

Q3 2014 Earnings Call

Company Participants

- Fabio Rogerio Zanfelicce, Chief Operating Officer
- Wilson Ferreira Junior, Chief Executive Officer

Other Participants

- Felipe Leal, Analyst
- Maria Carolina Carneiro, Analyst
- Unidentified Participant

Presentation

Operator

Good morning and thank you for waiting. Welcome to CPFL Energia's Third Quarter of 2014 Earnings Conference Call. Today with us, we have Mr. Wilson Ferreira, Jr., CEO of CPFL Energia, and other officers of the Company. This call is being broadcast simultaneously on the Internet at the Investor Relations website of CPFL Energia at www.cpfl.com.br/ir, where you can also find the respective presentation for download. We would like to inform you that all participants will be in listen-only mode during the call. And afterwards, there will be a question-and-answer session when further instructions will be given for you to participate. (Operator Instructions). I would like to remind you that this call is being recorded.

Before proceeding, let me mention that forward-looking statements that might be made during this call regarding the Company's business perspectives of the CPFL Energia projections and financial target are forward-looking statements that are based on belief and assumption of CPFL management under the Safe Harbor of the Securities Litigation Reform Act of 1996.

Forward-looking statements are not guarantees of performance. They involve risk, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions, and other operating factors may also affect the future results of CPFL Energia and cause results to differ materially from those expressed in such forward-looking statements.

Now, we would like to turn the conference over to Mr. Wilson Ferreira Jr. Mr. Ferreira, you may proceed.

Wilson Ferreira Junior {BIO 20013669 <GO>}

Good morning, everyone. I would like to thank you for being with us. I would like to thank having investors and analysts in this call for the third quarter of 2014. I would like to start the presentation on page three of our slide. Talking about the energy conditions for 2014, it is important to see the company's position a long time and you can see in the chart on the slide that noted, we have around 21% of the reservoir of the national integrated power system.

Obviously, the situation is due to, as you can see in the bottom chart to the left of rain or much lower rain, lower than the average especially in the wet period of this year and this bottom chart, you can see the gap showing the circumstance we are going through.

We are in the sixth worst period in terms of inflow in the Southeast and Midwest regions and we have the worst period in the Northeast region. So for the National Integrated Power System, this is the tenth worst period, the 82% of the average, so obviously the situation of our reservoirs right now, although on the one hand we have extra capacity coming in over 5,000 megawatts and also the load of the system is 3% below with the continued thermal dispatch of around 16,000 megawatt.

But we have the reservoirs reaching their lowest position in 19.3% at the end of November. So that is the current situation.

Now on page four. We see a quick speculation of what could happen a lot of time. In that chart on the top part of the chart, we have the average that we have seen along the left 81 months, so we have an average of 76% in the wet period and 43% in the dry period.

As you can see here from the bottom point of 19.3%, we have here two scenarios, two simulations. One, the green line where we would have return to the average of rain in the wet period and here also considering the total thermal dispatch and we would reach that condition to average of historic value, which would be 68.5%.

On the other hand, if we have an average of wet period of around 83% of MLT or the long-term average we would reach the end of that at wet period with 48.6%, a little bit higher than the rest of the year, but from that point on, it's important to see that in both situations, we simulated a critical situation, so we have those in eight years. We are already in the eighth worst period in the history that natural energy would be 76% of the long-term average. And under that condition, we have two scenarios here and the red line, we would have all thermal dispatches on, and in the green, we would turn off the most expensive thermal plants. So we would have a dispatch for thermals that are more accessible, the gas thermals as well with the cost of lower than 400 megawatt hour. We would reach then 25.7%.

So obviously, we depend on the rainfalls and on the thermal dispatch up to the end of the wet period. And after that, we have to do a more precise assessment to check the alternatives and if we find ourselves in the worst historic period, we have figures that are a little bit lower than the one that we are going to see this year.

