession area.

So we have been very effective. We are planting the seeds for the Company to become the biggest in the free market with about 10% market share and these new consumers will make the free market actually even more dynamic.

The top chart on this slide shows that we've been growing since 2004 with an average CAGR of 12%, getting close to 3,000 megawatts. We have a number of operations to be included along there. I will give you more details on that later on.

Now on page 13, we have the results for the First Quarter. This quarter was marked by an increase in revenues, given the sales volume and power tariffs decreased, compared to the First Quarter of last year. And Fourth Quarter of last year.

The whole news; the IFRS, we had the IFRS report. And the IFRS was proportional consolidation of generation which starts this year; so you investors and analysts can have a recurring comparison for the Company. Here we include regulatory assets and liabilities which is not adequately now in our opinion recognized in IFRS.

And our cash spending (inaudible) and current expense and CVA because of its factor is more than 12 months, used to allow in the Brazilian GAAP this expense to be deferred so that it could be activated only at the moment; on the tariff anniversary of each one of the concessionaires who get the recognition range [ph] for the consumer market. That expense means that (inaudible) was sustained by the Company on behalf of the consumer in the period.

Very well then; we have the bottom, trend; 18.5% growth in our revenue; BRL3.604 million. In the IFRS numbers and in the recurring one we are talking about EBITDA growth 6.8% and 7.8%. And this is the result of this slight distortion in IFRS. Because of that we have net income dropping 1.8% to BRL405 million from BRL410 million.

We'd like to highlight that in this quarter we have a breakdown of the non-recurring items. We have a number of additional provisions in our balance sheet. One of the main items is the exposure to MRE; the energy replacement mechanism in January, BRL66 million in terms of the EBITDA and BRL44 million impact on net income. So we have a BRL76 million EBITDA variation comparing the First Quarter of 2012 and the difference in at BRL5 million impact on the net income.

(inaudible). I had highlighted at the very beginning of this presentation that it is important to share with the market just to educate you on how this is all going to be developing. On page 14, Decree 7,945 a new methodology that has been adopted since the approval of this decree; the (inaudible) response to full coverage by sector fund CDE through monthly disbursements because of the propagation on measure 579.

What this is saying; this is the involuntary exposure of the Company. This is due to the allocation of quotas given that some concessionaires did not join or do not choose to renew their concessions. So we had a number of quotas negative [ph] to all distribution companies, including those in the CPFL group and was insufficient, lower than what had been expected.

Now for each one of the distribution companies, they had involuntary exposure; in other words they are selling more than what they have in the contracts with their quota. That kind of involuntary exposure was fully covered by CDE. Then when we had the assured energy from those plants that did not join the provisional measure, we had a change in the criteria.

Concessionaires who have now become operators of assets, no longer will take the hydrologic risk, the less of having less water than the full Brazilian volume; that hydrologic risk now will be passed on to consumer.

Distribution companies have this risk associated to their quotas and now this risk is solely covered by CDE to make not disbursements.

And we're going to slide 16; there's also the thermal dispatch. As you can see it's in grey, a different color. The thermal dispatch is now out of merit order. It's changed really in 2013 which includes this energy safety charges or ESS. This thermal dispatch out of merit order is also within the methodology covered by CDE through monthly disbursements. Later on, I'm going to give you the economic and financial guidance of this transaction.

Moving on now to slide 17; we can see that still according to this methodology is a different element; we have three elements mentioned above on the top, two different effects; the effect of the provisional measure and general dispatch all paid by CDE through monthly disbursements.

However, this is an important point to be mentioned, from the regulatory standpoint, there is also treatment given that to costs not covered by CDE; last year we had (inaudible)standing which was responsible for allowing the filling [ph] of our reservoirs. (inaudible) total commercial anticipation of the balance of the CDE balance; the balance that was accumulating and growing strongly as of September of last year. It was to limit the impact of tariff readjustments to consumers, limiting it to 3%, to the concessionaires as well, how much will be-- anything that would be beyond 3% in order of that volume is paid in anticipation cash to the concessionaire. This is what happened to our biggest distribution company at the first of the year when they had their tariff review.

Just in response to the fourth item; in other words, energy contracts; in the regulatory environment, the famous (inaudible) and is submitted to spot price. Dispatch was out of merit.

