

Operator

Good morning and thank you for waiting. Welcome to CPFL Energia's Earnings Results Earnings Conference Call for the Second Quarter of 2015. Today, with us we have Mr. Wilson Ferreira Junior, CEO of CPFL Energia; and well as other officers from the company. This call is being broadcast simultaneously through the Internet through the IR website www.cpf.com.br/ir, where this presentation will be available for download.

I would like to inform you that all participants will be on listen-only mode during the company's presentation. And right after that, we will initiate the question-and-answer period when further instructions will be provided. (Operator Instructions). I would like to remind you that this conference call is being recorded.

Before we proceed, I would like to clarify that any statements that are being made during this conference call related to CPFL Energia assumptions, projections and financial assumptions are only assumptions of the Company as well as information that are currently available.

Forward looking statements are no guarantee of performance. They involve risks, uncertainties and assumptions because they refer to future events and therefore they depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of CPFL Energia and will therefore cause results to differ materially from those expressed in such forward-looking statements. Now I will turn the call to Mr. Wilson Ferreira Junior. You may proceed.

Wilson Ferreira Junior, Chief Executive Officer

Good morning, everyone. Good morning, investors and analysts that are here with us today to discuss the second quarter of 2015 earnings results. I would like to now with no further due go to slide number three, where we have the main highlights for the second quarter.

We are now for the first time experiencing a sales reduction in the concession area, it was a drop of 2.9% and now for the first time, we also experience a reduction on the residential segment, which is expensive for distribution company, which has low tension with higher tariffs, slightly higher in the commercial segment and also, 0.6% and we see a downwards trend in the industry. When we compare this quarter with the second quarter of 2014, there was a drop beyond 5% in the industry. This is occurs due to the economic slowdown where the main segments are already being, somehow, contaminated by the economic environment.

Nevertheless, the company has kept its investment pace, close to R\$ 400 million in the second quarter and R\$ 713 million in the first half of 2015.

The important thing here is to maintain the tariff realism, then the RGE tariff readjustment occurred on June with Part B of variation of 2.84%, exactly as parametric formulas determine.

Standard & Poor's reinstated our rating brAA+ and shares were down 2.9% on BOVESPA and 3.7% on New York Stock Exchange. That's because of the exchange variation of the dollar vis-a-vis the real and there were also some acknowledgments related to the company's performance.

In the annual book of Epoca Negocios 360 degrees, we were awarded the best company in the electric industry and recently, according to ANEEL CPFL Santa Cruz ranked first in the continuity of services ranking. We were also the recipient of the Abradee award in 2015, both RGE and CPFL Paulista, due to our performance in terms of customer evaluation and social responsibility.

On page number 4, we have a breakdown of our sales system. And on the upper side of the slide, we see sales on the concession area of the eight CPFL's distribution companies totaling a drop of 2.9% as a whole.

It's also important to know this, the green area refers to TUSD for free consumers, they charge service in the concession area, notably large corporations, which experienced a higher drop of 4.2% and in the captive market a drop of 2.4%.

These sales are detailed here in the middle box above. So, we can see here a decrease, as I've said before, in the residential segment, the first time that this happens in recent years.

We have here a slight increase over the previous year in the commercial area of 0.6%, the continued decrease in the industrial sector of 5.4% and the other segments as well.

In this quarter, we had more rainfall. So 2.4% in the rural segment not even considering irrigation.

So at the end of the quarter, we had 14.191 GWh of sales.

In the lower chart, we see sales, mainly due to the industrial segment decrease both in the Southeast and in the South region, which affected the total sales of the CPFL Group, resulting lower than in the region and also is in the comparison with Brazil.

Now, the positive side refers to contracted demand, demand that our consumers have with the distribution concessionaires, that was a growth of 2.1% in the off peak and in the peak we have a segment, especially in terms of stronger price, then as an intelligent rationalization of consumers and a drop in demand contracted at 1.4%.

In terms of the industrial segment, the market profile is the same; 41 % of the industrial segment, it has been slightly losing share in recent times result of the biggest crisis in the industrial sector, but it is quite strong, 27% in the residential segment and 17% in the commercial segment.

Just to detail, at the bottom we have here the installed generation capacity of the company, then almost stable, reaching 3.129 MW. This reflects the 5.7 growth in the renewable area, due to the some plants that became operational which we will detail later, but especially here in the blue part due to the adjustment in the stake we have in EPASA, with one of our partners who had the right to exercise a preference until this date and he exercised. Because of this, we have now 53.8% stake in EPASA.

