Local Conference Call

CPFL ENERGY

Results of Third Quarter 2010

November 11, 2010

Operator: Ladies and gentlemen. Welcome to CPFL Energia's Third Quarter 2010 earnings conference call. With us today are Wilson Ferreira Junior, president of CPFL Energia and other company officers. This call is being simultaneously broadcast over the Internet on the Investor Relations site of CPFL ENERGIA at: www.cpfl.com.br/ir. The presentation can be found there for downloading. Please be advised that all participants are connected only as listeners and later we will open a question and answer session for which instructions will be provided. If any of you need assistance during the conference, please request the help of an operator by dialing *0. It should be remembered that this conference call is being recorded.

Before proceeding, let me mention that forward-looking statements may be made during this conference regarding prospects for CPFL Energia's businesses, projections and operating and financial goals, which are based on the beliefs and assumptions of the Company's management, as well as on currently available information. Statements are not performance guarantees. They involve risks, uncertainties and assumptions because they refer 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 operational factors, may affect the future of CPFL Energia and may lead to results to differ materially from those expressed in such future considerations.

Now I want to pass the microphone to Mr. Wilson Ferreira Junior. Please, Mr. Wilson, you may proceed.

Mr. Wilson Ferreira Junior: Good morning to you all, capital markets, investors, analysts, I am pleased to open the conference call for the earnings results for the third quarter of 2010, even using this cover as demonstration here of the conclusion and entry into operation of the Foz do Chapecó hydroelectric plant, bordering the states of Rio Grande do Sul and Santa Catarina - the largest energy project in operation in 2010, as I said, on October 14. We'll talk more about this throughout the presentation.

I'll open now, going to page 2, with the highlights of the third quarter.

As we normally do here, here in two columns are the results reported and the recurrent results. I will refer in this first page to the reported results, because on the next page I want to make a comment about the recurrent results.

In the case here we are reporting a growth in our net revenues of 2.4%, reaching in this quarter R$ 2,758 million. The Company's EBITDA was up 21.9% in the third quarter, reaching R$ 817 million, and finally net income grew by 33.8%, reaching R$ 388 million this quarter

These results, mostly, are affected by the continued growth in sales in the concession area, up 7.6%. Also naturally affected here by rate increases for CPFL Piratininga, but still only slightly in this quarter, in view of the fact Piratininga had an 8.59% result in Parcel B - which is what incurs on the result, that will affect EBITDA and everything, of 6.64%, but it suppressed these adjustments upon entering into operation last October 23.

It is important to note that the Baldin plant already is concluded, coming on stream on CPFL Day, and some of you had the opportunity to visit this plant, 45 MW more of our generating capacity, and as I said at the beginning, with the start-up of the Foz do Chapecó plant on October 14, the Group has another 436 MW, since it holds a 51% stake in this plant.

We will provide details a bit later about the sales in the third Reserve Power Auction, with sales of wind and biomass power a little later. We received, I think it also is important to highlight, a raise in the corporate credit rating of CPFL Paulista and CPFL Energia, going from AA to AA+ by Fitch Ratings.

And a set of awards, highlighting the award for Best IR Professional and IR Team - Gustavo is here with me today, an important achievement of our IR department, made by Institutional Investor magazine.

We also were recognized as the third on the list of the Best Companies for Shareholders in 2010, published by the Capital Aberto magazine. And we won the award for Best Annual Report for 2009, by Abrasca.

And finally, RGE won the award for Best Distributor, from Abradee also in 2010. These results are very important, noting also that RGE was a finalist for the National Quality Award this year.

I'm going to the next page now, just to note the non-recurring effects, which are basically two. Last year we had retroactive recognition of the CPFL Piratininga tariff review; this effect was, as you will remember, in the so-called "reference company," retroactive by two years. Then on the right side in the third quarter, we have this effect recognized, it was R$ 64 million in net revenues, R$ 109 million in EBITDA and R$ 74 million in net income.

This year, in the third quarter we made a provision for a CPFL Paulista labor contingency - a contingency from the time of privatization, even before, in 1994, a demand of the Engineers Union, which has now been finalized and it impacts the result in Paulista in the amount of R$ 20 million in EBITDA and R$ 13 million in net income.

Considering these two effects, both last year and this year, we have here a very slight recurring result of increased net revenues, of 0.01%. EBITDA grows 7.5% to R$ 836 million. Finally, the net income would reach R$ 401 million, an increase of 10.3%, if we hadn't had this R$ 20 million lawsuit impacting CPFL Paulista's EBITDA. These are the recurring results. I know they are especially useful for analysts, so that is why we are making this disclaimer.

