Transcript of the 3Q08 results conference call
November 6, 2008

OPERATOR: Good Morning. This is CPFL Energia's conference call which will present the results of the third quarter of 2008.

We would like to inform you that and all participants will be in listen-only mode during the Company's presentation, following which we will have the question and answer session when further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator. This event is being recorded simultaneously transmitted online. You can accompany the webcast at on CPFL Energia's Investor Relations website at: www.cpfl.com.br/ir; where the presentation is also available for download.

With us here today are Wilson Ferreira Junior, CEO of CPFL Energia and José Antonio de Almeida Filippo, CFO and IRO, along with other officers of the Company. Before proceeding, we would like to mention that during this conference call, forward-looking statements may be made relating to CPFL Energia's business prospects, operational and financial estimates and goals, based on the beliefs and assumptions of CPFL Energia's management, and on information currently available. They involve risks, 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 operational factors could also affect the Company's future results and could cause these results to differ materially from those expressed in such forward-looking statements. I will now turn over the call to Mr. Wilson Ferreira Junior.

Mr. Wilson, please proceed.

Wilson Ferreira Junior: Good morning to all the analysts and investors who are following the disclosure of our 3Q08 results.

I will begin with page 2, which shows the 3Q08 highlights compared to the same quarter last year. As you can see, we recorded excellent energy sales, which grew by 6.8% year-on-year in our distributors' operational areas, above the national average of 5.9%.

I would also like to highlight two aspects which are particularly relevant given the global financial crisis. The company has a very low net debt with no foreign exchange exposure whatsoever, something we will be dealing with in more detail a bit later on.

Also, and very importantly given that we are undergoing vigorous organic growth, our distribution and generation CAPEX are already contracted in the long term with the BNDES. Consequently, all of the company's investments will be continuing at a normal pace, as in previous quarters.

Another highlight was the financial performance. Our net debt remained practically stable at R$ 2,389 million. Operating income measured by EBITDA decreased by 15.4% to R$ 745 million as a natural result of the tariff reviews, while net income totaled R$ 339 million, 21% down year-on-year.

There are four more aspects worth mentioning – the first is the annual tariff adjustment of CPFL Piratininga, recently authorized by ANEEL on October 23, which totaled 16.54%, with a slight positive variation retroactive to last year's tariff review, which represented a R$ 3.5 million gain for the company.

Secondly, we signed our first biomass energy generation contract. CPFL Bioenergia will absorb investments of around R$ 98 million in the construction of the first unit. We will be also dealing with this in more detail later.

The 14 de Julho reservoir is now full and the plant will begin operations at the end of the year. We are in the final stages of commissioning the equipment. I should also mention the sale of carbon credits by Monte Claro, one of three plants in the Ceran complex, which generated revenue of R$ 6 million.

It is also worth highlighting two important awards this quarter. Last month CPFL Energia became the first Brazilian company to be granted the IFC's Client Leadership Award, based on its evaluation of the elements comprising the so-called Triple Bottom Line, in other words, the financial results plus concern with environmental and social issues. We competed against more than a hundred companies worldwide. And just last week CPFL Paulista, the largest company in the group, won the National Quality Award for excellence in management for the second time.

Moving on to page 3, which shows our free float, a breakdown of the Company's ownership structure and CPFL's holdings in the distribution, commercialization and generation segments. As you can see, there were no significant changes this quarter.

We can now move ahead to page 4, where we detail the exceptionally positive impact of the energy consumption market this year, and in the third quarter in particular. Here you see a division between operations in the Southeast, at the top, and the South, at the bottom. The effects are similar, with slightly different numbers, but both positive. Both the residential and commercial segments experienced positive results (the residential segment grew 9.2%,as we shall see on the next page). In the Southeast they were impacted by the 10% increase in salaries, the 23% upturn in furniture and home appliance sales and the 14% increase in overall retail sales. Note that the growth numbers were less spectacular in the South, although still quite high, with 10% for salaries, 16% for furniture and home appliance sales and 9% for retail sales in general. It is also important to emphasize that the big increase in average temperatures in important cities, such as São José do Rio Preto and Santos, had a positive impact of between 6% and 12%. In the industrial segment, both markets did exceptionally well. Sales to the captive market moved up 6.3% and here in the Southeast you can see that industrial output grew by 9%, led by transportation equipment, with growth of 11%, followed by metallurgy, non-metallic minerals and rubber, with 8% each, all very positive figures. And the South also did well, with a 5% upturn in industrial production, led by rubber, with 17% growth, and metallurgy with 9%.

We will now move on to the next page, page 5. Here, in the graph at the top left, you can see that the captive market grew by 7.1% and the free market by 5.8%, giving 6.8% overall in our distributors' operational areas. On the right you can see the growth per segment – 9.2% residential, 10% commercial and 6.3% industrial, with other segments recording 2.6% and TUSD, as I mentioned, showing exactly the same trend as free clients within the concession area, moving up by 5.8%. Vigorous consumption in all segments, therefore, and it was this that was responsible, without question, for the excellent results we are sharing with you this quarter, with all the tariff revisions that occurred.

At the bottom of the slide, you can see that the free market has been less animated since the beginning of the year, with a 6.8% drop in sales volume which, added to the captive market sales, leads us to this graph in the middle which shows overall growth of 4.1%, reaching sales of 11,665 GWh. Just to complete the picture, on this question of us growing more than Brazil, you can see here that while Brazil's total consumption grew by 5.9%, our operations grew by 6.6% in the Southeast and 6.4% in the South and our RGE operation in the South grew by 7.7%, versus 5.7% for the South as a whole. These sales results prove the potential of our concession areas.