The company as of April last year had an expectation of this spot price and spot price was higher than the forecast. So the company had higher verified costs, these costs they will be measured and recovered. These are something that will be added to the tariff higher than 3%. For the treatment given this it is going to be beyond 3%; anything above that is included by the concessionaire (inaudible) on the tariff review. And this obviously brings a benefit to CPFL.

Moving to slide 18; you these three blocks already with the amounts calculated; with the effects of PM 579, BRL105 million in the First Quarter thermal dispatch out of merit order, BRL222 million in accumulated costs not covered by CDE amounting to BRL371 million; these are specific to the (inaudible) our distribution company.

If you click on the presentation one more time, you'll go to slide 19. And we see the breakdown of the purchase of energy, the CVA BRL222 million for the energy purchases. The ESS in 2012, it is not detailed in the presentation but announced at BRL44 million and BRL84 million CVA energy purchases in January of this year which was also included in this statement.

And again, if you click on the presentation again, on slide 20, like I said, it was not enough for the concessionaires because many of them; it's not a case of CPFL because of their rating-- it was not enough to account for that as an expense-reducing factor as purchase of energy and charges. So here we find all this in the green case, regarding the purchase of energy, BRL432 million; BRL105 plus BRL84 plus BRL243; and on the other side charges for the energy system, ESS; BRL222 million plus BRL44 million. So then BRL266 million.

Referring to the First Quarter, we have an add-on sheet recognized BRL698 million. This has been a treatment given by Decree 7945. And today we expect to include all of these funds in the cash of the Company.

Very well, now we are going to slide 21. And here we've gone about the performance of the company EBITDA and net income. Here we are-- you can observe the positive effect, non-recurring and regulatory effects, another important given the treatment of the BRL266 million and we're talking about an EBITDA growth at 4.7% at a managerial level and that grew from 6.8% in IFRS with amounts quite similar in these two forms of accounting.

What is determining the positive performance; first, an 11.3% increase in net revenues; BRL357 million. Two positive events here; CPFL Renovaveis growth, conventional generation and commercialization in services; comparing the quarters; and in this particular case on distribution we had a reduction obviously stemming from tariffs reduced for Piratininga. And the five small concessionaires; (inaudible) Santa Cruz and RGE.

And because of the tariff review. And more than that a 20% reduction in the tariffs in January given to all consumers and all concessionaires where we have a BRL463 million and an average tariff readjustment of minus 12.6%. So (inaudible) tariff review has a 30% reduction. And finally the effects of that in the comparison of the quarter, we had a gain in revenue reduction. Revenues were lower, reductions were lower as well comparing to the previous year. This shows this shows a grand total BRL357 million in the net revenue.

On the other hand, we have costs with energy and charges growing 9.7%. Normally we see the costs and charges of energy growing more than the net income. This is resulting from the 28.3% net increase in energy costs, BRL 374 million. We had CDE resources amounting to BRL432 million. Exposure to MRE, also called GSF, of the generation company; (inaudible) conventional generation company and renewable generation amounting to EUR66 million; this is an non-recurring event, exclusively due to the treatment that we maintained in the month of January EBIT [ph].

And net revenues, a net reduction of 60% in the sector charges due to the BRL266 million contribution by CDE. And finally you have an increase in our operating and expenses, after the cost of expenses; 35%.

It's important to stress here that we have a whole set of expenses here that are non-recurring. The first are the legal and judiciary expenses and with that we will practically conclude our provision reinforcements that are BRL73 million and the write-off of Epasa's assets; we had to repay BRL13 in our plant (inaudible) with higher costs, of course, because of the higher expenses, judicial expenses and the purchase of (inaudible) of Epasa indicates the fact that we have been dispatching this plant since last year, fuel oil. So the variation of the stock price from Q1 2012 to now; BRL125 million (inaudible)and the exchange rate as well that anyways index (inaudible)BRL1.76 to BRL2.

On page 22 we recognize that this is a little bit more complex because the company has an important(inaudible) in terms cost management so they (inaudible) in order to see what is really the variation and then compare the costs of our group as if it made that(inaudible). We are increasing our capacity for renewable generation so we would have to have proportional costs, proportionate to this inclusion capacity, to really have this type of the (inaudible) power plant here, we have to make it compatible. That is to say the (inaudible); PMSO is 32.9% in comparison of the PMSO on a year-on-year basis; BRL133 million increase.