Let's go now to page 4 to report on the sales of energy in the free and captive markets. We present, as I had mentioned at the start, a 7.6% sales growth in the concession area, 4.5% in the captive market, reaching 9,779 GWh, and the free market of consumers served in the concession area was up 17.2%. As you all know, this was a result mainly of a still weak quarter last year and a large recovery of the industry, thus reaching, 17.2%.

One sees below details about the market in the section about the concession area, still showing strong growth of both residential and commercial segments, 6.1% and 7.7%, respectively. For its part, the industrial segment was a little more contained, but still with very high values, 7.2%, and the other segments, 11.1%. Here the emphasis is on the rural segment, given that we have had one year of drought, then obviously mobilized by irrigation here and that is the main reason for this growth. The total then was 7.6%, as we already said.

Let's go over to the right side, where we now highlight the total energy sales, that which is billed to consumers and concessionaires. In Blue, we have sales to the captive market, which I have just detailed, through the distributors, billed to the consumers. In Orange we have sales, notably in the energy commercialization area, where we see a drop of 4.1%.

I had already this mentioned last quarter — last year we had a big operation, we were not the only ones, other companies also had this, at the so-called "Adjustment Auction," which did not happen this year. This is the main reason for a slight decrease of 4.1%. Even so, we saw total sales growing by 2.2%.

Below we show the performance of our distributors in comparison with their regions. Higher in the South region, slightly below in the Southeast, and in all these operations we are growing 7.6% while Brazil grew 7.2%. We maintained a behavior that is typical to areas where we're positioned, which typically grow slightly faster than Brazil overall.

Let's go to page 5, and here we have a set of drivers that are determining these results, both in the residential and commercial segments, and also in the industry. It is interesting to note, starting here in the residential and commercial segments (which are vigorous, as I said) and are motivated mainly by the increase of formal jobs, 2,264 thousand compared to the same period, a record increase in number of jobs. These jobs have also allowed an increase in total income. You see them accompanying increases in real wages, and we also had this in the company, 5.7%.

The granting of credit is still expanding, something close to 20% in this quarterly comparison, and now with a dilation of maturity - from 30 to 42 months - this is also positive. And finally retail sales, still heated up, growing 15.1%.

All this determines that this heating up, the continuing of such heating up of the residential and commercial segments, is very important for the company, involving billing of low voltage sales by the distributors.

On the other hand, below, we see better industrial production behavior, although still at very high levels, 7.2% in this comparison of quarters. It is positively affected, on one side, by rising industrial production of 11.2%, already a demonstration of the level of capacity utilization, it should determine new investments in expanding capacity - we had record utilization of 83%.

Moreover, we had a slight increase of 2.1% in exports. The not so good part of this behavior is because we have expanded imports strongly, by 29%. This winds up somehow modulating the behavior of the industrial segment.

It is important to emphasize, we conducted a small survey of some investments already announced in the concession area of our companies, only to put them in line with the outlook for continued growth of sales. We see announced investments of an intermodal terminal in the amount of R$ 5 million. A footwear factory, for R$ 4 million. In the pharmaceutical industry, a new plant, R$ 10 million. A meatpacking plant announced, for R$ 100 million.

We have a large hotel announced, an additional investment of R$ 100 million. A wind farm in the concession area of RGE, in Santana do Livramento, Rio Grande do Sul, a new development of R$ 400 million. We have here four malls under construction, two correspond to an expansion and two new ones under construction, an investment of around R$ 600 million.

Here we have two hospitals - one in expansion and one under construction, the Hospital Sírio-Libanês Hospital, in Campinas, at R$ 835 million. In addition, some expansion projects in an electronics factory, R$ 3 million, a food factory an additional R$ 26 million, and equipment and transportation, R$ 50 million. Total investments are planned for this discreet expansion that I am sharing with you, more than R$ 2 billion. That is to say, somehow, that the growth driver remains indeed heated up, with very positive outlooks in each of these segments we share.

Let us now try now to add a little more detail to the comparison of the quarters in terms of operating profit as measured by EBITDA and final net income. Starting at EBITDA, we have here a recurring value growing by 7.5% and the reported value by 21.9%. So here these non-recurring effects are listed here both on the left, the right side, and we already have explained this.

Let's go directly to the recurring values. A small growth in net revenues, affected on one hand by the growth in sales (which we just talked about) 7.6% in the concession area, a situation of 4.5% in the captive distributors market and 17% in rates for the use of the distribution system, at 17.2%. That's the positive side.

On the other hand, we had, as previously detailed, a 4.1% reduction in our free market sales volume and 4.4% in total revenues. It should be remembered that at the time, last year we sold energy at R$ 145 MWh, a very high value in the Adjustment Auction setting.

On the other hand we have here, the result of the procedures for concluding the review, of the rate adjustment, last year also we had a rate that was, I would say, so "driven" because of the financial components - remembering that we had thermal power generation the year before, which eventually impacted the revenues of the distributors last year, and that did not happen this year.