So, our installed capacity in generation is stable.

In the next slide, on the page 5, some details of the unfavorable economic scenario, we also had a significant tariff increase, which demands from consumers some rationalization in their use of power. The first aspect to be mentioned is the unemployment rate, which was 4.5% in April of last year, but April of this year is 6.3%. So there was an increase of 50% in the number of unemployed people.

We can see that apart from the issue of unemployment there is also an important effect on total income and here it reaches a negative peak of 4.5% in the second quarter of 2015, that is, is something that really cares and is obviously on the economic agenda of the country are the challenges that we have to win.

This has caused the consumer confidence index has come here almost at the lowest levels since we do this research, although slightly above the end of the year, we are talking about 83.9 confidence rate that mobilizes consumption it is always superior 100, so here we actually have another warning sign.

And obviously, this is only to demonstrate, at the bottom right of the box, the price change we find out here in CPFL discos, particularly in the residential segment. We are talking here about a price variation of 67%.

It is true that 48% is related to that extraordinary tariff adjustment mainly to accommodate the increased CDE and the increase in Itaipu tariffs, 48%, since early March, but also since then we have red tariff flags, which still expand this increase to 67%.

So it is natural that when compared with inflation of 8%, it is a real increase close to 60% determining here streamlining behavior of consumers, who were encouraged even by the government, by advertisements in this regard.

On page six, we have a picture of the results of the outcome. Here, you have the consumption per residential customer. As of the second quarter of last year, the behavior have been negative and it became more aggravated in the second quarter of this year due to an actual increase in the energy prices.

While, we were able to keep vegetative growth of our operations and in that same period there was an addition of almost 200,000 new consumers, so totaling 6.8 million residential consumers.

It is also important to notice that there are several alternatives to rationalize power. In the chart below on the right hand side, we have a breakdown of the electricity use. So, as tariffs increase, it is just natural to expect a certain rationalization.

Now moving on to page 7 and this includes the results for this month, an increase in the allowance for doubtful accounts, but it is important to highlight, in the green line, we have delinquency in index over 90 days. So, despite tariff increases in percentage terms, this has been slightly below the numbers from previous years. This is due to certain factors.

And in the chart below, I listed a set of actions that we are undertaking at the moment to try to avoid the advance of delinquencies. We have telecollection or the bill collector, we increased that by 50%. We did 1,7million telecollection actions. Pre-cut, we added 400,000 pre-cut of energy. Delinquency, there were 794,000 in addition to what we had before in terms of conventional cut, there was an increase of 54% and circuit break disconnections, we had an addition of 25,000 or more 47% and electronic registration of unpaid obligation also with the new measure that was initiated, adding 31,000. These are important measures because there was an increase of almost 67% in the tariff. From absolute values, we went from BRL120 million to BRL156 million.

Now, when we look at this increased behavior, going from 64 million to 85 million, we see that in percentage terms, the delinquency rate was stable. Once we look at all of the numbers from the chart and when we compare the behavior quarter-on-quarter, it goes from 47 million to 41 million, so that was an increase of 75% in the results for the quarter.

So, we've been successful because we were able to limit the number -- to restrain the number of delinquency but there were several delinquency, the numbers are higher. But in terms of allowance for doubtful accounts behavior, it's been similar.

Now in the next page, we see the results for the quarter. On the topline, we have the reported results, reported according to IFRS. We have revenues stemming from the increase in tariffs and distribution and also we will talk about EBITDA. Net income, the numbers are justified by two events and the EBITDA was because the slowdown in the market and then in terms of net income because of increases in costs of our debt position. Therefore, there was a drop of 10.3% of EBITDA, 79 million and also net income was down by 37.9% or 55 million.

In order to help you understand better, we have the initial results listed below which talks about generation and then we have a list of non-recurring elements. Likewise, in terms of revenue, the behavior is the same but EBITDA that was down by 2.1% or

BRL19 million and net income is slightly positive by 3.5% or 9 million, reaching BRL264 million in this quarter.

The chart in the lower part of the slide, we have the proportionate consolidation of generation, amounting to 6 million in our results, 35 million in net income and then we have also other sectorial assets and liabilities. Comparing it to the same quarter of the year before, we are just adding up 38 million or 37 million in terms of net income. In this quarter, related to GSF, there was an important impact of 141 million.

Provisions for asset write-off, there was an incident already reported in the cogeneration plant of Bio Pedra. We also have the reallocation of costs with basic network losses, which occurred last year of 12 million and labor contingencies, there was an agreement with the union of a lawsuit of 2001 of 50 million this quarter.