However when we make the consideration of people and MSO from Q1 from 2012 to non-comparable and non-recurring events with this year. And this is here, the lower part especially for the companies that they did determine these variations. It's almost exclusively (inaudible) where we can see the growth in expenses amounting to 5.2% (inaudible) of IGP-M which is a major indexator [ph] of the Company's contracts, 8.1%; so in a comparison, in a normalized comparison, a reduction in our currency of BRL10 million in PMSO, BRL2 million in Personnel and BRL12 million in MSO.

Now let's go to page 23 and here we talk about our net income; our net income that in value that are reported rose by 4.7% and in recurring values rose 2.8%. We are talking about there is no difference; 399 to 410.

Driven by the growth of EBITDA of the Company BRL50 million more, according to what we have explained 4.7%; a 15% decrease in net negative financial results which is negative and also the update of the disco financial assets, accounting practices since last year, reduction of charges in debt BRL46 million. So the CDI is dropping 11.4% to 7.5% and the reduction of the monetary foreign exchange rate statement and the lower financial income, with the CDI we see a reduction of this financial income because as illustrated with CDI . And consolidation of CPFL Renovaveis; at least 100% has already been consolidated and includes a 32% depreciation and amortization;(inaudible) and depreciation of disco assets according to the new methodology of ANEEL and valuation of income tax BRL13 million, due to the better results.

Now to slide 24; indebtedness and leverage in this quarter; we closed the quarter with net debt of BRL12.5 billion and if we were to observe the net debt to EBITDA ratio, (inaudible) since last year the Company the covenants were negotiable at 2.75 [ph] compared to the adjusted EBITDA of the Company as you continue to see [ph] on this slide.

We attempt to report more adequately the performance on the Company-- of its debts for covenant effects, which is measured at the holding Company, at 2.75; (inaudible) we have three times net debt EBITDA ratio and we would like to highlight the constant debt in real terms of 1.7; it's the lowest ever in the history of Company.

(inaudible) we have no exposure whatsoever to exchange rate. You already know that because of covenant practice, 60% CDI and normal long-term interest rates 28%, prefixed 7% and on page 25 we the debt schedule and amortization schedule; a well-balanced 4.5% average tenor; 4% only in the short term, 12 months, a total for the Company [ph] so this means that the coverage is about 1.9 times in the short-term debt and from the cash report, 1.7 times.

So this is a company that has about BRL3.143 billion. And the only difference here are the reserves because (inaudible).

Very well, I also wanted to read to you and share with you because we reported yesterday the results of Renovaveis and Renovaveis has a very important growth so we wanted to share with you the detailed impact of Renovaveis growing by 77% since the merger, 652 megawatts (inaudible), 70% improvement in net revenues and EBITDA in Q1, BRL114 million-76% increase. Of course we are on a growth curve (inaudible) financial capacity of the company, using it prudently and optimized so we have BRL26 million because of the expenses with financing effects.

And it's important (inaudible) in these acquisitions compared to Bon Ventos and Ester Biomass (inaudible) and the impact on loss income for Q1 is the higher indebtedness to support the expansion of the plant, the higher depreciation and amortization expenses of the new project. And because of the new projects it is very clear the consolidation of (inaudible) and the typical seasonal that Biomass and Wind farm since the beginning of the year; it is important to stress as you can see on page 27 that we have a very high efficiency rate in our history and the production in the last 12 months is higher than the simplified load factor and we are always questioning the (inaudible) and we have a very high degree of discipline (inaudible)wind farm, be it because if we have two different measures; the fact that we use benchmarks for production so you can see that each one of them; for the group are at 120% of the load factor, the simplified load factor so they are producing effectively 20% more than the certified load factor (inaudible).

So on the left you can see the certified load factor that one that should be object of participation in the auction and the real one and you can see that the efficiency rate is higher and much higher consolidated (inaudible). We are talking about 44.5% and a (inaudible) of 46%.

So in fact, it's very important and that confirms the practices outside the company; on page 28 we are finalizing and I just wanted to report the status of the major power plants. Coopcana and Alvorada, that should be started up in the second half of the year; in the Second Quarter and it is specifically Macas and Altantica wind farms and (inaudible) in Q3 producing over (inaudible).