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It is important to say that, this year we have for 2015, 8,500 megawatts of installed capacity coming in. That's important for the system and obviously, this variation was something we're expecting for, but we have here the variation of the PSR that show that there is a rationing risk for 2015 of 19%. So it is very important right now to have the weather (inaudible) being brought back up. And that could only happen if there is rainfall and by the use of thermal dispatches. So we have to be very careful in managing those figures and our work.

So on page five, something that is being a matter of discussion of a public hearing 54 of now and it has to do with the ceiling price in the spot market. We understand that the agency's proposal is positive and we have our position in terms of that apportionment. But in terms of the (Technical Difficulty) certainly more. And in fact in a period where we have lot of rainfall, it burdens all agent in the sector, consumers, discos, and generators, of course, in distinct manners, but all of them have losses.

And on the other hand, it does not incur long-term contracts, especially for generators. From now on, we need to raise our offer and obviously considering circumstance where we have a market operating at critical level of inflows that contracting would be frustrated. So considering all those factors, the burdens for the different agents and obviously not working in order to simulate long-term contracts, we understand that the agency's proposal is positive because the reduction of that ceiling is going to benefit everyone in the system, is going to reduce financial risks, which is very important.

We are stressing all agents for a year already and trying to maintain a reasonable level of delinquency in the CCEE, so if we have prominent figures, we will have lower financial risks in our operations. So somehow the agency's proposal price-wise of around R\$400 megawatt hour will allow for this correct adjustment of systemic cost to consumers.

It's important to highlight that the consumers that might react to those prices are the free consumers. And if we have a little bit less percentage there is, because of this situation. The captive consumers cannot react to that price. Only after we have the tariff slot [ph]. So this is not something that is significant for the captive market now.

And obviously for all the agents, the decrease of the price ceiling to that around that range 400 megawatt hour is going to reduce all causes coming from involuntary exposure and the generators and the discos.

The operation that we do and that's common in the sector is that, when we have the apportionment in the system, our proposal is to keep the current criteria that means if the cost is being seen here especially due to dispatches to benefit or to increase energy security of all final users, so it is only natural that the users do have the benefit and have also the counterpart in terms of costs would not be adequate to share the cost with agents, because in terms of distribution, we have the possibility of having that involuntary exposure. So considering a proposal of energy purchase and that proposal is done by the generator and this could be contracted above 100% in the year, but in a few months, this is a contract that they might have exposure, they cannot defend themselves from that.

So it would be an extra burden on them. And that happened, because the generators one day that the proposal they have their own seasonalization considering the natural production capacity. So CPFL (inaudible) agree with this new ceiling spot price, both ceiling as well as the floor price and we do not agree the apportionment would not agree with the apportionment proposal that should be used before the beneficiaries of the action that is the consumers themselves.

Now we shall go to page number six where we have the highlight of the third quarter. One of the highlights is the growth that is lower in the concession area in terms of volume have reached positive from the mix point of view because of residential and commercial segment still deliver very expensive values. And I think it's important to mention that afterwards, we will be going into details into this.

Residential is less aggressive now already due to some impact in our case driven by the rationing of order in some cities in the state of Sao Paulo and we're going to show this afterwards our concessionary Piratininga already has data that show a major correlation between the availability of water and the consumption of power, electric power.

ACR Account is important, R\$205 million in Q3, covering the involuntary exposure and the thermal dispatch of the Group. We also have the economic tariff adjustment of Piratininga, 19.73%, total application of the formula and also highlights the actions on the part of our commercialization and services area, EBITDA is R\$17 million in the quarter, investments amounting to 251 million in Q3, 782 in the first nine months that is to say the year-to-date figures.

In CPFL Renovaveis that reported results yesterday, the conclusion of our joint venture with DESA on September 30th effective as of October 1st. A transaction that has already been concluded, already starting to produce effect the increasing capacity of CPFL end of our base and some highlights related to CPFL's shares for the third consecutive year in the portfolio of downturn sustainability emerging market index and the company is being elected the country's best company in the energy sector by Epoca Negocios 360 Yearbook and also among the 150 best companies to work for Exame magazine. So these are the highlights for Q3.