So to summarize expenses, when we have a positive sign, it's because this is what we are doing to rearrange the recurring base. So, the non-recurring items are R\$ 197 million this quarter, in terms of EBITDA, and R\$ 139 million in terms of net income. Considering financial assets and liabilities and the proportional consolidation of generation, the overall impact of EBITDA was R\$ 191 million. It would be better by R\$ 191 million if we didn't have the non-recurring items.

In the next page, on page 9, I show the EBITDA figures. On the two ends of the slide, we have the effect of regulatory assets and liabilities, the non-recurring items that we just referred to and the proportional consolidation. It was minus 10.3% in the reported, and in a recurrent way, we will justify this drop of 2.1%. So, in the second quarter of last year, EBITDA was R\$ 903 million and we went down to R\$ 884 million this quarter. We also reported an increase of 32.0% in our net income or R\$ 1.168 billion.

Most part of this result comes from distribution. We see here an increase of 42.4% or about R\$ 1.2 billion. And on the right hand side, we break down the numbers for distribution. Sectorial financial asset, CVA, of R\$ 881 million. This is the financial asset and liabilities and then there was an extraordinary tariff review, that took place in March 2, of 48% and sales within the concession area that went down by 2.9%. All of that generated an increase of R\$ 1.2 billion.

In terms of the renewable energy, there was a growth of 9.3% or R\$ 13 million, which was the anticipated start-up of a wind farm. In terms of commercialization and services, a growth of 0.2%. These are two separate effects. There was a growth in the service area, and we were slightly negative when compared to the second quarter of last year in terms of commercialization and, all in all, we had a positive R\$ 1 million.

For conventional generation, if we compare the cost, this was more related to an accounting effect of all of the lines, the GSF effect in the last year and this year, with different tariffs and with hedging, because last year, as of the second quarter, unlike what happened this year, we noticed that when it comes to conventional generation, there was a drop in revenue of 16.4% or R\$ 96 million, but looking on the other side R\$ 144 million below, which is cost reduction.

So, EBITDA is positive, when it comes to generation and there is the elimination between the segments; commercialization and generation sales in relation to our own companies, that we eliminate top down.

But in distribution there was a growth of around R\$ 1.2 billion and this is also followed by increases in costs, if we compare costs of energy and charges which appears down below. We increased about R\$ 1.2 billion, but there was also an increase of 64.9% of costs, reaching R\$ 1.277 billion.

Clearly, there is a loss of margin in this quarter and this was mostly by the reductions we had in the market as I just reported and particularly coming from the residential

side. Speaking about commercialization and services, it was up by 0.6% or R\$ 2 million because of a more intensified service rendering.

Conventional generation, there was a drop of revenue of R\$ 96 million, but there was a cost reduction of R\$ 144 million and these referred to mostly accounting expenses. In renewable generation, there was an important reduction in energy purchase cost of 26.6% or R\$ 7 million. If we look at the performance of our main activities, we were positive in conventional generation, renewable generation and commercialization and services, and we were negative in distribution, where we had a loss of margin and this was justified due to losses in consumption.

On page 10, we also break down the variation of R\$ 1 million in the PMSO. There was an increase of 0.1% in the expenses. There are expenses -- there was -- PMSO services, we render more services to an associated revenue and there was also an increase in our revenues in thermal electric generation and then we had more room for thermal electric generation. We therefore had to acquire fuel oil of the company but at better conditions from our suppliers.

But considering these effects, meaning, the drop in PMSO and services and fuel acquisition, there was an increase of 14.7% or R\$ 64 million. There was an increase of 14.7% when compared to IGP-M of 5.6%. I would like to point out that there was an increase of 7.0% in personnel expenses due to the collective bargaining agreement. There was an increase, higher than the IGP-M, but we were able to contain the actual gain and we passed through inflation during the same period. There was also an increase in materials of 10.7%, or R\$ 2 million, and also an increase in services of 3.1%. So, if you add personnel, material and services, the increase comes close to the 5.6%.

What was different in this quarter was the "others" item, which increased 35.6%, and this is led by legal and judicial expenses, adding 67.6% when we compare to the same quarter of last year, mainly due to some labor agreements with the unions and also stemming from the current situation of the country, also because of outsourcing and the solidarity of companies like ours have in relation to the outsourcing issue.