We are now moving on to the revenue, EBITDA and net income figures on page 6. Starting with net revenue, there was a very small variation of 0.6% and here you can see this in more detail. Gross revenue fell by R$138 million, explained by two facts: firstly, there was a positive impact from the 4.1% increase in the captive and free markets, which generated a R$ 193 million upturn. Clearly, this was offset by the reduction in the distribution tariff, resulting from the tariff reviews for eight companies, which had a negative impact of R$ 331 million, booked in its entirety, partially offset by the 4.1% increase in sales volume. In addition, due to the reviews, we suffered a big decrease in the TUSD tariff bringing TUSD revenue down by 8.4%, or R$ 18 million, despite the 5.8% increase in volume. On the other hand, other revenues, which refer to services and the sale of carbon credits, moved up. Then we have deductions from gross revenue, relative to ICMS, PIS and COFINS taxes, and that 12-month post-RTE event relative to net CVA revenue in 2001 – this R$26 million event is positive for revenue and negative for EBITDA and therefore had no effect on the Company's results.

Now let's move on to page 7, where we give a breakdown of the 15.5% decline in EBITDA due to the reduction in net revenue we just talked about and, clearly, since consumption went up in all the distributors' areas, our energy costs climbed by around R$ 90 million to match the increase in sales. Next we have an exceptionally good performance in operating costs and expenses, which shows we are already delivering results. (I will be saying a bit more about this later on in respect to our Administrative Vice-Presidency and the Shared Service Center). These costs and expenses only edged up by 0.5%, despite the 6% increase in sales volume. Here too, we have the entry of R$ 26 million from the amortization of Parcel A, which was booked under revenue and is now here under expenses, and finally the non-operating result and others, basically the discount for minority interests in the Jaguariúna operations, totaling R$ 4 million. So we can see here in the bottom line a downturn of R$ 135 million in EBITDA to R$ 330 million, basically due to the drop in distribution triggered by the tariff review.

On page 8 we will comment on the company’s net income, which fell by R$ 90 million or 21%, a result of the R$ 135 million decline in EBITDA I just mentioned. This resulted in a decrease of 11.6% or R$ 14 million in our net result, with a 31.7% increase in financial revenue, since the company’s cash increased this quarter. Still, this was not enough to offset financial expenses, which grew by 20.1%, mainly from the entry of the financing for the Castro Alves plant, which began operations at the beginning of this year, and the release of funds by the BNDES through the FINEM program, to finance the CAPEX of our distributors. As I just mentioned, we posted higher financial revenue, not just because of volume, but also because of the higher Selic rate, which was 3.2% in the 3Q08 versus 2.8% in the 3Q07, as you can see in the chart. We can also note the R$ 60 million decrease in income tax and social contribution tax, due to the company’s reduced operating result. All in all, then, net income came to R$ 339 million in the quarter.

Next, on page 9, we have a reconciliation of EBITDA following the tariff review, the operational start-up of the Castro Alves plant, the repowering of the small hydro power plants (SHPs) and, naturally, the indexation of our generation plant tariffs to the IGP-M inflation index, which reached 12.31% this quarter. As a result of the tariff review, EBITDA from our distributors fell from 74% to 65%. Generation’s share, which is normally 16%, came to 23% due to the start-up of Castro Alves, the repowering of the SHPs and the application of the IGP-M to all their tariffs. Commercialization volume fell but most volume came from the entry of free consumers from the A4 subgroup, where margins are higher; if we add the insertion and expansion of value added services, especially bill collection, the share of this segment increased from 10% to 12%. These numbers vary slightly in terms of net income share, especially because our generation operations are leveraged financed and therefore generate financial expenses, whereas commercialization is unleveraged and generates no financial expenses. As a result, generation’s share went from 23% of EBITDA to 15% of net income, and commercialization from 12% to 18%. At the bottom, we can see the EBITDA and net margins, which stabilized after all these effects at 31.2% and 14.2%, respectively.

On the next page, page 10, we have Piratininga’s tariff adjustment and the reconciliation of last year’s tariff review. On the top right you can see the pure tariff readjustment index, which is formed by Parcel A and Parcel B. Parcel A, which includes the increases in energy generation, transmission and sectorial charges, such as the CCC, RGE etc., went up by 11.37%, Parcel B, the one actually administered by the concessionaire, increased by 9.76%. To be more precise, Parcel B corresponds to the application of the IGP-M of 12.31% less factor X, shown here, in turn comprising factors Xe and Xa, which comes to 2.55%. So subtracting 2.55% from 12.31% gives us the 9.76% which I referred to. In addition to the pure tariff readjustment index of 10.92%, formed by the weighted average of Parcel A and Parcel B, we have the Financial Components, equivalent to the CVA variation of 5.62%, giving an overall tariff adjustment of 16.54%. There was also a revision of last year's tariff review based on two factors. The first had a positive impact in that ANEEL increased its recognition of the percentage of unrecoverable revenue, or delinquency ratio, from 0.5% to 0.6%, benefiting the company by R$ 3.5 million. The second factor refers to a change in ANEEL's methodology; now the agency uses the full tariff as the basis for discounts, i.e. for cooperatives and the low-income earners. However, this had no effect on the concessionaire and therefore no impact on Parcel B, so we were only affected by the first factor and the final result was positive. This second factor is only related to full discounts to cooperatives and, in the case of Piratininga, to low-income consumers. Therefore, last year's adjustment was -11.76%, instead of -10.94%.