In the whole operations of CPFL Renovaveis, on page 29 I would like to show you the ranking of service quality by ANEEL. Santa Cruz, Piantininga, Paulista and RGE among the twelve best; Santa Cruz the best and the winner of the IASC award.

Now on page 31, they also talk about the performance of our shares. (inaudible) so our shares and the different entities in terms of performance we reported here and CPFL, according to the chart is highlighted here. So basically this is what I wanted to share with you and together with Gustavo and the other members of our team, we are available to answer any questions that you might have.

Questions And Answers

Operator

(Operator Instructions). Vinicius Canheu from Credit Suisse.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Wilson and Gustavo and everybody. Good afternoon. Thank you for you call. I have two questions. One, I would like to have an update of the Grupo Energia acquisition. And the second is about the Resolution no. 3. The impression that I have is that once it starts, there will be new calculation (inaudible); it will be more? And what about the dispatch in the (inaudible) it will be higher with the expenditure of the cost of acquisition of energy tends to grow out and as far as I understand, this is not contemplated by the CDE? So can you please explain because this could be a complication for the second half because it tends to be higher than the expenses for the purchase of energy could be higher in the future and some (inaudible) could have some cash problems.

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

Thank you, very much. I would like to start with the second one. You are a 100% right, expenses with the purchase of energy do really increase. However, that could be a package [ph] that eliminates in part the problem. You can see the case of (inaudible) alone; we had BRL110 as a reference price of the stock price for the purchase of energy and right now, at the normal (inaudible) tariff review, it's already BRL294. So if capacity has increased by BRL500 million in the period. So it should not be exposed financially because it's already has at the start the tariff coverage. So it happens. And it gets a much higher level of (inaudible) when the moment comes from the tariff adjustments are reviewed because of the methodology. You have to write it and (inaudible). It's not a question of; will it be this or that? No, there is only one supplier of data and this supplier of data would put the forecast and this estimate. I agree with what you said, due to the highly loaded scenario, it tends to be higher with the concessionaire already starts on the tariff side represents a cover to cope with this dispatch; something that didn't happen before.

Regarding the first part of your question, the global (inaudible) acquisition; we're in the period of debate between creditors and the people involved in the judicial recoveries and the deadline is 150 days plus an additional 30 days for a second meeting. So the first 150 days will be completed over the month of July so we understand that the process is advancing and with interaction between the creditors and other party. And so in principle, the first meeting should be held over the month of July and could be postponed for another 30 days over July; so first June and then July. So this is the prospective. We understand that the operation is going very well (inaudible). It should be concluded by July.

Operator

(Operator Instructions). Our next questions comes from (inaudible).

Q - Unidentified Participant

Good morning. I would like to understand, could you talk about the contribution of private equities in the (inaudible) in case an IPO is not carried out this year; could it be (inaudible) could be postponed to another year or do you think this is going to happen this year?

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

In fact, we (inaudible) the merger in order to make it possible and we had a share swap with the group. And yes, we do have this amount that is due in August as such as our partners at (inaudible); we are evaluating the affirmatives they have with us and undoubtedly we have a very friendly and constructive relationship with them and others--it's very good for the good future of the Company. It's very conducive to a very good future and as I said before, quite often to the market, when created this company, we capitalized the company in such a way as so that it could the performance; not only of the 300 megawatts. But another 300 ones that should be delivered after 2013. So we are talking at the Board of the company what is best alternative for the company? And of course auction was structured so that at some moment in time our partners could the necessary liquidity and the liquidity that was the objective was not via the (inaudible) options; by means of an IPO, because the IPO is the most important solution for the company to inject more reserves so the company can take advantage of that and make good use of the pipeline that it has built of over 3,000 megawatts, about 1,000 of it is certified and already with the FPPs [ph] and certified and (inaudible) recognized by the agency to the deadline; will be August and (inaudible) will be liquidated, especially by means of the IPO and it will be evaluated with our partners as far as we can how to make the company continue growing. So of course we are permanently talking with them.

Operator

(Operator Instructions). Our next question comes Vinicius Canheu, Credit Suisse.