I already talked about allowance for doubtful accounts (PDD), which increased 74.6%, or R\$ 18 million, and there are other effects, a fall of 14.3% or R\$ 7 million. Private pension fund was up by 35.8% or R\$ 4 million. So certainly, this quarter, we are reporting an increase in expenses and we already elaborate more on that in the report or we break down the numbers.

Looking at inflation, we also had extraordinary events on the legal and judicial expenses line and especially the change in the level of the PDD that stems from this extraordinary tariff increase we experienced. So, these two items account for about R\$ 48 million out of the R\$ 64 million reported for the quarter. If we don't have these two items, we certainly would be below the 5.6% of inflation, according to the IGP-M. This means that this is a long term program related to the management of our managerial expenses.

This program has been very successful and is illustrated on page 11. On the left hand side, we have the nominal amounts, a growth of 1.1%, but when we look at the real adjusted PMSO from the moment we implement the zero-base budget (OBZ) system, there was a drop of 15.2% whereas IGP-M had a different performance of 20.7%. So, this is a quarter with extraordinary events, but we keep our optimism related to our capacity to manage expenses, reporting a slight increase in nominal terms and a slight decrease in real terms. The PMSO reduction is of R\$ 248 million in real terms as of the moment we introduced the OBZ. So we are keeping our expenses in real terms at around R\$ 1.350 billion.

Now on page 12, we report the variation of net income. The reported results was down by 37.9%, but there was also an increase in recurring amount of 3.5%. We report here a reduction in the EBITDA of 2.1%, or BRL19 million. So the increase in our revenue and we have to subtract energy purchase expenses and operational expenses. We had a decrease of 16.7% in the negative net financial result or R\$ 35 million; this was due to variation in the concession financial assets, positive effect of R\$ 68 million, and the effect of marking to market of operations under Law 4,131, the non-cash effect of R\$ 24 million, reinstatement of sectoral financial assets and liabilities, that's the new name for the CVA, of R\$ 17 million.

We also had a currency variation in Itaipu. I reported that has an increase in our revenues of R\$ 9 million, compensated by financial liabilities which are in the revenues. So, when you look at this box on the right hand side, the CDI of the second quarter of last year were at 10.6% and now it is 12.9% in this quarter. So, this was a very relevant increase in CDI. So, for this reason and because of the higher debt outstanding balance, we have expenses that are higher by R\$ 84 million in this quarter. Also, we have other effects of R\$ 2 million. We had a 6.6% increase in depreciation and amortization because renewable plants have started off and the effect was R\$ 18 million and, as a result of a lower result, we had a decrease of income tax and social contribution, positive by R\$ 11 million. So our result is slightly better when we look at recurring terms, 3.5% higher, but the reported amount was a net income 37.9% lower.

On page 13, we analyze the impact of 2Q15 results on CPFL's indebtedness. As we can see, our indebtedness has kept practically unchanged, moving from R\$ 13.6 billion to R\$ 13.8 billion. However, this is the first time we are reporting an increase in net debt to EBITDA ratio from 3.54 (1Q15) to 3.67 (2Q15), mainly caused by the increase of regulatory assets (CVA) in our portfolio since the last year. I mean, excluding the CVA effect, our net debt to EBITDA ratio would be 3.23 instead of 3.67.

Despite of the extraordinary tariff increase and a current costs decrease, we have been experiencing a hike in our cost carryover, which reflects the insufficiency of the new tariffs to cover the costs and the CVA (approximately R\$ 1.5 billion). This is the reason why our net debt to EBITDA was 3.67.

On the lower portion of the slide, we see the evolution of our cash balance and the CVA balance. It is important to note we had R\$ 4.0 billion in cash and R\$ 911.0 million in CVA in 2014. In 2Q15, CVA increased to R\$ 1.638 billion, which represents an increase of 43% in comparison to 1Q15.

Although we applied the extraordinary tariff increase (March 2015) and introduction of the new flag system, the concessionaire have faced a stress in its cash balance. Despite of our cash balance maintain the same level now as in the end of last year, we have to consider the relevant impact of CVA reflecting straight in our net debt to EBITDA ratio.

On page 14, we have an overview of the gross debt cost, going up to 11.4. In real terms, we maintain the same level of 2.3%, despite of the increase of inflation (this is the good news). You can actually see why our financial expense had an increase, because 71% of our gross debt is denominated in CDI, 21% in TJLP, 7% by PSI (prefixed) or BNDES. Despite all that -- I mean, despite our very comfortable cash position, our cash at the end of this quarter is R\$ 3.3 billion, which is enough to cover 1.8 times the short-term amortization. So, if you look at our debt amortization schedule, the short-term is 10% of the total and the average tenure is 3.74 years.