On page 11 we deal with our delinquency ratio, which is one of the best in Brazil, although not yet sufficiently low. Delinquency continues to fall and the consolidated ratio decreased from 1.6% to 1.3%, down by 0.3 percentage points. We have just mentioned Piratininga, whose tariff went up, but whose delinquency ratio still fell by 0.2 percentage points to 1%. And so the battle continues. We have been very effective in reducing the ratio through a variety of instruments, especially in the municipalities. Note that Brazil has just ended a municipal election period, when municipal default tends to increase. However, we observed a substantial decline in Paulista and Piratininga's default ratio. I think this was due not only to improved relations with the municipal authorities, but also because of our willingness to accept installment payments and, of course, the fiscal responsibility laws applied by the municipalities. If we compare the 3Q08 with the 3Q04, when the previous municipal elections took place, Paulista's delinquency ratio fell by a substantial 80.1%, while Piratininga recorded an even bigger decline of 98.3%. We are satisfied with these figures but are continuing to pursue the targets established by the agency, and have achieved good results. We should mention that we are reducing the number of delinquent customers through the use of credit instruments and we successfully recovered R$ 81 million this quarter. So we are doing well, although we still have challenging targets to pursue.

Now let's go to page 12 where we begin reporting on our works. To start with, we will comment on the 14 de Julho hydro plant, which will begin operations this December. Here you can see a view of the dam and the transmission tower. We have concluded 98% of the construction works, 81% of the transmission system, which connects the plant to the grid, and 73% of the electromechanical assembly, since we have two turbines, the first of which is being commissioned and the second is in the final assembly phase. All stages have been successfully completed, with the reservoir at full capacity and the first turbine under commissioning and commercial operations are scheduled for December.

Moving on to page 13, here we have the Foz do Chapecó hydro plant, the CPFL group's largest ongoing project, costing some R$ 2.2 billion, where construction is 55% complete, 45% of the equipment is in place and electromechanical assembly has begun, having reached 13%. This a gigantic operation and operational start-up is scheduled for the second half of 2010. As I said, the works are in an advanced stage and on schedule.

Next on page 14, it gives us great satisfaction to share our successful carbon credit sales. This quarter, we sold 254,000 carbon credits to Tokyo Electric Power Company, the largest electricity company in Japan, generating gross revenue of R$ 6 million for CPFL Geração. We are working on a new carbon credit recognition for other plants, as for Monte Claro, such as the two Ceran Complex plants which have very high installed capacity per flooded area ratios. We are also working on carbon credit recognition for the 14 de Julho and Castro Alves hydro plants, around 600,000 credits currently being approved by the Clean Development Mechanism. The Foz do Chapecó plant, which is under construction, has an even bigger potential of around 900,000 credits per year, but is still finalizing its PDD, or Project Design Document (PDD), which is the document necessary for carbon credit recognitions in Brazil. There is also the Barra Grande hydro plant, or Baesa, which has a potential of 600,000 carbon credits, whose validation is expected in the fourth quarter of 2008. So the prospects are very good, if we consider the existing 250,00 credits, or R$ 6 million, and my evaluations, which envisage around 2 million credits per year for these four plants, or approximately 10 times more, giving potential revenue of between R$ 50 and R$ 60 million per year.

We will now turn to page 15, where we talk about the biomass expansion. The map on the left illustrates the boom in ethanol plants. The black part is already operating, with the state of São Paulo, particularly the interior, accounting for 87% of Brazilian ethanol production, although it is now advancing into the entire state of Mato Grosso do Sul and the state of Goiás, these green areas here, in other words, a very important expansion – there will be around 151 plants in the state of São Paulo alone by 2011. Clearly, then, we created CPFL Bioenergia because of this scenario and here is our first project, the Baldin plant, which will absorb investments of around R$ 100 million. So, by 2010 we should be able to commercialize an energy surplus of around 25 MW, equivalent to production of 112 GWh per year. So this model is already being implemented, we already have the equipment, the financing is being approved by the BNDES, and we are moving ahead with construction.

On the next page, page 16, we have some details on the progress of our value added services. At the bottom, we can see the evolution of this revenue line, which has grown substantially every year. Last year, it totaled R$ 45 million, and in the first nine months of 2008 we reached R$ 58 million, representing a year-on-year increase of 124%. And here we highlight the contribution of CPFL Total, which is a bill collection business whose base continues to expand, as we can see on the top right, showing an increase of more than 100% over last year to 1,070 points of service and we are now about to move into Rio Grande do Sul. The number of transactions has grown even more, by 240%, and we are receiving around 3 million accounts, 1 million accounts per month, from several clients, not only from the CPFL group, which accounts for around 35% of this volume. The remaining clients are mobile phone companies, sewage companies, municipal authorities, etc., in other words a diversified client base, which is good for the concessionaire, since it results in lower operating costs, and also for consumers and the group, because it constitutes a platform that continues to expand, having recorded revenue of R$ 5 million this year. On the top left, you can see our other value added services, excluding CPFL Total, which accounted for R$ 53 million. In the third quarter alone, we incorporated 54 works into our portfolio, generating revenue of around R$ 14 million. The installation of generators in shopping malls and companies was responsible for around R$ 11 million of this, while asset management (maintenance of the group's infrastructure) totaled R$ 2 million and distribution and connection systems came to R$ 1 million.

