

Conference Call
CPFL Energia S/A
1Q16 Results
May 12, 2016

Operator

Good morning and thank you for waiting. Welcome to CPFL Energia 1Q16 Earnings Results Conference Call.

Today, we have here with us the executive Mr. Wilson Ferreira Junior, CEO of CPFL Energia; as well as other officers of the company.

This call is being broadcast simultaneously via Internet and the website www.cpfl.com.br/ir, where you will find the respective presentation for download.

We inform that all participants will be in listen-only mode during the company's presentation. After that, there will be a Q&A session when further instructions will be given. (Operator Instructions). It is important to mention that this conference call is being recorded.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the belief and assumptions of CPFL Energia management and on information currently available to the company.

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

Now, I'll turn the floor to Mr. Wilson Ferreira Junior. Please Mr. Wilson, the floor is yours.

Wilson Ferreira Junior, Chief Executive Officer

Well, good morning, everyone. Good morning investors and analysts that are here with us for the earnings call for the first quarter of 2016.

Let's start on page three with the highlights of the quarter. Here we have a negative highlight: unfortunately, sales dropped in the concession area in all segments. We are going to go into details.

On the other hand, in the industrial area, the contracted demand still positive.

On the other hand, we have excellent news, which is the reduction on the CVA balance. As you know, we had at the end of last year R\$ 1.7 billion to receive and [this quarter] we reduced to R\$ 1.0 billion. So we have a much more positive position. Indeed, this problem was surpassed.

After that, there are the Tariff Reviews and the Tariff Adjustments of our Discos. We will point the positive aspects of these processes during the call.

Another good news is the early operational startup of SHPP Mata Velha, with 24 MW of installed capacity. Moreover, we also had the operational startup of Wind Farms for the free market. We will talk more about that as well. Additionally, we have the renegotiation of the hydrological risk of BAESA. This was the last HPP where we needed the renegotiation. Now, it is over.

We will see also a drop in our GSF expenses. We will talk about my succession as well. There was also an approval of capital increase through stock dividends that was approved in our Shareholders Meeting, and those shares will be distributed to shareholders from May 5th. We spent R\$ 0.5 billion on investments in this quarter, and also we disclosed our Annual Report on March 31st. It is already electronically available in our home page.

So now turning to the page four, we have a breakdown of energy sales. You can see that in this first quarter, and in fact, we had an important drop in energy sales of 6.4%.

We can split the breakdown in 5.2% on Captive market and almost 10% on Free market, in other words, the customers who are billed through the Distribution System Usage Tariff (TUSD). The breakdown for the consumption segment shows that we had in all segments significant drop vis-a-vis the first quarter of last year. So, the economic crisis is very strong, which both impacted in residential as well as commercial residential around 5.0% and industrial segment of over 10.0%. Still, that does not change our market profile.

And in the bottom part of the slide, you can see 2 (two) important observations. We are in a leap year. I mean, the comparison of drop is a little different. We will go into details, both in the unbilled volume as well as energy losses. When we analyze the load in the concession area, we can obtain a right view of what is happening. We see that we have numbers that little bit lower.

Therefore, we believe in the next quarters we should bring those figures up.

As I had said, the contracted demand is still positive. So, we see a movement of positive expectation of entrepreneurs and the industry and obviously we see new companies in the concession area, that's why, despite the lower volumes, the contracted demand both for peak and off peak has positive values.

As I said, we had the operational startup of two assets in the Renewable segment. Therefore, our installed capacity now is reaching 3,128 MW installed and that happens specifically in Renewable segment.

On page five, we have our outlook. We have reported a drop in the Residential segment and what we try to show you with this chart is that, we possibly have reached a drop in 5.0%. It has been stable for few months. Obviously, that is because of several situations and circumstances that cause that to become stable.

The first was an over 50% unprecedented adjustment in the tariff on electric sector last year. Now, we are expecting to have negative tariff adjustment in the second half of the year, added to the tariff flags reduction since the beginning of the year. So, that pressure to reduce consumption in fact has dropped.

It is important to highlight that customers reacted to the Tariff increase, implementing several practices to consume less energy, I mean, consuming efficiently. For example, we can see here sales of LED lamp sales in 2014, they amounted 27 million and last year they amounted 81 million, tripled in number.