Now looking at generations. Firstly, we are going to talk just about the investments we are conducting right now. You can see, especially the first two, Campo dos Ventos and Mata Velha, which are in construction. They will have their start-up next year and their installed capacity will represent more than 250 megawatts. Campo dos Ventos wind farm has a PPA of 20 years in free market while Mata Velha SHPP won the 16th

Auction of New Energy in 2003. Finally, Pedra Cheirosa will start-up in 2018, priced R\$ 133/MWh and Boa Vista SHPP will start-up in 2020 priced R\$ 207.64/MWh. Therefore, the prospects are bright. Today our focus is to conclude construction and obtain BNDES financing for these projects.

On page 16, we can see the 4th Tariff Review Cycle for CPFL Piratininga. You have a simplified comparison of the effects. We have actually shared with you our positive view about this review and its impacts. For example, we are looking at a WACC variation from 7.50% to 8.09%, which represents R\$ 15 million. Regarding the special obligations remuneration, we can add R\$ 11 million.

When we look at technical losses, we had a change in methodology to improve the identification of the most efficient plants, in point of view of technical losses. Particularly, this is the case of Piratininga and so we had 9 million in penalties (which means a benefit). In other revenues, we can see R\$ 6 million. The only negative number here regards to irrecoverable revenues that the agency proposed an extension of the aging from 49 months to 60 months and we had a reduction in our capacity to absorb irrecoverable revenues. Additionally, the Xpd factor increased from 1.1%, to 1.53%, which causes losses around R\$ 4 million. Thus, the total effect is R\$ 29 million additional, only considering the effect that have already been reported.

It is important to point out there is a schedule for CPFL Piratininga's Tariff Review Cycle. On June, we sent all the documents required by ANEEL. On July, we opened a period to receive the opinions for the Public Hearing. Yesterday, we placed the Public Hearing in Santos SP, it was -- we had a very good public hearing and now we have the mixed event final deadline for contributions we will have the Board of Directors meeting from consumers and then we will receive a proposal, including the agency considerations.

ANEEL will send a proposal to CPFL with the topics discussed at the Public Hearing in September 18. After this, we will have a meeting with ANEEL in September 25. Then, ANEEL will deliberate about the new tariff, which will come in force as of October 23.

On slide 18, we have to talk about this improvement in NIPS reservoir levels. We closed July with about 41% of the reservoirs. Today, the reservoir levels marks 39.5%. It's important to highlight this is when the drought season begins and the reservoir levels start to shrink. In the other hand, the consumption fall, the maintenance of the thermal gencos in operation, and a better hydrology allowed a slight recovery in comparison of the reservoir levels in 2014. Therefore, we see a positive outlook.

And it's also important to say and if you can see that in the lower portion of this slide, we've had a better hydrology, better rainfall in the South East, Central West and South, especially. So you can see that in the dry season we had a favorable condition, 108% on NIPS, better than expected. I think you will remember we spoke about this two or three reports ago, we've had the same situation, that is, we've had a better performance than the average. This is a favorable prospect.

If we go onto to the next page, page 19, still talking about the reservoirs level. The dark blue curve shows the first forecast for 2015 (made in jan/15 by ONS). It was expected to grow 3.3% compared to the previous year (we have the reference of 61 GWh, below than the 67 GWh forecasted by ONS), but then the ONS reviewed this curve, actually, we have already talked about that, our curve -- our reference curve is the light blue one, ONS second forecast (aug/15) is using the green curve. So, we are showing that the load evolution is 2.8% lower than last year, 65 compared to 63 and ONS have this view of 64.5 and we're talking about a drop of 2.3% compared to last year.

Now, moving onto slide 20, you can see the scenario for reservoir levels until year end. So, if ENA is 91%, let me remind you it is now 108% rate. So if it goes down to 91%, we would close the year with 15%. Now, the odds -- today, a clear probability is much

more that will close the year above 20%, possibly around 25%. If the ENA is 90%, the odds of the reservoir levels reach 25% is 44%. Therefore, we expect to see an improvement in reservoir levels at the end of the dry season compared to the previous year and we may also have higher numbers. We also believe we have a good level of certainty so if the rainfall is better than expected, then our situation will be more comfortable especially because of the current tariff scenario.