We therefore regard this is a very promising segment and the company has been very creative in identifying opportunities, which is the main reason for the revenue increase. At the same time, it is important to show you some of the results from our Shared Service Center, run by the Administrative Vice-Presidency, which focuses on strategic sourcing initiatives. Here you can see the conjunction of these activities: the integration of purchasing processes, the redefinition of a strategic supplier base, developing new suppliers, establishing long-term agreements, renegotiating ongoing agreements (from an integration point of view), and revising logistics and the distribution of material within the group's geographical area, all of which led to a 6.5% reduction in the market value of agreements in the first nine months. This is one of the reasons why our operating costs only went up by 0.5% when sales climbed by 6%. One of the elements was the reduction in costs with material and services of around R$ 60 million.

We will now move on to page 18 which shows our debt, which grew by 4% over the previous quarter to R$ 5,639 million, that is to say the net debt. Financial debt totaled R$ 6,254 million, to which we have to add the private pension fund and the long-term debt agreement with Fundação CESP, jointly accounting for a further R$ 591 million, deducting, of course, our cash position and regulatory assets. At the bottom, you can see the evolution of the adjusted net debt to EBITDA ratio, which came to 1.95. It is important to mention that we have two huge projects under construction Foz de Chapecó and 14 de Julho, that are financed and already account for R$ 400 million of this debt, excuse me R$ 575 million, which obviously are not yet operational and therefore do not generate EBITDA. EBITDA will begin next year in the case of 14 de Julho, and in the following year for Foz de Chapecó, reducing the ratio by around 10% to 1.7 times.

Let's go to page 19 now, which shows our distribution CAPEX for 2008/09 (a detailed CAPEX breakdown can be found in the Release) already contracted with the BNDES, which finances around 60 to 70% of the items at a very competitive cost (long-term interest rate + a spread of between 2.9% and 3.4%), with amortization over 6 years. On the other side, we have financing for Foz de Chapecó (also, obviously the conclusion of 14 de Julho), where 70% of CAPEX is already contracted with the BNDES at the long-term interest rate + 2.64% to be amortized in 16 years, six months after the start-up of operations. This puts the company in a highly comfortable position, allowing it to continue expanding its generation area without any impediment, and, especially, the distribution area. Investments total R$ 1.2 billion in 2008, around 70% of which related to distribution. This is clearly a recognition of the company's great credit quality: a Double A+ Rating from Standard & Poors and Double A from Fitch Ratings.

Page 20 deals with the impact of the appreciation of the dollar on our debt, something the market was very worried about. As you can see on the right, all our current foreign-currency debt, 18% of the total, is fully hedged, 16% through a bank hedge in swaps for an average 104% of the interbank deposit rate, or CDI, and a natural hedge of 2%, since the company has 137 million in regulatory assets called CRCs, which are pegged to the dollar, constituting revenue with an exchange component. Thus 53% of our post-hedge debt is denominated in CDI, 31% is pegged to the BNDES's currency basket, 14% to the IGP-M, mainly the pension fund and 2% has a natural hedge, as I just mentioned. We therefore have no exchange exposure and we really must highlight this fact. In addition, the real cost of the debt was been recording a continuous decline, reaching 6.5% in the quarter, or 13.2% in nominal terms, in view of the recent evolution of the IGP inflation index and the CDI.

Moving on now to page 21. September 29 marks the fourth anniversary of the IPO and it is always worth highlighting our progress over these four years as a publicly-held company. The top line shows our distribution, generation and commercialization assets and operations at the time of the IPO and the progress since then is clear. Distributors increased from 2 to 8, giving a 35% increase in energy sales volume, despite the decrease in the number of free clients, and the number of clients moved up by 19%, i.e. we added 1 million customers in 4 years. In the generation area, we went up from a capacity of slightly more than 800 MW from 19 small hydro plants and the Semesa plant, with 6 more plants under construction, to 33 SHPs, four large operational plants, another due to start operations next month and two more under construction, representing an increase of 114% in installed capacity. This was unquestionably due to our post-IPO investments of R$ 5.1 billion, comprising CAPEX of R$4 billion and acquisitions of R$ 1.1 billion. It is also important to note the growth and strengthening of our commercialization operations, which were embryonic at that time – we had an important share, true, but the market was tiny. You can see that we have expanded our share, which was already substantial, from 19% to 22%, but more importantly, commercialized energy moved up by 3 times, or 197%. Of course this expansion in the three activities led to the evolution we can see in the middle graphs, i.e. net revenue growth of 38%, EBITDA growth of 81% and net income growth of 691%. But this growth, as you can see, was also accompanied by value creation as we have reduced the net debt to EBITDA ratio to 1.9% and paid R$ 4.5 billion in dividends since the IPO, or a dividend yield of 60% on the IPO share price. These results really are impressive and it gives us great satisfaction to be pursuing a solid strategy underpinned by value creation.