In comparison, we have an apparent reduction of the tariff related to the decrease especially of these financial components. And here, as we have already spoken, although we increased the TUSD volume by 17%, sales to free consumers, the TUSD, had a higher value, an increase of 47.7% in the TUSD rate, in the volume of related to TUSD.

On the other hand we have here a reduction of 5.9% in energy costs and charges, something close to R$ 100 million. It is basically composed of two aspects - the actual reduction in the cost of energy from Itaipu, and the issue of exchange. And the reduction in amortization of the cost of service and system, which is exactly the subject I had spoken about regarding the volumes of energy of the dispatch of thermoelectric plants last year.

On the other hand we see here the end of the amortization of "Parcel A" in 2001, this is just for a comparison of last year - last year we concluded the amortization and this year we did not, which gives the impression that there is a larger reduction.

Finally, what we have here was part of our business plan, the energy purchased by Epasa (EPA is a thermoelectric plant contracted since January), the amount of energy is replacing the delay of the plant itself, and is incorporated here. We also had a few days delay in Foz do Chapecó, with a total volume of R$ 52 million, with about R$ 47 million in the case of the Epasa and R$ 3 million in the case of Foz do Chapecó.

Finally, we see here a 14% increase in the cost of operating expenses, R$ 43 million, the first effect of the collective bargaining agreement that we had throughout the entire company, with R$ 7 million occurring in June 2010. So we have here, in addition, two increases resulting from the expansion of activities.

We have increased our activities for the CPFL Atende since inaugurating ... already in operation, but I will be opening next week our Araraquara installation. We already had a position in Ourinhos, and now we have greatly expanded our Araraquara site, satisfying this structure.

Also CPFL Total, regarding the question of collections, we more than duplicated the structure of this company and we became the largest collector of energy bills in the concession area of our distribution companies. Finally, CPFL Services, because it is responsible today for the network connection to our Epasa plant, which is being concluded during this month of November, early December, so we also had intense activity here.

These values are non-recurring because they stem from the expansion of the activities and they add up to R$ 10 million. We had here the selloff of assets that led to a negative R$ 9 million impact. Eliminating these effects marked in blue, the recurring effect is PMSO growth of 7.8%, which compares to 7.8% of the IGP itself. So, it is an entirely foreseeable result, in view of these explanations.

Let's now go to page 7 where we detail net income, beginning with the 7.5% increase in recurring EBITDA as I have just described. On the other hand, we have here a 23% reduction in financial income, at R$ 16 million, and it is the result of two elements.

The first is the increase in our interest income, on the one hand an increase in the yield of our investments, a higher CDI ... Selic, CDI higher than in the same period last year, and a slightly larger volume of cash which gave rise to this increase in financial revenues.

On the other hand we have also an increase in financial expenses of R$ 55 million, or 35%, because we have an increase in debt stock and obviously the index of 2.19% last year rose to 2.62% this year, an increase of more than 20% in the main index of the company's debt.

Thereafter comes the increase in depreciation and amortization expenses, resulting from the start-up of assets. The subject of the private pension fund, which in the four quarters we will have this positive effect of R$ 23 million explained in the last two earnings results conference calls), and due to the increase in EBITDA, an increase of income tax of R$ 24 million. With all this then we have a result, recurring net income of R$ 401 million, less the non-recurring effect of the labor provision, leading us to R$ 388 million.

Now, we reach page 8, I just want to add a little future perspective. We have here at the end of the year, and we are already preparing for it, the third Reserve Energy Auction, the A-5 auction, in 2010. Our vision is that we will have these five projects close to the time of this auction, now in final processes of licensing, a good portion of them. We have here new opportunities for hydroelectric participation in the amount of 2,672 MW, highlighting the Teles Pires plant with 1.8 thousand MW, an exceptional plant, we are involved here in the study of this plant.

We had in the third Reserve Auction, which I spoke about earlier, the sale of biomass sources. We sold 70 MW from our Rio Pedra plant at a price of R$ 145.48/MWh. This plant, just to remember, will come on stream in the second quarter of 2012. On the other hand, we also participated in wind power, and were only able to sell one of our parks, Campos dos Ventos II, with 30 MW of power.

So we're an entrepreneur and we sell in this auction, where the highest price was R$ 126.19 per MWh. This park is exactly next to our seven other parks under construction in Rio Grande do Norte, and this one specifically goes into operation in the third quarter of 2013.

I thought it would be important on page 9 to offer you a little future perspective that naturally results from the entry into operation of a group of projects, some of them, specifically in the case of Madeira, clearly ahead of schedule. So what we expect, here in red, is that the demand of the system, projected by the system, will rise. In blue, we have here the exact supply that will be feeding this demand, and the part in green is surplus.