Let me move on to slide 21. This quarter was a different time for the stock market, not only in the Brazilian market. CPFL had a drop of 2.9%, while IBOVESPA index went up 3.8%. CPL (ADR booked in NYSE) dropped of 3.7%. The daily average trading volume went up to 5.434 and also in terms of amount BRL43 million a day. Price in New York, you can see a comparison here between BOVESPA and New York Stock Exchange.

Now, we have two more slides, first about awards and recognitions. CPFL maintained the leadership in energy according to the evaluation of the 250 best Brazilian Companies by Epoca Negocios and this is a 360 degree evaluation including government, best employer, economic indicators, management et cetera. So, CPFL has been awarded as the best company in the year. So, we are the utilities sector leader.

Now looking at the ranking of service continuity, ANEEL evaluations, CPFL Santa Cruz was selected as the best distributor. Finally, Abradee also gave an award to CPFL Paulista and RGE. In CPFL Paulista, we were awarded in the customer evaluation category for the first time because of the quality improvement. In RGE, we were awarded in the social responsibility category, which is also extremely important for us.

On final slide, I wanted to share with you this positive view we had looking at the electric mobility program. On the right hand side, you see some of the reasons why we believe in this good prospect.

We have an experience of 90,000 kilometers with electric vehicles of a sort of brands and here we share, considering our own fleet the comparison of the energy cost to the gas cost. So you have 65% savings in the cost per kilometer, considering the tariff in Group B that is low voltage, which has the highest price of energy.

So, this opportunity -- this represents an opportunity, because of the current consumer behavior in Brazil and in the rest of the world. And because of the commitment that countries have with the climate -- and CPFL was one of the subscribers of the Climate Letter in an important event of Ethos Institute, encouraging the Brazilian government to be a protagonist in COP21 by the end of the year - and as a result of these commitments, worldwide commitments, and Brazil is one of the largest economies in the world and is committed to these policies, we believe that electric vehicles will continue to grow.

We expect to see 10 million electric vehicles in 2020 as Brazil owns the fourth largest vehicle market in the world and we've been working, CPFL Energia has been working on this issue since 2007. If we look at the regular consumption of vehicles, an electric vehicle will consume 70% of a house, so we are talking about higher volumes.

In order to make this become a reality, we have already implemented a partnership with Rede Graal. We are installing electric power stations in the highway that connects Campinas to São Paulo; this is the first highway adapted to electric vehicles. We will have 30 charging points in public and private places in this highway. Moreover, it's going to be possible, using this technology already available, to charge 80% of the battery in only 30 minutes, in only half an hour.

As we have said, we have been working on this development since 2007 and not only this is a good business prospect, but we are also helping the planet.

Now, in the second quarter, we have our Financial Director (inaudible), our Vice President in Business and Market (inaudible), our Legal Vice President and also of Institutional Relations. Thank you.

Questions And Answers

Operator

Thank you. Ladies and gentlemen, we will now begin the questions and answer session. (Operator Instructions) Our first question comes from Marcos Severine, JP Morgan.

Marcos Severine, Analyst

Good morning, Wilson. Thank you for the call. Wilson I have two questions. First, about this decision of ONS to turn off this 2,000 gigwatts capacity now and also this decision of reducing the red flag to BRL45. It's clear that the rainfall prospect is better than expected, consumption is also less than expected, and sales will be likely weaker than expected. Do you have an estimate of the impact that this reduction will cause on the expected revenue, because until June, the flag accounted for about 80% of the cost and I also wanted to know if this scenario may worsen after this decision of reducing – of having this reduction now?

My second question, Wilson, regards to hydrology risk (GSF), I don't know if you have additional updates about the negotiations. We have looked at different scenarios and the agency ANEEL is now part of this process with the public hearing. So, what is the most updated scenario you could share with us today?

Wilson Ferreira Junior, Chief Executive Officer

Well, thank you for the question. I will begin from your last question and then I'll ask someone to help me answer your first question. Well, I think this is something very favorable, very positive. I believe that we will have a final solution for this problem during the next month. Regarding CPFL, you will see our evaluation next week. So, I would say – I mean, I cannot share with you now – but I believe we will have the solution soon and it's going to be a very reasonable solution to restore our investment capacity, I mean company's investment capacity still this year.

Like I said, I believe a solution will come up in the next three days and some information will already be available as of next week. It's very important to have awareness about this and convergence in this process led by the Ministry and with the participation of all agents in the market. So, obviously, it is a complex issue, because there are differences among the agents because of the obvious impacts of the solution to be adopted. Thus, I believe we will have a very smart solution to settle this issue. I think the solution will be good so that we will once again have investments in the sector and we will be able to protect the results for our company, so that they will be able to make fresh investment. So as I said, we will have information soon. I mean, already next week, we will have more information about this.