Following on from this, on page 22 we have our stock market performance since the IPO. As you can see, our share price has moved up 180.8%, versus 148.1% for its IEE peers and 113.3% for the IBovespa. In New York, the performance was even more impressive. While the Dow Jones increased by 7% and the 20 most-traded Brazilian ADR's grew by 177.2%, CPFL Energia's CPL ticker climbed by 318.5%. There was also an important advance in the free float, which has virtually doubled since the IPO, and in the 3Q08, a quarter that was difficult for all equities worldwide, our share appreciated by 1.3%, while the IBovespa dropped by 23.8% and our peers fell by 14%. In New York, CPL depreciated by 15.3%, versus a decline of 4.4% for the Dow Jones and a 32% drop for the 20 most-traded Brazilian ADR's. Note that, in the specific case of New York, in addition to the company's results, there was the added factor of the hefty appreciation of the dollar against the Real. On the right, you can see a comparison of CPFL's performance against the main indexes, all of which it outperforms. It is clearly regarded as a defensive stock, given that a large portion of its revenue is indexed to the IGP-M. In fact, the financial crisis has had a very limited impact on the company's performance, given that energy consumption is inelastic, we have no foreign exchange exposure and we pay good dividends.

This can also be verified on page 23 by the increase in average daily traded volume, which moved up by 14% in both São Paulo and New York, nearly R$37 million, confirming the preference for our share in this period of extreme volatility. Of course, this was accompanied by the participation of our Investor Relations team in the APIMEC events, conferences, roadshows, Expomoney and a series of initiatives that, since the IPO, have resulted in close to 750 one-on-one meetings with investors, virtually one a day. Today our share is tracked by no less than 23 institutions, and the company is included in all the main indexes of the U.S. and Brazilian stock exchanges.

I would like to close by highlighting some sustainability issues on page 24. Just to remind you, we have begun to make a strong effort on the knowledge management front, creating international forums, the CPFL Energia forums, the first of which was held at the beginning of the second half, when we were delighted to bring Paul Krugman to Brazil, immediately before he won his Nobel prize. He was able to share his opinions with 650 participants in São Paulo and Rio de Janeiro at an event co-sponsored by the BNDES and the Valor Econômico newspaper. Just the day before yesterday, we held a similar event with Lord Nicholas Stern, the author of the famous Stern report on the effects of global warming on the environment, and we were able to do something similar with these international forums. As for the value chain, the company's supply chain, we held the fourth regional TEAR seminar, a program we developed with the World Bank. In the stakeholder relations area, the highlight was the 10th meeting of the Consumer Councils of the CPFL group distributors, with the participation of 20 council representatives and therefore an important event (it is now in its 10th year). We were also elected one of the best companies to work for by Exame magazine and elected the best company in the Management Strategy category.

Now that we have reached the final pages, I would just like to say something about the IFC award I mentioned earlier on. This is an award in which hundreds of companies compete from around the world and which rewards management quality, transparency, social responsibility and corporate governance. It was presented by the IFC president and CPFL was represented by Filippo and myself. CPFL was the first Brazilian company to win this award.

And now we come to the last page, page 26, where we highlight the National Quality Award, which is one of the most famous, most recognized awards in the world in its area, comparable with Japan's Deming Prize and the Malcolm Baldrige National Quality Award in the United States, and represents a recognition of maturity and excellence in management, exemplifying the so-called world-class companies. It was created 17 years ago and only 31 organizations have received it, 15 of which major companies, and CPFL was one of these companies for the second time. So rigorous are its management excellence criteria that only 52 companies were nominated to take part and these were whittled down to 3 finalists and 2 winners, one of which was CPFL Paulista.

These were the issues we wished to highlight out and Fillipo and I are now available for questions. Thank you all very much!

Question & Answer Session

Operator: Ladies and gentlemen, we will now begin the question and answer session. To ask a question, please press asterisk (*) 1. To remove your question from the list, press the pound key (#).

Our first question is from Marcos Siqueira at Deutsche Bank. Please, Mr. Siqueira, you may ask your question.

Marcos Siqueira: Thank you very much! Good morning everyone! My question is what are your expectations for demand trends next year in a scenario of lower economic growth, and also, what is your expectation for the generation price, which also follows the same line, which is that next year and perhaps also 2010 will be marked by slower economic growth? And the second question, regarding distribution, what can we expect in terms of costs in the coming quarters? I would like to get a bit more detail on your cost-control or cost-cutting program. Thank you.

Wilson Ferreira Junior: Well Marcos, let's address the first question. We are currently working with – which is the product of the interactions with our forecasters – an outlook for GDP growth ranging from 3.1 to 3.5%. This should lead to energy volume growth in the concession areas of between 3.6 and 4% next year. Regarding the current situation, I made a statement yesterday to the newspaper that even in October we did not notice any significant impact on energy sales volume. In fact, we are even seeing figures slightly above our original forecast. So we should continue to see a path similar to the one I shared with you a bit ago for the third quarter results.

You also asked a question about generation prices. Brazilian generation prices are basically linked to the IGP-M index, so generation prices next year, especially those that impact our group, which involve the operations with distributors, are indexed to the IGP-M, as well as purchases and especially sales at our own plants. That's why we experienced an increase in the share of our generation operations in relation to our distribution and commercialization operations, and especially in distribution next year we will see the addition of the results from the “14 de Julho” plant. I would say that 2009 was a year that like 2008 was the product primarily of lower gas supplies, with supply and demand very much in line. In other words, the market naturally worked with the outlook of a very narrow balance, leading to volatility in the short-term market, especially in spot prices. This trend remains dampened slightly by a potential impact. We are already projecting an insignificant and well behaved reduction in sales volume, which in turn will lead to a better behaved spot market. I would say it is still too early to make a more accurate assessment, especially because volatility in the spot market is very high, because it is not affected exclusively by the supply-demand balance, but also by rainfall levels, in particular rainfall during the wet season in the Southeast, which begins now in mid-November, but I would say in this sense that the crisis ends up working to attenuate this volatility.