Q - Vinicius Canheu {BIO 6300903 <GO>}

(inaudible) We have seen from the government and this has attracted a lot of press interest, your position in operating terms of expectation and return rate for(inaudible). What's the highlight [ph]? Do you think there's any room for something similar to that to transmission or generation projects for the electric sector?

(inaudible) for the transmission. It's mainly of the (inaudible) whether it was due to (inaudible) or return rates but it (inaudible). But looking at that, the impression I get is that the kind of adjustments that are being made for the highway would need to be made as well for generation and transmission projects as well. I would like to know you opinion about that.

And is there any possibility in your contacts with the government of any (inaudible)?

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

I think your question is very good. (inaudible) I'm going to make this very clear in the beginning, when we accept risk today; there was a significant decrease in the country risk following that. And that will reflect on the real rate of return of projects. It wouldn't make sense to have the same return rate when you have a much higher volatility in risk than we have today. Unfortunately, the fact is that (inaudible) imagine that the rates will drop, to a point where there's no risk. But as you know, infrastructure projects require long-term investments and (inaudible). It doesn't really end when you get the project. It ends when you complete project.

So when you're talking about construction for transmission, for transmission projects coming and efforts to (inaudible) to a big plant, it does have a big risk involved; hydrologic risk, environmental risk, geologic risk and all have them have to be adequately remunerated.

(inaudible) perhaps that these rates of return will drop to very low levels. (inaudible) levels which are much more than the project which is not true. I recognize and I have one of the few (inaudible) of our regulatory framework as an important instrument with stable rule, using proven regulation, recognizing that we had during this call some points to be perfected by the government and they were addressed by the government so we evolved. We wouldn't have evolved any more quickly in terms of rates of return; the (inaudible) correctly imprinted to how real rates of return.

The highways illustrate that. The government now realizes that for any infrastructure projects, in addition to the guarantees given, concession timeframe and (inaudible) etc., (inaudible). I believe this opens up a path to attract more investors. Capital has to be attractive to an infrastructure project, also with a prospect of a good project with rates of return which are compatible to an infrastructure project.

When you look at the price of equity, people who buy and sell our shares; we have to ask for that rate of return and risk spread, because investors don't want to be married with a project during the construction trend [ph]. And they have to undergo the construction processes and will save during that process some inefficiency in our system. These inefficiencies have been improved. But the risk remains; environmental risk or the risk of the deadlines for the projects and (inaudible) all of this risk has to be recognized.

I believe that the movement in the case of highways will be an important to be shared through our infrastructure projects. Because the best interest for us is to execute a project; the country loses when 30% (inaudible). We increase the risk of the system. Globally we don't know what we can happen so the deal I think would be to have prices that could be appealing to capital (inaudible), having a player that can commit to the project, offering the lowest rate. But that rate of return has to be higher than the cost of capital; this risk spread; it will be comparable to the risks involved and the risks that investors take (inaudible)

So I believe we have improvements in regulation and this is a good move by the government because they can attract the capital and have a competition sometimes. In this kind of competition we can get low rates or the lowest possible rate, should be the goal of any government.

But the first simple thing is to attract capital. How do you do that? With good projects and good regulation; thank you.

Operator

Our next question comes from Felipe Leal from Merrill Lynch.

Q - Felipe Leal {BIO 2015017 <GO>}

Good afternoon, to all. I have a question about the renewable concession and distribution. I know that you consider yourselves this is a minor problem. Most of your concessions still have many years to go but for the smaller distribution companies, these concessions are ending in 2015. Last year you mentioned that the lower tariff and the lower tariff model, in expectation regarding the condition by the government in terms of (inaudible) financial health goals for these concessions?

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

Felipe, thank you for your question. I have very little to add. We are still talking with the government. We feel that the ultimate goal in this business is to have good players. A consolidation concession areas; there have been recent initiatives (inaudible) and that's the major challenge with the improved quality of service and (inaudible).