Now regarding the tariff flags, the level of regulatory assets (CVAs) went up and one of the reasons is because the current tariff flag does not cover the costs. It was established BRL55/MWh considering GSF around 9%. However, we were experiencing GSF between 19% and 20%. So, the revenues have not been sufficient. If nothing had been done, then the flag, the accounting would not match (The insufficient would be BRL 3 billion). Now we had a drop in load of 2.1 gig, we still have this problem of, I mean, it still not sufficient, but now we are talking about BRL 600 million, which represents less than what we had before. So I mean, if we keep the flag in red until the end of the year, we will have this result, negative 600 million. So it wouldn't perhaps determine a change in the tariffs.

Nowadays we are having a load dispatch of above BRL 600 MWh, higher than red tariff flag level (BRL 381 MWh). So, it should be kept the red tariff flag. It is obvious that this information -- there is a perception, we can see that and even the President of the Republic spoke about this. Further, ANEEL felt the obligation of opening a public hearing. They started the process yesterday. We now have 10 days when this process will continue and so, consumers, agents of the market will be able to present their contributions.

We have observed that in the agency's proposal, we should have an increase, I mean, it's still going to be positive to agents. The prospect was to have 3 billion if they kept the tariff flag at the same level until the end of the year, then the debt would be BRL 600 million instead of BRL 3 billion, and with the agency's new proposal, then we will close the year with the result of BRL 1.6 billion. So, we still have a reduction but less than the reduction we would have if we kept the flag in the current terms. I believe we will receive contributions from both sides and so it is the right time, I mean, to analyze these contributions.

When we look at the difficulties of the market it's going to be very difficult to face an increase in the cost of energy, especially for consumers. However, if this cost is not passed on to consumers now, it will somehow in the future. Now, all of these things have to be weighed. Certainly, the reduction in the dispatch of load is positive because of lower cost and it will allow for us to have a lower negative number instead from BRL 3 billion to BRL 1.6 billion in this scenario. Nevertheless, if we keep things as they are now, we will face a lower cost around BRL 600 million.

Marcos Severine, Analyst

Just to follow up of this answer. If the decision is maintained, I mean, if the regulations are maintained in the current term, then perhaps the companies would ask for another extraordinary tariff review this year or perhaps on the next year?

Wilson Ferreira Junior, Chief Executive Officer

Well, I don't think it is the case of having an extraordinary tariff review. I don't believe in this possibility. I believe that the company will present a contribution to the public hearing process showing that it's just not reasonable to make a change in pricing, because right now we are still running a loss and even if we reduce the dispatch amount we'll still be running a loss at the end of the year. And so I don't think it is a case for an extraordinary tariff review, but just to say that, we had our prices established for past conditions (GSF up to 9%) and we will be running a loss at the end of the year because it's not enough.

Therefore, this current scenario where we have faced high interest rates, it would be cheaper for consumers if the tariff is kept at the same level. In the other hand, if do not, this cost will be transferred to consumers more expensive than now next year. Besides, the current situation would have less impact on inflation rate next year.

Marcos Severine, Analyst

Thanks very much.

Operator

Our next question is from Vinicius Canheu from Credit Suisse.

Vinicius Canheu, Analyst

My first question is a follow-up question or may be just some clarification. Very specifically for CPFL, the change in the flags and the reduction of load dispatch, I would just like to understand, are you already monetizing the regulatory asset or not?

Or are you still accumulating this regulatory assets until the end of the year? Are you going to change the monetization pace or not? This is what I want to understand.

Wilson Ferreira Junior, Chief Executive Officer

Vinicius, thank you for your question. Gustavo is sitting right next to me and I'll ask him to help me with that answer.

Gustavo Estrella, Chief Financial and Investor Relations Officer

Hey, this is Estrella. Of course that with this expectation of dispatch reduction, the speed of these assets decrease and as a trend, we will continue to accumulate some regulatory asset, but not with the same volume, much lower volume. What we see is a growing trend not very significant until the end of the year, but it's hard for us to monetize it now, I can only monetize it next year, as of next year. One exception is Piratininga, because there will be a tariff readjustment in October. I will start seeing a reduction in my level of assets.