And now let's go to page number seven to go into details about the sales of our energy. As I said before total sales in the concession area with a slight positive variation made up mainly by the continuity of more active sales in the captive market, 3.1% total and driven by residential commercial as well and the drop in industrial 5.9%.

It is also important to highlight rural and irrigation and other things such as 14,516 megawatt hour. So in this period end together with our sales to the free market, no, let me go back, says the speaker. Added to the drop in the sales of energy in the free market and the drop in the TUSD of 6.6%, then we have a total of 0.2% in total sales.

On the right, we mentioned the increase in our generation installed capacity reaching 3,091 megawatts now from 2.2 in conventional and 880 in our participation of share in CPFL Renovaveis.

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On the lower part, we have a comparison among the regions, a better behavior in the Southeast. You can see here, it is still negative, but less negative than most of the sales in this region. And in the south we are positive 1.8, but slightly below what the south region grew as a whole and being equal in the total for Brazil, 0.2 and CPFL also growing 0.2 in this quarter.

On page number eight, we have the details of what I said before regarding the residential segment. You can see the upper part that relates to Piratininga. You can see in the first quarter, very vigorous growth, very much driven by temperature in Q2, you can see that already the average of growth around 5.9% and Q3 drop -- continued growing however at a slower speed reaching 1.8. And in the two equipment shower and washer or cloth washer you can see that these are the main ones. Some cities, this represents 32% of residential consumption of Piratininga already with rationing Sorocaba. Indaiatuba, Itu, Salto, Vinhedo already under rationing and you can see the breakdown of this group cities with the final use being shower and washers or cloth washer. You can see in Q3, a slightly change in the behavior at Sorocaba 1.4, in Indaiatuba, minus 0.6, negative Itu minus 7.2. You can see slightly positive also in Salto 0.1 and Vinhedo minus 3.4.

This is evidence of the impact of the water supply. Water is very relevant in terms of energy consumption and consumers that already have to manage their water consumption. Of course they have to do it mandatorily and when they do that, of course it has an impact on the consumption of residential energy.

On page nine, something that we are often asked about. What are the perspectives and what about Industrial segment consumption? Regarding the perspective, I would like to highlight that the industrial consumer that pays a tariff for demand or the reserve for power for the concessionary and consumption, the effective consumption because of their activities.

You can see that especially in the comparison between industrial production and industrial consumption, you can see that there is a total correlation between these two lines. It's important to highlight that industrial consumers, they don't really see -- will they see a negative trend or perspective not only do they decrease their consumption, but they also ask the company to decrease their demand or then bring down their demand that we are trying to show you that theoretically in this situation in industrial segment, we are more or less going sideways or walking sideways and there is no request of reduction.

And you can see, it's quite the opposite and the green line, you have the growth of demand, be it because of the inflow of new consumers or the attention or the maintenance of the contract, the demand, you can see that the signs are still positive and some industrialists still believe that consumption will continue to grow and they are maintaining reserved or preserved what they have already contracted in terms of demand. So this is the point to be highlighted in this slide.

And let's go immediately to page number 10 where we show you the results of Q3 2014. As usual on the top part of the chart, we show you the values reported in IFRS and in Q3 you can see that our net revenue went up by 19%, reaching R\$4 billion.

Our EBITDA in Q3, R\$860 million dropping by 19% on a year-on-year basis and net income 97 million, a 72% drop on a year-on-year basis. And as I said, as usual, looking at the results that we call managerial results that are recurring in the company, you can see that we reached R\$3.8 million in revenues, a growth of 10%, 9.3% increase in our EBITDA reaching something close to \$1 billion and a drop in our net income 33 million reaching R\$228 million reported.

And the difference between these two blocks, IFRS and the managerial that as I call it, it's because of the consolidation of generation that in IFRS today does not recognize today, you do it on an equity income basis when you have assured control of the company.