Then the system, the operating system over the next five years will be one with plenty of tranquility, and somehow it all winds up (the top graph is a demonstration, the chart provided by the ONS from the expected value of PLD) declining to levels somewhere around R$ 90/MWh. Of course, there is much volatility in the price of the PLD, precisely because of weather conditions, but from the structural point of view, it is well behaved.

It is evident that at a moment when industry is expanding, it is an important opportunity to buy energy at a slightly cheaper price. We do not see in the future any kind of surprise from the point of view energy supply, and prices obviously clearly portray that vision.

On page 10 I'm trying to give you the timetable of this is important process that clearly impacts groups linked to distribution, like ours, which is precisely the schedule for the process of approval of the establishment of methodologies and criteria for the third tariff review cycle which begins next year in March since the with the Coelce process.

This process was opened last September 10, through a set of very extensive technical notes, something close to 400 pages, and it has been the subject of our highest attention. This process continues through two important dates in the month of December - on Dec. 2 for a presidential meeting with the society being represented there, including the agents. We will be there putting our views out publicly.

And there is also a period that ends on December 10 where you forward your contributions. There is one proposal by the Agency, there is a debate with society on December 2 and all the contributions must be received by the 10th of December.

The Agency will have something on Dec. 10 something that we imagine ... something for next February, maybe the end of February, or to respond to or to disclose the final outcome of the hearing process, then to move on to the month of March to apply this methodology already in the case of Coelce. There are several companies in the coming year, highlighting here Eletropaulo Elektro, CPFL Piratininga itself, Bandeirantes, that will now have to apply this methodology.

Of course, and I think it's pretty clear there is a surprise in the industry that mainly concerns the proposed level of regulatory WACC, which is a significant subject, which determines the so-called "Regulatory EBITDA." There is a set of statements from the companies directly, mainly via Abradee, which has interacted with the Agency in order to demonstrate this surprise, with the capital market itself working with numbers — somewhere around 8% to 9%, an average of 8.4%; we had a proposal of 7.15%.

I believe that without a doubt, the arguments, the sensibility of the Agency, itself must determine here is something that is reasonable for the sustainability of the sector. Obviously, the proposal presented by the Agency is not limited to these topics — there are a number of innovations that have been the object of attention, discussion, operation, and obviously also to formulate proposals to be forwarded, as I said, by Dec. 10.

I confess to you, I have a quite positive expectation in the sense that the arguments have been posed in a way to bring about improvements to this proposal made by the Agency.

I turn now to page 11, just to detail some of our group's Capex and some operating results. We have already invested in the area of distribution some R$ 801 million this year, which is the final phase of the composition of the asset base, in particular for CPFL Piratininga. Therefore, there was a 54% increase over last year and it was absolutely in line, if we compare the quarters. We had planned R$ 1,057 million for the year, that is, we have already spent this year 76% of what we had scheduled.

Evidently this Capex is targeted to support in any way possible the growth in the number of customers, growth in sales volume (which has been quite strong, as we reported), and of course addressing the concerns of the Agency with regard to service quality. In this regard, what is evident regarding the duration and frequency of our interruptions, is that they are well below the national average and continuing a pace decreasing over time, but slowly, of course.

We see here, as a group, there were six interruptions per year, 6.05, determining an average duration of outages a little below 8 hours per year, noting that the year consists of 8,760 hours. So it is a value that represents very high reliability.

And I'm also noting an example of the type of investment being made. We are automating our network. We are the company with the most automatic distribution network and we make automation a priority. We are deploying about 1,600 switches this year and another 2,000 ... slightly higher, about 2,400 next year.

These switches are investments. By themselves they represent about R$ 50 million over these two years, and they are an important part of the operation of the system, protection and so on. But on the other hand the automating of switches allows us to reduce the costs of operation, by reducing the costs of sending out teams. There is a significant improvement in quality, which gives us greater operating flexibility, thus reducing the duration of the interruptions.

The switches that are being installed are assets incorporated in the Aneel's net remuneration base, therefore they are investments that will be subsequently be compensated.

Now let's look at the generation activity. Just some highlights here, a photo of the Baldin plant, which went into commercial operation on August 27. A 45 MW plant, our first biomass plant, which will allowed us to generate a more than 400 direct and indirect jobs in construction and took about a year and nine months to build and begin operations.

Next we have here a view, on page 13 of our plant at Foz do Chapecó. It is a plant that has a ratio of installed power per reservoir area of 10.7 MW per flooded km^2. It is five times more efficient than the national average. It is an extraordinary work. The spillway of this plant is the second largest in Brazil, second only in water volume to Tucurui.