Regarding distribution costs, our efforts are to avoid any increases in costs in the distribution area in particular, which is the main driver of our operating costs, so that they do not increase by more than 30% of the increase in the market, which given the outlook for market growth of 4% in the market, means growth in costs on a real basis of around 1.3%.

Marcos Siqueira: OK, thank you very much!

Operator: Our next question is from Márcio Prado from Santander. Please, Mr. Prado, you may ask your question.

Márcio Prado: Good morning everyone. I would like to continue to focus a little on volumes, which were very strong in the three main lines, Piratininga, Paulista and RGE. I know that your demand projection model is usually very accurate, so I don't know if you could share with us how much this growth meant in addition to what CPFL projected. So could you give us a bit more color on this issue of volume? There are statements in the newspapers today, also from Wilson, saying that October was very strong. Could you share with us a little more on industrial demand, because it came as a surprise in relation to the expected economic activity, which was market consensus. And the second question is about strategy. We saw the regulator recently… in the last 2 months there were certain events in the sector talking about the end of tariff revisions (I think this is coming to an end), and this opens the possibility of consolidation in the distribution sector, with the regulator seeing this as positive. This subject has sort of stagnated. Could you also comment on that? Thank you!

Wilson Ferreira Junior: Márcio, for governance reasons we do not share numbers, because we do not give guidance. What I meant to say, including in the newspaper,

is that for example in this third quarter we observed consumption slightly higher than our expectations. Look, since we are talking about growth of around 6%, we are working with (and we commented on this last year) a figure between 4.5 and 5% for the entire year. Remember that the fourth quarter invariably has lower energy volume, mainly due to the holiday season (Christmas, etc.). So, that is the first element.
You also asked about the consolidation of distributors after the tariff revision cycle. Once again, we are here in November awaiting the actual issue of the so-called AP 52. It has yet to be formally approved, although certain subjects were issued. This is being discussed between ANEEL and sector agents, especially regarding ABRADEE, and I would say that we could comment on this after we have all the figures and criteria that we are applying. You referred to the APIMEC event, where even the general director of ANEEL shared some uncertainties. It would be more productive if we talked about this after the issue of AP 52. What I can tell you objectively at this time is that there is a set of positive elements and the main one is certainly the transparency in the calculation of the reference company, especially in terms of the accounting of the so-called asset base and its original bullet-proofing. These are very positive elements, since they allow the elimination of some uncertainties, especially for investors and analysts, who will be able to see more clearly these movements at distributors that are driven by their organic growth. This is the positive aspect. There is still some uncertainty… I shared with you a gain, for example, in efficiency, related to the purchase of material and services, that in order to produce a positive effect or to promote the efficiency that the agency wants to incorporate in the process, the so-called asset base must be based on market prices (and this will not be done this past cycle or retroactively). So an action such as this one is positive for the concessionaire, otherwise it would end up working against the concessionaire. Naturally, there is no reason for us to stop being efficient here. But certainly we would have more incentive if we knew what reference is going to be used. Then you are able to have a schedule for purchasing materials and services that seeks to address cyclical issues, as well as issues involving commodities, volumes, inventories. In short, there are a set of critical elements in the supply chain that can be optimized with a more appropriate strategy. So, this is the point that was missing. There was statement, at the same meeting, regarding an issue that has been heavily criticized, which is the composition of the base. There are many assets held by concessionaires that if adequately preserved could last longer than their accounting economic useful life. And this is hindering clear incentives for their construction. Because in principle, when 25 years expires, it’s as if the asset never existed. So this concern was taken to the regulator, and it said it was in favor of some sort of incentive, but it is still not present on this issue. So, regarding the AP 52 issue, I would say it must be complemented. And I imagine that the agency is sensitive to emitting the correct signals so that on the one hand, it encourages efficiency, and on the other hand, it periodically generates, every four to five years, fair tariffs for consumers.

Márcio Prado: Thank you for your answer. If you could complement the strategic portion, if the consolidation method would be… this is the first part of the question... a line that I think is less important for large distributors such as CPFL, but that has been very important for smaller distributors, has been the other revenue line. There are consulting firms to save energy or some types of electrical installations that are charged by other distributors. Some distributors, especially in the Northeast, are experiencing very strong growth in this line, which is having a real impact on results. I would like to know if this growth in other revenue is considered at CPFL, if there is a giant client portfolio and the cross-selling of other products and if there is a concern going forward with separating this from distributors precisely to avoid it being captured by the tariff revision process or a similar process. Thank you!