So, I would say that the consumption reduction is largely due to rationalization and exchange of equipment such as LED lamp sales that oppose more advantage than conventional lamp.

So, we understand that, considering future outlook, a drop in inflation, and because of that negative adjustment, we probably will not face higher drop in the residential area.

So the consumption per client should be stable along the year-end, and now that we have the income of new consumers. We believe that we will have a stable volume for the second, third and fourth quarters of this year.

What is our concern here is on page six, and it is also a concern among the analysts, is delinquency. Obviously, we also have compared ourselves to other peers, and our figures have been lower than them, when we look at ADA as gross revenue is still low (0.7%), despite of the nominal value have increased.

We had an increase in tariff, when compared the quarters, that is higher than 50% but we have here from the fourth quarter to the first quarter also an increase from 0.5% to 0.7%, 40% higher volume in terms of our allowance for doubtful accounts (ADA).

This is something we have been paying attention on it, and there is a set of initiatives that we have listed in the bottom right part of the slide. We are working on it. For example, we have been working on conventional energy cut over 150% over than the same quarter of the last year, and this is the most effective measure.

Right now, you are following delinquency in the different segments in the difference industries, especially in the Finance sector. So, that is why we also have the black lifting, even though this initiative has been proved less efficient. In the other hand, we increased in 20% the electronic forecast and telecollections, we tripled our mails, and we increased the collection agencies

over 50%. Additionally, we began to use the electronic protest, actually is a new initiative.

It is important to highlight that this delinquency peak has in the background the economic scenario, and this is something that we needed to acknowledge in the agency itself, because the established Regulatory Agency values are lower, and, in general, all segments of the economy are going by this problem.

Now on page 7 (seven), I will go back to one of our highlights. The total losses had an increase in our area in March, but if we analyze the moving average of 12 months, it is not different of the figures that we have seen since March of the last year. On the other hand, in March 2016, especially or in the first quarter, we have a higher figure, reaching of 8.63%. That reflects the higher unbilled invoices, because here we had a leap year, and that is an extra day. Therefore, the load is not reflected in the billing schedule and this is the main reason why we have that difference in the bill invoices and the drop in the load.

So this should reflect in our billing schedule later on. In addition, we had higher temperatures in this quarter that also impacted these figures for the unbilled invoices.

We expected that the slight increase shall we offset in the following quarters. So there is nothing structurally that is responsible for this increasing losses expect those two topics that I mentioned that are related to the billing schedule.

Now turning to page 8 (eight), we have the results for the first quarter. On the first line, we have the IFRS results, and on the second line, we call the adjusted base. So you can have a more perennial outlook of our company.

We can see that both for net revenues the drop of 20% and 19% in the different bases. They are due to the integration of regulatory assets, which explains the major drop that we had in our CVA. Obviously, there are the energy sales volume I will take about that. In the distribution area, they were lower, and we had the new level of the tariff flags.

The important news is that the EBITDA has a decrease of 2.6%, or R\$ 25 million, but the net income increased 63% compared to the same quarter of last year, reaching R\$ 232 million.

In the recurring base, we have a decrease of 5.3% or R\$ 53 million, and I will talk about it later, but it is mainly related to the lower speed of winds in the first quarter, as the CEO of CPFL Renováveis explained in their webcast, highlighting the recovery in April.

So this is an important effect in the first quarter, but there is already a recovery of a half of that difference in April in our renewable activity.

Because of that, in the adjusted base, we have an increase of 6.7% or R\$ 17 million, reaching R\$ 267 million in the first quarter.

The amount that determine these variations are in the bottom part of the slide, both the proportional consolidation and the Itaipu foreign currency variation, due to new accounting effects, since last year, they go into the EBITDA and come out on the net income...

So, it is important to have a recurring comparison with this reconciliation, and also we have the non-recurring effect in the extraordinary events last year. The main non-recurring effects were the GSF and the Energy Purchase in a two generation operations, conventional generation and renewable - the adjustment of PIS and COFINS tax credit has a specific adjustment that's now on, this year on - besides of gain with the strategy put in place for the seasonality of physical guarantee of CPFL Geração and CPFL Renováveis, as we renegotiated the hydrological risk will not be verified anymore.