And on the other hand, the important variation between the regulatory assets and liabilities stemming from the lack of coverage for some of them because of the moment that we are living today in terms of liquidity. And the ACR account only seeks [ph] directly.

Our involuntary exposures and thermal dispatch account, so these two variations are relevant. And we placed three additional ones that I would like to highlight, two that occurred last year, and that are non-recurring reversal of the provision of our ESS when there was that injunction last year CPFL Servicos and a sale of assets that disposal of properties and vehicles that they are non-recurring, they are one-short and they happened last year.

And on the other hand, the events that are occurring due to the weather conditions and the low rainfall in the national interconnected system and that has been provoked mainly in the case of generation GSF and also in Renovaveis, we have the GSF of hydropower plant, our (inaudible).

These numbers are quite high, maybe I think it is the quarter with the highest level in these items. We are talking about a R\$123 million in EBITDA and we did 89 million in our net income and due to all these reasons, well, this justifies the reported EBITDA, 860 and the EBITDA, the managerial 999 million that is to say, as I said, a 9.3% growth. Very well, now we are trying to explain or go into details about the result, the managerial results of Q3.

So let's go to page number 11, talking about EBITDA. And the chart on the upper part of the slide is very clear, because it shows the comparison between the IFRS EBITDA, reported EBITDA reported in IFRS last year and this year and coming from inside the elements that establish the variations regarding the managerial result. That is to say the posting of the regulatory assets and liabilities for each one of the two years and the quarters of the two years and the non-recurring events such as I said before.

And finally, the proportionate consolidation. So in fact we are here justifying the growth of the EBITDA of 903 million to 999 and it is made up by three explanations. The first one is the growth in the net revenue of about 359 million or 10% and that is driven by the growth in commercialization and services in the free market and services, R\$130 million and the growth in CPFL Renovaveis operations and the indexation of the contract [ph] for conventional generation R\$150 million here. And in distribution, the growth in the mix, in

the volume of energy and the growth in the mix, R\$75 million, so in these three activities where we are involved, we had important signs of growth.

On another hand, we had an increase of 5.6% and costs with energy and charges already in that of ACR's contribution. So here we have for conventional generation, a growth of 49 million and commercialization and services because we increased our revenue also increased our energy bill.

So here we are talking about 47 million in this and explaining to a great extent our increase of R\$100 million more or less, mainly in generation, conventional generation. And in the case of distribution, net of the oil [ph] contribution, we grew 15 million and Renovaveis 4 now we go to the third block that explains an important variation, that is the PMSO where we see a 33% increase in our expenses. It's important to highlight as you know, we have two thermal generations, Epasa and we have to charge for the oil in order to dispatch since September.

And of course this is a non-recurrent event. Nevertheless related to our revenues, this expense of R\$133 million of value in this quarter. And also due to the fact that we increased our supplier services of CPFL Servicos. So because of that, we see this PMSO that you can see on the slide.

So in both cases, in dispatch of TPPs and in Servicos we have a revenue that was associated and R\$350 million and that we highlight here. Net of these effect, we can make a more balanced comparison of our variation of our PMSO and adjusted PMSO. We see a growth of 2.8% or 11 million vis-a-vis, 3.5 IGPM in the same period.

So you can see that we are still performing better than the indices and here we have the increase in the personnel expenses of about \$21 million or 3% and the collective agreement, labor agreement and mainly with the lower case of investments, slightly lower space of investment.

And you can see here 10 million and we continue with a management base on BBB a reduction of 4.2% on PMSO, reduction in legal expenses and others amounting to \$10 million.

On the next page, we can see this, we have been trying to report the comparable expenses that have been maintained absolutely stable in these since 2011, last year a nominal reduction of about R\$100 million.