Wilson Ferreira Junior: That's an excellent question. But let me make it clear that we already do this separately. Service companies sell this kind of service, and we have a company specialized in this area called CPFL Serviços, so we already do this. These initiatives are clearly identified at CPFL Serviços, we have observed (and this was covered in the presentation) an increase in this line and higher demand for these services, which are not only energy efficiency services, as you mentioned, but are bill collection services. I recently shared that we are creating here a Call Center company called CPFL Atende to try to have telecommunications volume that will enable gains. Today, this is an expensive line. The telephone service of concessionaires is provided free of charge to consumers, so it has to work on one side to improve the system, eliminating invoicing errors, for example, in order to enjoy lower demand for this service. And on the other hand, when it does have demand, it can meet this demand at a cost that is compatible with what is offered and what is recognized by the agency in the reference company. So we have a differentiated strategy in this area that involves not only the provision of more specialized, larger and more efficient services to concessionaires, but especially services (as I was able to demonstrate here with consumers) that range from infrastructure maintenance to even infrastructure optimization, with the installation of generators to take advantage of peak periods and so on. Therefore, it is a line that we will continue to grow. You have an indication of the potential vis-à-vis what happened in the last 4 years since we implemented this line and removed it completely from distributors. What does not fit today in the other revenue line at distributors is pole lease services, a portion of which we is considered tariff and another portion which is not. So, there is an incentive to charge from telecom companies a minimum price, if you are able to negotiate higher prices, which is the case, this generates additional income for the distributor.

Márcio Prado: Ok, thank you very much!

Operator: Our next question comes from Sérgio Tamashiro, Banco Itaú. Mr. Tamashiro, you may ask your question.

Sérgio Tamashiro: Good afternoon everyone. The first question concerns your CAPEX program, and I saw here that you maintained the program for 2008-2012 at R$4.8 billion. So I would like to understand if this is exactly what you see, that the long-term demand remains the same, and if you are going to still adopt a dividend policy, and if it will remain aggressive at 95%, or if on the other hand you will say: we are maintaining CAPEX high, but we should be adopting a more conservative stance in relation to dividends, keeping them at the minimum, or if you are going to get all funding needed for the required CAPEX. And, along these same lines, you commented before that the Net Debt/EBITDA level of 2 times is reasonable, but I would like to know exactly the level of short-term debt, which I did not see in the presentation. I would like to know if there is some any type of debt maturities, especially of debentures, that could potentially generate stress over coming months and if you are already negotiating this type of rollover, and at what terms. Thank you!

Wilson Ferreira Junior: Thank you for the question Sérgio. In response to your first question, it is exactly at the terms you mentioned. There are no factors at this time for us to say that the growth outlook for the market, consumers and investments where the company is already committed will change. Moreover, at least until 2010 for all generation and until 2009 for all distribution, CAPEX is already contracted with banks. So, if we take a look at the scenario, we already were working with a scenario at 3.1 and 3.5% of GDP, so up to now little has changed. The elements we see so far in October, as I mentioned, remain strong and solid, so we are maintaining this CAPEX program. Regarding our short-term debt, yes, we do have maturities in certain commitments, and they are small, at around R$351 million next year. Even the newspapers have clearly mentioned this. And they talked about luck, but in fact, there is no luck in this kind of activity. The company had a strategy in accordance with its understanding of the scenario, that credit could tighten somewhat. Obviously, no one could imagine to what extent. So we anticipated a series of operations, led by Fillipo and his team, and they were able anticipate a series of maturities, contracting operations early this year, although with terms of 3 years. So this was all shifted to 2012, and there are 3 smaller maturities in the first half of next year, of approximately R$300 to R$350 million, which given the cash flow the company still has, is clearly not a concern and will not generate any kind of stress. And consequently, whether because of the growth prospects or the fact that CAPEX is already secured, I see no reason at this point to change the dividend policy. We have just paid about R$600 million, and subsequently our cash position remains at around R$700 million, and the company generates more net cash than it consumes in terms of its investments, etc. So the expectation is to continue to do what we are doing, and actually, this is an instrument of the company, to maintain an adequate level of leverage and gain the tax benefits from this.

Sérgio Tamashiro: Okay. Just to confirm, if the current situation remains, even with higher interest rates in the second half of 2008, you expect to maintain this payout rate policy of 95%.

Wilson Ferreira Junior: Precisely.

Sérgio Tamashiro: Okay. Thank you.

Wilson Ferreira Junior: I would like to point out, also, that our generation energy is 100% contracted. Now, the “14 de Julho” power plant already has its PPA, so it does not depend on the market for anything. About one-fourth of the Company’s result is absolutely 100% contracted in the long-term linked to the IGP-M index.

Sérgio Tamashiro: OK. And in this distributor's portion, is this flexibility easy? Is it easy to postpone CAPEX, or is it like generation, which is already contracted and you cannot postpone 30% of the coming years.

Wilson Ferreira Junior: No, obviously over the course of the year and the tariff cycle you have some flexibility. Now the ANEEL regulations effect oversight in the sense that at least 90% of those investments related to the so-called X Factor are made over the course of the cycle, so you have flexibility between months, sometimes carryover between years, but you must confirm the actual investments, at least 90% of them, otherwise you are penalized.

Sérgio Tamashiro: Ok. Thank you.

Operator: Our next question comes from Rafael from UBS Pactual. Rafael, you may ask your question.

Rafael: Good morning everyone. Actually, I have two questions. The first still concerns regulations. What is your view, Wilson, of this recent discussion about the regulator's plans to capture that excess in Parcel A? That is my first question. And the second one concerns the commercialization area. CPFL Brasil has been recording very strong results over the past few quarters. I would like to understand how much of this represents long-term contracts that will be recurring over time and how much of this represents short-term results.