It allows us to add 436 MW of power to the group. This makes us now, as of the start-up of this plant, the third largest private Brazilian generation company. And I think there is another very important fact: it alone would account for 25% of energy consumption in the state of Santa Catarina, it is a large plant, and it is the first hydroelectric plant in Brazil to use an asphalt nucleus to seal the dam. This allows dam in the future ... it has a good road system on the crest of the dam, and it connects the state of Santa Catarina to the state of Rio Grande do Sul.

The investment on our part of R$ 1.3 billion, corresponding to a 51% stake, allows the company, referring to this stake, to obtain additional revenues close to R$ 290 million per year. Given the efficiency that we operate, of around 80% ... 85% with EBITDA margin, you can estimate the impact it brings CPFL Geração and CPFL Group as a whole.

Let's turn to page 14, just to report a further development to be completed this year, which is the Epasa thermoelectric power plant. Where we also have 51%. Where we have the entire volume of electricity sold in A-3 auctions. Where our participation will bring in annual revenues of R$ 85 million, fixed, because it is naturally a thermoelectric power plant and can be dispatched, the revenues may increase, but revenues increase naturally by the passing on of the fuel costs.

This is the fixed value that the company has, from its investment of R$ 310 million, of which by September we had made 84%. I can tell you that in October we had already completed 89%, we expect to conclude ... our best estimate is to complete this plant, already entering operation, in the first days of December.

A plant that we built in record time, in just under a year or about one year. We started this plant, its construction in October 2009, and as you can see, works well advanced, we are already commissioning all machines. The challenge of this plant is the connection to the Chesf network (which is where we have dedicated our activity). We're counting here on CPFL Services to make this task feasible.

On the other side, the right side, here we see the Bio Formosa biomass plant. It is a plant that in which we have a total planned investment of R$ 127 million, of which we already have invested R$ 50 million. It is in Rio Grande do Norte, and 55% of the works had been carried out by September. We're already in October with 62% of this plant ready. We are now in the final phase, at the beginning of this coming year we should have this plant already in operation at the end of the first half of next year and the beginning of the third quarter.

We now turn to page 15 to report on our eight wind parks. The first seven are here: those at Santa Clara — we began this construction last August, we already have 9% of the project completed in September. This project should bring revenues of R$ 100 million, as the only park in Campos dos Ventos II will bring in R$ 16 million.

In the specific case of the Santa Clara wind farms, start-up is scheduled for the third quarter of 2012. In the case of Campos dos Ventos II, it is the third quarter of 2013; both parks are already under construction.

I'm going to go to page 16 just to make a report, since we are naturally diversifying our matrix. Here you see the biomass, wind initiatives In orange you see the completion of these constructions and at the bottom, are an additional 577 MW in construction, those we just announced the conclusion of.

This is an important piece of data. We see that we had 1,737 MW, we added 659 MW in 2010, only Epasa remains here. We are going to reach the end of the year with something close to 2,400 MW. With the projects that are shown up here, we'll get to 2,800 MW and we will become the second largest private electricity generation company.

Concluding this presentation on page 17, speaking a little bit of the debt profile, it increases slightly, the result of obtaining funds to enable completion of these plants. Here we see adjusted net debt of R$ 7.2 billion, a debt/EBITDA ratio of 2.28x. But it is important to emphasize, we have all of the investment in Baldin, Epasa and Foz do Chapecó, even without the net generation cash of these projects. If we only we considered the input from them, we'd have a debt/standard EBITDA ratio of 1.87x.

We have here a real increase in our financing costs, naturally also because of the leading index that can be seen, the CDI. We already discussed this earlier when we talked about financial expenses. Here you see the real effect, passing from 4.4% to 5%. And here, once again, again the awarding of the improved rating for CPFL Energia CPFL Paulista by Fitch Ratings. There is no change here in the main debt indexers.

On page 18 we speak of the performance of our shares. We highlight an increase of 18% compared to 5% of the IEE, the 1% of the Ibovespa, all in comparison with the Bovespa. In comparison with Dow Jones, the Dow Jones Index declined 1% during this period ... the Brazil Titans were down 1%, the Dow rises 3% and CPFL rises 23%. We have in this period an increase in the average volume when comparing the quarters of 31%. And I had already highlighted the important recognition of Institutional Investor magazine and of Capital Open, something quite important for us.

Finally, here on the last page, just a demonstration of those other awards - the best companies to work for, we were the tenth largest company in this ranking. Importantly, we fought for some time for Abrasca recognition, and for the first time we had their recognition for the "Best Annual Report."

And also an interesting award, the fourth Intangible Brasil Prize, from Modern Consumer magazine, where we, again we were the best in intangible assets in the utilities sector, the best the corporate governance intangible asset corporate, and here it incorporates an assessment of the thousand largest companies in Brazil, conducted by Valor Economico.