And looking at the last 12 months that ended in the third quarter, 1303 and 1346, a 43 reduction. And when we put this in a more balanced comparison index through the IGPM, we see that the savings amount to 17% or R\$268 million as you can see on the right side of the slide it is made up mainly by the reduction in personnel, R\$48 million or 7% and a major reduction also in MSO 25% or R\$220 million. Therefore the management prices of our expenses is one of the major drivers of the positive results reported by the Group.

On the next page, we have the same comparison. From the net income side, drop of 12.6% in net income coming from R\$261 million to 228 this year. On a year-on-year basis, the EBITDA grew as we said before. So this is a plus 9.3% reaching 999 million.

However, on the other hand we see an increase of R\$111 million of net-net financial result. So you can see negative. So you can see the detail, the increase of the CDI and the changes in the index breakdown and this item alone contributing with R\$72 million. In Q3 last year we had the CDI at 8.6% average a year and now the CDI in Q3 this year is 11.2 a year and I would like to remind you that our debt is about two-thirds of our debt is indexed to the CDI. So this explains the increase.

And the second is the exchange rate variations for Itaipu accounted for R\$16 million and lower capitalized interest in CPFL Renovaveis due to the coming on-stream of whole set of project to an additional 10 million in Renovaveis and 16 in the case of Itaipu, exchange rate variations and others. The premium for the early settlement of debentures and CPFL generation and discounts regarding contractual agreements in Paulista amounting to R\$5 million.

And the only positive asset has increased in the (inaudible) revenues and the volume of resources that the Company has invested in its cash with a performance that is also indexed to CDI. So better gains amounted to R\$18 million.

On the other hand, still comparing the results in net income, adjusted net income and 8.5% increase in depreciation and amortization, it's only natural because of the coming on-stream of quite a lot of assets, mainly at Renovaveis and the decrease in income tax and social contribution due to a lower volume of taxable operations. So we reached R\$228 million positive.

And operationally speaking, we continue to be very strong and negative because the macroeconomic scenario had a direct impact on us be it because of the CDI or the change in the exchange rate.

On page 14, looking at each one of the business segments, you can see, the highlight in the revenues is the growth in net revenues, both for generation, conventional and renewable 48% and also in the commercialization and services. In the case of generation, we have the start-up of project of Renovaveis and commercialization and services also because of an increase in volume and then margin that we achieved during this quarter.

On the other hand, the EBITDA of these operations continues to go up in distribution and in generation more modestly, 3.3%. In distribution, as we said before, we had mainly the growth in volume 0.2%, just again in the mix that we have this area generation, we have a higher gain mainly in the seasonalization in the first and the second quarter and lower in the third quarter. And for all the businesses, distribution, generation, and commercialization, although we have increased our EBITDA mainly in distribution and generation, the increase in our net financial expenses generate a lower net income.

In commercialization and services, the increase had been high enough to keep the same perspective at the bottom line of 320%.

And in this quarter, the Company reports result especially in EBITDA, 52% comes from distribution 41% generation and 7% commercialization and services distribution 52%.

On the next page, we have our indebtedness. Net debt, 13 billion, a 200 million reduction on a quarter-on-quarter basis. A slight improvement in the net debt EBITDA ratio 3.33. And using this for comparison purposes, a 3.9 adjusted EBITDA and you see on the lower part of the chart, four quarters, we have been increasing the nominal cost of our debt from 8.4% to 9.9% a year.

Although in real terms, the increase of 2.4 to 3 and here you can see on the right, the pie chart, CDI 69% that accounts for the increase in our financial expenses, total financial expenses.

On page number 16 we have the debt amortization schedule. We closed the quarter with 3,822 million in cash. This cash is enough to cover almost 1.4 times the short-term amortizations and also at the beginning of the year we have the settlement of that commitment regarding the debenture that was made for potential acquisitions and it is settled at 2.8. The whole is 3.8 years our standard of the debt and the short-term in 12 months 17% of this total.