Wilson Ferreira Junior, Chief Executive Officer

I would just like to remind you that in the case of Paulista, this will occur as of April and RGE only as of June of next year. So for the two main concessionaries, Paulista and RGE, which represent about 70% of our regulatory asset base, it will only occur next year. That's why it's important that we maintain the red flag as it is in order to avoid further accumulation of regulatory assets. That is positive for the company and, as I said, with SELIC (interest rate) in 14%, it's better for consumers, it's even better for consumers.

Vinicius Canheu, Analyst

Okay, fine. This is very clear to me now. So, knowing that you are not starting the monetization now, what about the scenario for covenants in the next quarters? There was a slight increase now and there is still some room for the main covenants, but for the next quarter, how do you see your net debt over EBITDA ratio considering the main covenants of the company?

Gustavo Estrella, Chief Financial and Investor Relations Officer

I think here we have 3.67 scenario which is very close to our covenant and looking ahead, I think we have some considerations to make. There is a period where we will see an increase in energy consumption but this is seasonal and this will occur probably at the end of the year when temperatures rise and so there will be a compensation for a potential leverage increase. As of 2016 we will already receive all of the regulatory assets. According to our projection, we will get something between 80% to 85% of the balance of regulatory assets that we will be able to monetize throughout 2016.

And in terms of a short-term expectation, I think we will be close to the covenant limit, but there is a downwards trend after 2016, after we receive, we monetize all the regulatory assets.

Wilson Ferreira Junior, Chief Executive Officer

I'd like to complement what Gustavo said. Obviously, the covenants are being pressured, as you saw, by CVA in 0.5x. On the other hand, there is another important contribution coming from GSF and this means that we will have news -- this I think will occur before 2016. As I said, our expectation for the next coming days is that I think that there should be an announcement or the authorities will say something to make some adjustments throughout the next quarters. And with the solution to that topic, we will see a relevant improvement of our covenants in the present year.

Vinicius Canheu, Analyst

Thank you very much.

Operator

(Operator Instructions) We now conclude the question-and-answer session. I would like to give the floor to Mr. Wilson Ferreira Junior for his final remarks.

Wilson Ferreira Junior, Chief Executive Officer

First of all, I would like to thank you very much for your attention and for your participation in this quarter earnings results and I do apologize for the setback that I had during the presentation, but the presentation itself, the slides will give you a very good idea of what we experienced, but in fact we are going through a very challenging moment.

It's challenging because of the economic environment and the impact that this bring to our current position. The company is getting prepared to face this environment, this adverse environment and we're doing everything we can to make cost adjustments but the recurring costs are lower, and this is quite important, because it will help us face this moment of market loss.

Yesterday, I met with Minister Levy twice. And, to be honest with you, the market mood is different from what we see when we go there. I was there with 150 CEOs...but we see that every single CEO of companies, they are very optimistic and they think that we can have a turnaround of this situation. We sometimes focus on this bad mood but we forget about the opportunities that can be seen ahead.

We do have an extraordinary potential in the agri business. So, moments of crisis have to be seen as opportunities for companies to innovate, to also eliminate some costs that are not really necessary and as important also whether they focus on finding new opportunities to be stronger and more efficient. This is what we've been working with.

This is the commitment that I want to share with you today, and I am here with most of my vice presidents. Therefore, despite the challenges that we're facing now, we will certainly come up with solutions that will allow the Company and the shareholders to be proud of and will lead us through a recovery path in the electric sector.

I would also like to give a very optimistic message regarding the GSF. I've been talking to you I think for the four quarters saying that we feel, at the time, we had the opportunity to present this, when I was still leading ABDIB, to former Minister Lobão. Along the second half of last year, there were many discussions or many actions that were undertaken, but the Minister, the current Minister Eduardo Braga is willing to interact with companies, with the association. Therefore, I think that we can generate other alternatives that are now being looked into and this will help us make important decisions.

This week we just had the confirmation of the investment plan for the electric industry, something like BRL200 billion of investments for the next coming years.

I usually say that crisis can be solved through investment processes and we see a lot of opportunities. Infrastructure, particularly the electric sector, have many opportunities.

Therefore, our company and the solution to this problem allow us to probably focus on investments and opportunities. That's why I'm optimistic.

Now is the time for us to focus towards increasing productivity and efficiency, and we can also pay our contribution to change the mood in the market and in regulatory terms, in terms of the GSF or the tariff flags and whatever it is, we will be able to find the best possible solution.

CPFL is truly committed to that. Good afternoon, everyone.

Operator

The conference call of CPFL Energia is now concluded. I would like to thank you all for participating and have a good afternoon.