Wilson Ferreira Junior: In response to your first question. There was a statement from the Federal Accounting Court (TCU) and ANEEL itself stated its acceptance of this positioning. I believe discussions are taking place between the agency and the agents themselves through ABRADEE itself. And I think the position for who attended the seminar was very clear. Agents understand that an addendum was made to their concession agreement, an addendum that actually, because of the opposition of the parties, the concession authority and the actual agent intermediated by ANEEL, to practice that formula. As the addendum represented the recognition of an agreement, I think it is always possible to make changes. Now the changes are made in the context of negotiations, I always like to use the example that the law forces you to offer to your employees a program to share in the profits and results, because sometimes you don't have any profit, and the agency does not recognize this. Like I have just shown you, we are very efficient in terms of delinquency, therefore delinquency is 1%, it is not 0.5%. So, this must be handled through negotiations. You accepted contracting based on a formula and in exchange gave up other things. So obviously, you can change the formula, provided you include other things. You must establish a balanced negotiation process, to ensure you have adequate signals in terms of incentives and efficiency, so that it can be periodically shared with the market every 4 or 5 years, that is how the process works. Now, you can never unilaterally remove things and not include others that should be included. I am optimistic in terms of being able to have a fair negotiation process that in some form maintains incentives for efficiency and permits tariff amortization. In response to your second question on commercialization, virtually 60% of the operations of our energy trading company are long-term operations. It has PPAs with distributors, where it passes on sugarcane contracts, etc. and about 40% of its operation is in the free market with free consumers, where it also makes, for political reasons (and this is what perhaps makes it different) long-term agreements, on average depending on the consumer between two and three years. And 80% of these operations is long-term, and so it is recurring. I stressed that we have been observing for some time, especially this year, a change in the profile of free consumers, where we observed as a result of the incentives for renewable energy sources, PCHs and biomass, an increase in the entry of consumers from the so-called A4 subgroup, where these sources are very competitive and where the company, because it is an important buyer of energy from these sources, ended up gaining a benefit. So when we see the company's result, impacted by lower volume of energy sale transactions, they are being transacted at a higher level of profitability due to the characteristics of the consumer. To give you an idea, in 2007, 13% of this market in terms of volume was A4 consumers, while this year A4 volume accounted for 25%. Clearly, this is a change, driven especially by more energy sources with this type of incentive coming online.

Rafael: Ok, thank you very much.

Operator: Our next question comes from Sérgio at Citigroup. Sérgio, you may ask your question.

Sérgio: Yes, analyzing the TCU's decision about the issue of the excess in Parcel A at CELP, we see that the TCU requested from ANEEL an analysis of the retroactive impact, in other words, the issue of the excess in Parcel A in tariffs in recent years. Do you believe there is any risk of a change in regulations of a retroactive nature to address the issue of Parcel A for all distributors?

Wilson Ferreira Junior: I don't believe so. This was stated very clearly by the regulator itself. Sometimes we face the challenge of making the future more stable and more predictable. But we have a fundamental commitment to make the past absolutely predictable. This means that – as was even stated in the TCU's decision – that the application of the formula in the concession agreement was correct. In our understanding, as long as it does not change, it is effective and was part of an agreement signed by the parties, one of which is the agent and the other the concession authority. If it identified only now some type of mistake due to different market volumes… Not that this cannot be corrected… it can be. And is not the only mistake in the process. So from time to time you may include recognitions and improvements to achieve what I said is the objective of this agreement, which is to create an incentive for the efficiency of the agent, and on the other hand be able to share this efficiency periodically to generate tariff fairness for consumers. So, my view is that you don't mess with the past but you can negotiate the future.

Sérgio: Perfect. I have a second question, Wilson. At the start of the third quarter, Bradespar issued commercial paper with a term of 6 months to subscribe to the Vale offer and postponed the sale of CPFL shares at that time. Given the current credit market conditions and the relatively positive performance of CPFL stock last quarter, do you have any indication from Bradespar on what could happen when this commercial paper matures in early 2009?

Wilson Ferreira Junior: No, I don't have any indication.

Sérgio: Okay. Thank you.

Operator: I would like to hand the call back over to Wilson Ferreira Junior for his final remarks.

Wilson Ferreira Junior: Well, I would like to once again thank analysts and investors for their attention during our Webcast and to express our satisfaction in being able to share this quarter's results, in view of the efficiency of our operations. And to say that I am very optimistic in relation to the impacts of this crisis. I think that we have been able to observe the important behavior of the robust consumer market, as cited earlier, which has maintained its strength. I believe the government is adequately mobilized with its best efforts to try and mitigate the effects of this global crisis here in Brazil, especially the issue of credit. I believe the signals emitted from the government and the president of the BNDES in terms of their commitment to infrastructure works is something that has a significant impact on the tranquility of agents in the infrastructure sector, which is fundamental to Brazil's economic growth. I think we are a clear and living example of this commitment. We are receiving all disbursements from the BNDES normally in terms of the timetable. I think it is important to share also the positive outlook for the inauguration of our new power plant, "14 de Julho", which is in the final phase. I look to the future of course with the required caution, vis-à-vis the trajectory of the market. I think we are already reflecting this vis-à-vis our projections for more modest economic growth and energy sales, but I believe this scenario is a scenario in which once again capacity, competence and efficiency are determinant factors. The end of the tariff revision process with the issue of the so-called AP 52 establishes a regulatory framework that is more transparent for all market agents and all analysts, and this once again establishes an outlook for consolidation. I would say that this is an important moment in which to operate, as we did in the first to the second cycle. So, we remain here at CPFL very optimistic on continuing to grow and to create value for shareholders and all stakeholders in the company. Thank you very much!

Operator: That concludes CPFL Energia's conference call. Thank you all for participating and have a good day. Thank you.