The frequency in (inaudible) interruptions, this would be the main target, in addition to universalization which is moving ahead. Obviously we have mentioned in the (inaudible) that there will be an additional burden added to renewable because undoubtedly in the case of distribution that requires ongoing investment, (inaudible) investments in generation and distribution when you have one single investment and very little capital need for maintenance or in that case you have to (inaudible)

Investments in daily expenses which can be very heavy, (inaudible) recognition of decree 7645 that I mentioned here; so the customer and the regulator and the government are maintaining this (inaudible) that's why I believe, for all aspects that you mentioned (inaudible)are important for financial and economic health of distribution concessionaires. Why? Because distributions concessionaires are biased of (inaudible) for generation and transmission with no possibility of being delinquent, it would be inappropriate. (inaudible)

Here the financing agents can have an absolute guarantee that it will be paid. You cannot use the PPA [ph] of the distribution company with is not (inaudible) and we cannot be sure of their execution. So in my view, renewable is going through a number of challenges, notably in some of the quality of service.

And I've been quite optimistic regarding the recent movements with (inaudible) when it should recognize; renewable should recognize the necessary financials already with these assets. They can be used as they have been well used to finance expansion of the whole chain of the system, going beyond distribution; including transmission and generation. Thank you.

Operator

(Operator Instructions). Our next question comes Mr. (inaudible) from (inaudible)

Q - Unidentified Participant

I would like to know about your expectation regarding the (inaudible) assets to be retaken by the government, particularly (inaudible).

And I'd like to know your position about possible additional costs of the hydroelectric power plants for example (inaudible) costs?

Later on if there is any unexpected operation such as change and replacement of equipment; if revenue will be offering will be covering all of these possible costs.

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

Okay I have very little to add here. When last month they offered (inaudible) when they offered continuity of operation, I believe that the government is trying to structure the whole (inaudible).

I don't believe this will be concluded this year. We expect this to happen in next year. I think that you raised that were raised by the main bidding prices that could renew. And tend to non-renew, (inaudible).

The concerned generation companies; it doesn't matter that they are concerned because (inaudible). These concessions are to be renewed are related to generation so they have to be careful. So I think that this topic is to be discussed through that (inaudible). We can offer them an opportunity for the operation and maintenance of these projects that will add value to (inaudible)but we cannot forget there is a plan, that is to purchase a 50-year bond that uses the (inaudible). So that we can have an improvement in the quality and reliability of the whole system, other than the other way. I think they will have (inaudible).

Costs that are not significant, that will not change the (inaudible) that will be required for the maintenance of the assets. So our expectation is that the government will address this topic and will reintroduce them next year. Thank you.

Operator

We were are now closing the Q&A session. I would like to invite Mr. Wilson Ferreira Junior to proceed with his closing remarks.

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

I would like to thank you for your attention and for participating. I'd like to share with your our positive expectations regarding Brazil and the electric sector. (inaudible) on 2004 [ph], that's when we had our IPO. It was a significant evolution, positive evolution that impacts the activity of our company and affects the strategy of the Company. Our strategy has proven to be very feasible. I'm talking about a strategy that (inaudible) generation, market and alternative renewable sources, (inaudible) the performance of the CPFL and (inaudible) and we discussed during this call the opportunities. The country is growing steadily and strongly, in some segments more than others and these are segments that are important for the distribution activity. I'd like to reaffirm that because of our; the review; we didn't have any surprises, (inaudible) and the analysts we share with them are opinions and in other (inaudible) confirmation our expectations in the final debate with the regulatory agency. On the other hand, we have recognition that the government needed to act. Again I mentioned that it is approaching the (inaudible) format where we have (inaudible); an option of having generation with no repercussion whatsoever in the system. This is a privilege. I think the treatment given to CDE allowed that, allowed to preserve the tariff reduction that happened in January, increasing the competitiveness of the industry and also preserving the financial capacity of the distribution company (inaudible). Other than that, I believe that we're living in a moment where the whole world is looking for capital investments and infrastructure and hopefully this presents opportunities in all infrastructure areas, particularly in the electric sector. We are a big player and we feel very well by the regulation and by the recognition that we had. We talked about the rate of return.

Vinicius asked the question and we believe that this is going to be guiding the next move by the government. Like I said, the best thing for the (inaudible) scenario is one with good regulation and good regulatory framework we are able to attract capital to the country, (inaudible) investment in our country to sustain resilient growth and our company's growth, I am very fortunate to be able to share these results with you and the bullish outlook. Thank you, very much for your patience.

Operator

This includes the CPFL Energia Conference call for today. Thank you, very much for your participation and have a good day.