These occurred primarily in the third quarter. I, along with my group of executives, am now available for questions. Thanks.

Question and Answer Session

Operator: Excuse me, ladies and gentlemen, now we begin the questions and answers session. To ask a question please press star (*) one (1). To remove the question from the list, press asterisk (*) two (2).

Our first question comes from Mr. Vinicius Canheu, from Credit Suisse.

Mr. Vinicius Canheu: Hi Wilson, good morning. I wanted to ask two questions on two topics you addressed in your presentation. The first is in relation to distribution, that is, we are in a period of regulatory transition now with this new proposal for the third cycle. I wondered how this affects the company's appetite for acquisition movement now? While we have not have defined this process, how is CPFL viewing possible moves to acquire distribution at this time?

And the second is more in relation to generation. We have seen in auctions an expected rate of return on projects, of the main large projects that have, at least in our view, been very low, for some even questionable reasons, so much so that what we have seen CPFL choose smaller projects with higher rates.

I wanted to know, when we look at the next auctions and the next years, what is the vision that the company has in relation to rate of return for a large project. Is it time to lower the company's own hurdle rate and try to get into a larger project? Or is the strategy to continue doing what it has done so far - focus on smaller projects, but those that offer better rates of return?

Mr. Wilson: Vinicius, Okay, thank you for your questions. As regarding distribution first. I understand that the company's vision - you asked if it affects the company from the point of view of its future ambitions - I understand that we define our strategy, and have a distribution business which is predominant in the group, we have something close to 60% and we continue to grow in the area of generation.

Evidently, our interest is to maintain this structure, then we remain alert to the movements in consolidation, because I understand that to improve the quality of service and have low tariffs, a consolidation movement is important. Without it, without increasing scale, these ambitions, which are legitimate to society, to government, might not occur.

Obviously at this point, given the uncertainty, there is a proposal that the Agency placed on the table, there are a number of manifestations on the part of the agents, obviously we think that the WACC should be slightly higher, we think there are some misconceptions or perhaps a more aggressive stance with regarding revenue sharing and so on. This has to be the object of discussion.

Now, all this has to be done ... I think regulatory, business, society, in the sense that the system is stable, is sustainable over time. Then go find a point that I believe there is equidistant between what we had and what is being proposed, vis-à-vis the arguments that might emerge.

I'd say to you: we're still engaged and alert for consolidation opportunities, they are already being shared by you in terms of the preferences of the company, in the regions, etc., in sizes and I think this is not the place to detail them, have been objects of various statements on our part. The challenge here is obviously about the occurrence or existence of such processes, or these opportunities, and the challenge is the pricing.

Recalling that on the other hand we have the advantage of the possibility of synergies, which in turn somehow mitigates at least some of this risk, without a doubt. So I want to reaffirm that we are a group that has an important commitment to this activity in Brazil.

We remain alert to these opportunities and do not change our strategy, because we understand that on the side of the regulator there is serenity, reasonableness in determining the final platform, even because it sees, without doubt, the need for stability of the rules, it no doubt sees ... it is able to clearly assess the sustainability of the sector, I am very confident of this.

As regards the other side, generation, you're right, we have sought, I wouldn't say to replace, because with regard to our ambition in terms of volume it is not possible to replace an ambition that would go to 5,000 MW in 2014 exclusively through small projects of 40 ... 50 MW, which is what we have now in progress in wind power projects, etc., in biomass projects.

Without a doubt, while we cannot have, identify, a large opportunity, we have comparative advantages, we will be sharing with you these opportunities on a quarterly basis. We have several in our pipeline, not announced this quarter, but this much more involves schedules listed here mainly for biomass, the best situation from the point of view of energy production in different regions, that we soon announce. We continue aspiring to create a platform for renewable energy, a large one, for here we do have comparative advantages.

I think that, on the other hand, Vinicius, we must acknowledge that you have three large generation projects - two on the Madeira River and Belo Monte - and what we found in the three was a reduction of ambition for rates of return. I think there are a number of factors that determine this lower rate, without a doubt one of them is because the cost of capital of the generation sector declined (you yourselves reported this in your own reports).

On our part, as a criterion for participation in the project, for each one of the projects we incorporate this cost of capital seen by the market, and add a risk spread, what we perceive, the fruit of our experience. We just concluded our sixth plant in five years, so we are a group that has experience enough to say: "Look, we had delays, for example, in funding, we saw delays ... "

This plant came on stream 44 days late compared to its original timetable, it had a chance to be concluded two months earlier - we were hit by a strike at IBAMA, this is known to you. We also detailed this on CPFL Day. Such knowledge or experience must be somehow incorporated into our view of the rate of return. There is no doubt, given that we're not winning, it has been higher than the rate of the competitors who have directed ... have dedicated themselves more completely to them.