On page 17, we talk about three ventures that are under construction to be started up, four in fact; between 2016, three of them and 2018 the last one. Installed capacity, close to 350 megawatt all of them figures [ph] already established, three of them were the new energy auction, the 13th and the 16th, and the A-5 five and is (inaudible) with an operational free market in the 8 year for 20 years. So these projects are being built.

And right now with the BNDES request placed forward and now the performance of our shares in the case of this quarter, very close to the IEE and Bovespa indices slightly higher. ADR in the United States 1.3 performance vis-a-vis the equivalent of a 3.3 and the another highlight here has to do with the increase in the average number of trades and the slight increase in the volume of trade in Sao Paulo and New York. And of course the recognition of maintenance of our shares in the Dow Jones emerging, Sustainability Emerging Markets Index 830 companies are evaluated in 23 emerging countries and of these 830 only 86 companies achieved the requirements established by Dow Jones, 17 are Brazilian and three in the energy sector being CPFL one of them.

And finally an important recognition, Epoca Negocios for the third consecutive year for the third year since this yearbook has been published with a higher scope than financial results and strategy and corporate governance and also lovely innovation, strategic planning and systems related to the development of (inaudible) evaluated 250 best Brazilian companies and CPFL for the third time was ranked first in the utility sector and (inaudible) magazine again, one of the 150 best companies to work for in Brazil. So this is what I wanted to impart to you as information.

And now we would like to start the question-and-answer period.

Questions And Answers

Operator

(Operator Instructions). (inaudible).

Q - Unidentified Participant

Thank you for the call. Considering the scenario of 83% of the LTA, the long-term average, what is your estimate for 2015?

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

Thank you for the question. And I would like to ask Fabio Zanfelize, who is the COO of CPFL Brazil to answer your question.

A - Fabio Rogerio Zanfelize {BIO 20938488 <GO>}

(inaudible) did you say GSF or okay so GSF. Our estimate for GSF for 2015 with this expectation it is around 9%. This is our expectation for GSF with this scenario of natural inflow energy. Thank you.

Operator

(Operator Instructions). Our next question comes from Carolina Carneiro, Santander.

Q - Maria Carolina Carneiro {BIO 16342681 <GO>}

Good morning everyone. Also regarding the slide, regarding the estimate for LTA and reservoir levels, the scenario that you are estimating for 2015 in spite of a high GSF for 2015 maybe for the first quarter, I believe you will have a certain grace score at least stress in terms of catering to peak demand so probably happen this year during the summer, do you believe that the summer of 2015

tends to be less warm than it was this year. But even if you could consider this possibility the scenario still bring some concerns to our mind.

So, could you please explain what you see for the first quarter of 2015? And what kind of demand do you see for 2015 in order to reach this scenario of 9% GSF for 2015 probably a weak performance. So could you give us some details. Thank you very much.

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

Carolina, thank you for the question. Regarding supply of our load, we estimate such as was said by ANEEL [ph], we have two scenarios, you have one close to the average and we see no problem whatsoever related to the thing that you have just mentioned. I think there is a lot of speculation about this thing and I believe that any type of problem will

only occur if we really have a hydrological scenario that is really very bad. But if it is higher than 90% of the LTA, I don't believe we should expect any scenario of blackouts or power outages or whatever terminology is used to define this.

So we believe we will be able to deliver the necessary capacity in summer if we fill the reservoirs, of course we will be able to give a better use to the situation of the system. In terms of load forecast, of course, we use the ANS [ph] something around 4% growth, give or take.

Q - Maria Carolina Carneiro {BIO 16342681 <GO>}

Okay. And I would like to ask another question, what kind of demand should we expect for the A-1 auction scheduled for this year? How much demand do you estimate should be contracted during this auction?

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

Just one second Carolina. We expect to have a demand for that volume considering that the quarter entering in January and July will be around 1,300 megawatts.

Q - Unidentified Participant

Okay. Thank you very much.

Operator

Our next question comes from Mr. Felipe Leal from Bank of America.