There were three major projects, so we also have to relativize these three projects because (I just showed you) we should have five projects at the end of the year. I believe that as you have more opportunities that can interest other bidders, other investors, I imagine that the rates could reach a more adequate level, more compatible with the risk of a project like this.

I also want to say that, on the other hand, Vinicius, the rates as a whole decline — either because the projects are better or because they already have obtained environmental licensing. This is different than the experience we had with our six projects. Six, especially because now there is a financial condition, provided here by BNDES financing, that is much better than what we had in the past.

The projects are receiving 70% ... 75% financing, which our Group obtained mostly in Foz do Chapecó, which was the first PAC project, and which had around 70%. The rest were somewhere in the neighborhood of 40% and 50%. So this also affects, no doubt, the ambition and the appetite for risk of the agents.

I have an expectation that this ... that these three projects were very competitive, even of the government's willingness to set prices that could have proponents. But in order for us to become stable, so that we have more groups, we must have more projects and we have to work with more realistic rates. I believe there will be a normalization of this ambition in the coming auctions.

Mr. Vinicius: Okay great, thanks.

Operator: Our next question comes from Ms. Tatiana Reis of Citigroup.

Mrs. Tatiana Reis: Hello everyone, thanks for the call. My questions are a bit more designed to complement the previous question that you commented on, that even on investor day (CPFL Day), you were always watching, alert to opportunities. So can we expect any announcement until the end of this year? Or are you actually are more focused now on working on what you will present to the Aneel public hearing at the end of December?

Finally, since you also talked a bit about the issue of the Regulatory WACC, I wanted to know what other points of the proposal that Aneel presented you are more concerned about at the moment? Thanks.

Mr. Wilson: Without a doubt we are very focused on that public audience, we have interacted. I myself visited with the agency Friday in a platform of eight distributors. Obviously, this process is the most important. We do not neglect other prospecting, but the focus the company has been heavily in direction of interaction with the Agency in this review process at the moment.

The main impact from this proposal is exactly the regulatory WACC regulatory. I think you may have noticed, there is a withdrawal of the regulatory risk, which we think it's inappropriate, I think ... I would say, at least half of the effect of reduction that you analysts have been looking to you place as potential, it stems precisely from the regulatory WACC.

It's not the only thing. We understand that there are proposals related to, for example, the X Factor - which are also different than what's in the concession contract itself, because the concession contract speaks of a sharing of improvements or past productivity; it does not provide for the setting of the X Factor in advance. Then the X-factor also worries is because we, on the other hand, end up with all the market risks.

If you have a market downturn, the Agency's proposal itself sensitizes the X Factor. So the values that are derived from the X Factor, especially for concessionaires in the Northeast, etc., which grow more because the starting platform is smaller, they become very large. In a comparison with the IGP this could represent a serious problem of balance for these concessions later on.

And there is also a theme related to the "basic regulatory annuities," which is an innovation also placed in a mathematical formula that, in the comparison of the major costs that were approved by the Agency in the last review of the second cycle, which ended just two years ago, it is true, here it possibly has some kind of simplification that winds up more strongly impacting the concessionaires.

So we're debating, meeting, exchanging information so we can propose improvements to the Agency and a clear set of points that are not yet completely clear to us.

Mrs. Tatiana: Excellent, thanks.

Operator: Our next question comes from Ms. Mariana Coelho, of Itaú Securities.

Mr. Marcos Severine: Good Morning Wilson, in fact it's Marcos Severine, of Itau BBA, okay? I have two questions. I would like to focus a bit more on this question of expansion in generation, a question quite relevant to the wind projects.

Today you have 218 MW, which you already marketed in these auctions, that is to say, do you want to grow further in the coming years? What can we expect of these projects? You may reach 1 GW? And how would you put it, say, the effort you're putting into growth in renewables, between wind and biomass — that is, where do you think you can grow fastest to obtain a more attractive return? Thanks.

Mr. Wilson: Okay, Marcos, thanks for asking. We're really focused in that area and the idea (I even shared on CPFL Day itself) is that we add something close to 1 GW in the next three to four years. We understand that there is a space that depends more on the people in the biomass area, but we already have today 235 ... 240 MW under construction. I'd say we are close, with the pipeline, to reach at least 500 in the next months.

Regarding wind power, we're very positive. We have rights to some of the remaining parks that participated in the last auction and that were not winners. The price in the wind power area we've had somehow determines an ambition, whether to place it or to consider it. There are some regulatory procedures that are missing for wind power — for example, for the free market, given the price it eventually reached.