Q - Felipe Leal {BIO 2015017 <GO>}

Good morning, everyone. I would like to know what is the situation of the transfer of CD funds for the distributors of the CPFL companies. If it is -- how this is being solved and it's going to be solved at the end of the year?

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

We have around R\$300 million in receivables there. We are talking to the government and last week and the week before, I was there talking to them and we do have -- and we expect to receive those funds along this year in the next few days actually. So it is a positive expectation and we have talked to the Treasury Secretary himself. But we have around R\$300 million to receive.

Q - Felipe Leal {BIO 2015017 <GO>}

Thank you.

Operator

(Operator Instructions).

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

I have an information from my team. The load that we are considering for the system is 67.7 giga that is the National System Operator load and the increase for this year is going to be 2.1% lower than the one that I had mentioned before. I just wanted to correct the information. And I also think it's important to highlight that, in the beginning of the presentation, when I talked about what I -- I told some speculations, it's just to show you that we believe that in the wet period, we surely have something in that interval of time that interval between 48 to 68 more towards the 68 then 48% that is important because we believe that we will have average rainfall or close to average with thermal dispatch up to the end of the wet period. From then on and that corresponds to a scenario because you usually ask for a more stress scenario. And we just tried to do the simulation in both situations, in a situation where we have the eight worse scenario with the total thermal dispatch and in another situation where we would have the highest hydrology level 68.5% where we also already have the eighth worst scenario, but a higher thermal dispatch. And if we are running above 90% of LTA that situation should be overcome and the final figures should be better.

Operator

(Operator Instructions). We now conclude the Q&A session. I would like to turn the floor to Mr. Wilson Ferreira Junior for his final remarks.

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

Very well. My remarks are that we are coming to an end of this dry period, which is very important to reestablished good perspectives for the year. We have worked with realistic scenarios. We expect to have rainfall at the average or above the average and we understand that the next six month period will be very relevant in terms of monitoring and establishing perspectives for the energy sector.

I would like to highlight that some measures are fundamental and they have been debated in the electric sector and they will be evaluated along the next months in order to consolidate good expectations.

The first one has to do with the definitions that will happen up to the 25th of November, that has to do with the ceiling of the spot price and also the floor of the spot price. And as well as the discussion of the apportionment along with the consumers. And second, obviously the government's responsibility of establishing competitive prices, so that we are successful and the A-1 auction that is going to happen in December.

Third and this has been a reason of several interactions and we hope that the distribution workshop and where we could talk to regulators, to experts and factor in order to define the main parameters of the tariff reviews of (inaudible). It is important to say that been an important agent in the sector, we try to acknowledge the regulator. And we recognize deterioration of the macroeconomic scenario.

So in order assessment that shows that the work values even temporary ones should be reviewed and increased. We believe that we needed to acknowledge that on the one

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side, the distribution activity, it continues in daily investment activity. So you cannot consider the risk country and the average, you should really take that into consideration. And considering also the samples and with American companies that also we know the exchange rate risk should be included here. So we should recognize a higher (inaudible) fundamental so that the distributors may in this new tariff cycle implement also a new cycle of services improvement that would provide enough cash generation for that type of assessment.

Along this third cycle there was worsening in the situation, especially financially caused not only because the third cycle was harsher, but also because of the events that unfortunately are not predictable, a very low inflow that caused an important financial stress.

I am sure that there is an acknowledgment of the regulating agencies. In terms of all of these events, we could have a positive overview. Whether to recognize that perspective (inaudible) or needed adjustments as we said regarding the spot price. All of those issues are of very short-term. They should happen in the next few days and we understand that these are going to be fundamental decisions. So that the industry may whatever the future scenario is to sustain the current economic growth. CPFL with its activities obviously, it will be paying attention and following closely all of those signs to continuing the growth that we have seen in all our activities. Those were my final remarks. Once again, thank you very much for your attention. Good afternoon.

Operator

The conference call for CPFL Energia is concluded. Thank you all for your participation. Have a nice afternoon.

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