So the ambition for us, for the next year, is to expand the platform to about 1 GW, just of renewable energy. I would say we are "in very good shape," relying almost exclusively on people to grow our biomass business. Regarding wind power, we have some reserves because we have the rights to some parks.

Here are two alternatives: one with regard to the free market issue, which depends on some regulation, or alternatively new auctions. I think we can advance in each one of them. In the last auction we wound up placing just one park each because, actually ... we ... placed two parks at the end and for one of the parks it was almost like a drawing - both were placed at the same price, and only one entered to make up the demand - but we would have won two, sort of easily, also based on the largest auction price. So, then, there we have reservations about this part of the area, too.

If you note that we already have 2,800 MWe, we could still put another 1 GW, we need to supplement this demand with water projects, and therefore our focus also is on a few projects like those that will be put up for auction later this year.

Mr. Marcos: I see. Just a quick follow-up here. We observed a rather sharp drop in Capex of wind projects in the past auction (in the first) in the range of R$ 4.3 million, R$ 4.4 million/MW, and now in the range of R$ 3.7 million ... R$ 3.8 million. Do you believe there is room for additional declines, especially with the currency exchange issue weighting it, or somehow have we reached a limit in that part of the suppliers of turbines?

Mr. Wilson: It seems like we hit a limit. I would say this: most investors have preferred to purchase turbines on the Brazilian market, that is, stemming from the installation here of a number of factories, especially because the purchase of turbines manufactured in Brazil has an additional advantage regarding financing, as you know, through the BNDES itself.

I would say this is related to the fact that these few plants, something like four in Brazil today, which on the most part were set up in the last two or three years, does not only involve a dispute only with the investors — it is between the investors and the manufacturers. You reach a price where the comparison is, I would say, at the international level. I do not believe in a greater reduction of this business. In my opinion, I believe that would be difficult to happen.

Mr. Marcos: Okay, thank you, Wilson.

Operator: Your attention, please. We have ended the question and answer session at this time. I would like to go to Mr. Wilson Ferreira Junior for final comments.

Mr. Wilson Ferreira Junior: Okay, just supplementing a bit, I forgot also to mention to Marcos that there was not only a reduction in the cost of the turbines themselves, but also a reduction in the costs of O&M by some of the vendors. And this is what wound up making it possible together with better financing and smaller turbine and O&M costs, to achieve a reduction in the final price. If one remembers that between the first and a second wind auctions, in particular, it went from in the range of R$ 148/MWh to something varying between R$ 136/MWh and R$ 125/MWh in the second auction, isn't that right?

Final considerations. It was a calm quarter, I would say, with very little variations in the results, with strongly mobilized sales, and then our expectation, all of our expectations are for continued heating up. We have a new president, a president whom we are pleased to note has major experience in the energy sector, particularly the electricity industry. She was responsible for preparing the regulatory model that we currently have in place, which is quite successful for both the generation as well as the distribution areas.

I would like to demonstrate through this that I am confident regarding the future with respect to the market side as well as the regulatory side. And we already have, and I think it is a major conquest in the recent history of infrastructure area, important coverage, through the Brazilian National Economic and Social Development Bank (BNDES) and or from the Financial System, in order to finance these companies that are in very good conditions. The challenge from now on is that when things are going well, we are able to maintain them at a good, sustainable level. This requires careful action and attention on the part of each one of us

Also supplementing information about CPFL, I wanted to demonstrate here our confidence. We didn't speak much about this today, with regards to the initiatives related to services, in view of the extensive experience that the company has accumulated in the building of substations, in the construction of connections, of transmission lines, etc. Some of these are serving as investments themselves or projects that the company is leading on the generation side — biomass, thermoelectric power and now, more recently, wind energy, for which we will be responsible.

This is something that in the next conference calls I would like to explain a little better. It is evident that there is natural attention being paid to us, at a moment when consolidations are possible, that we have a very clear vision about this process. I think I wanted to summarize in my last comments that this is a platform with great responsibility and efforts on the part of the controllers of the company — they are traditional Brazilian groups, Camargo Correa, Previ, the other pension funds joined in Bonaire – and with a very important driver placed on the shoulders of the executive board, which is the prospect of creating value.

Therefore, regarding any greenfield project, regarding renewables, large power plants, any acquisition, there is always incorporated in this a vision of the sustainable creation of value. All of our evaluation systems for projects of any size incorporate this point of view so that we can ensure creation of value for every shareholder in the company in a sustainable manner.

It is a permanent commitment and I would like only to emphasize that so that it is always present. We are not buying market share, we are buying a prospect of creating sustained value over time. Once again I would like to thank you for the attention that you have paid during this conference call, good afternoon to you all.

Operator: The CPFL Energia conference call is closed. Thank you all for your participation and may you all have a good afternoon. Thank you.