So, for a recurring effect comparison, we think it is important to separate it.

Therefore, I believe we have an EBITDA that is this stable, impacted, as I had mentioned, by two effect we are going to detail, and our net income is positive.

On page 9 (nine), we have that assessment of the company's EBITDA. So to the outside, we have the reported values, a decrease of 2.6%, adjusted by the effects we have talked before and the inside area that we are going to go into details, we have a drop of 5.3%.

Basically, we can see that there is a drop in the Distribution and Renewable segments. In distribution, we have a drop of R\$ 37 million, or 6.9% and it is related to the increase in manageable PMSO. However, the increase was a lot lower than the IGP-M as a period.

We held a legal and judicial expenses of R\$ 28 million. The allowance for doubtful accounts (ADA) of R\$ 26 million and a drop in 6.4% in sales in the concession area, booking R\$ 24 million.

Therefore, these are the negative effects in Distribution segment.

It is important to highlight we did have gains both in the tariff review and tariff adjustment processes. Both added R\$ 66 million in all of our distribution companies. Furthermore, it also has that specific treatment of PIS and COFINS that I had mentioned.

In Renewable segment, there was a drop of R\$ 26 million, or 23%. Basically, half of this drop is explained by less winds in our wind farms and that corresponds to R\$ 13 million. Also, we had a SHPP seasonality R\$ 10 million that happened last year and it did not happen this year. So we will recover that amount in the future quarters. PMSO increased R\$6 million and the renegotiation premium (R\$ 1 million).

On the other hand, we have a conventional generation with a gain of R\$ 9 million with better performance at our thermal operation, EPASA, and others 12 million, and expenses with GSF. And commercialization, services and holding is

rather stable with a gain of R\$ 1 million. So the results are negatively driven because of the impact in renewable arm, especially wind, and also a drop in volume in addition to the allowance for doubtful accounts in distribution.

Now on page 10, just to give you an idea for the future. Somehow we finished the work to implement the methodology of ZBB (Zero-based budget); at that time we were talking about BRL320 million, we reached BRL369 million. We have the chart showing it and obviously our future challenges related to the subject which is productivity here. The company is deploying two important projects, one related to the usage of technology to increase productivity in the distribution segment, we have a whole set of indicators developed by the company. The analysis of team's unavailability in management of our workforce. So today we have more tools to monitor and obviously to integrate technology and automation and to increase productivity. This is something with a great potential and in the near future we will be sharing with you. And we are also working with consulting services in a new stage for corporate costs. We started doing that now, and we believe that in the near future we'll be able to share with you and let you know what you're doing in these two areas. So this is something we have to do to add productivity to our group.

Now turning to page 11. We come to net income. In the recurring, reduction is almost 7%, and in the IFRS basis is 63%. Here as a negative aspect, we have a drop in EBITDA in 5%, we already mentioned it. We had an improvement of a negative net financial result. It is -- thanks to that adjustment of sectoral financial assets and liabilities, also variation of discos' concession financial assets, additions in late payment fines and installment debts. We also have here BRL30 million for that. And mark-to-market effect, the operations 4,131, that is -- these are non-cash operations. And also we have to PIS and COFINS over financial revenues. In fact, because of the new taxes and that is BRL21 million.

And also we had a reduction of 3.3% in depreciation and amortization with the driver coming from the reduction in the amortization of the concession's intangible assets. And here we have an increase in depreciation, amortization, also an increase in income tax related to financial operations of the company. So, I would say that here we have a positive outlook, because we have our stable EBITDA and we are working in that environment that we mentioned.

Now turning to page 12, these are the tariff events. There were several ones in this quarter. Starting and what we call the tariff reviews of our five concessions that have been renewed. So we have reported here the increases in Parcel A and Parcel B. Look that in this review, they already integrated the increase in the net base, increase in the WACC, and the remuneration of the regulatory asset base, and also, the addition of special obligations remuneration. We have a Parcel B with in a positive variation, higher than inflation. So the set of these gains are of around BRL15 million and we have a pass-through of financial components of BRL 80 million.

We have also the annual tariff adjustment for CPFL Paulista increasing in a little over 10% Parcel B, and the average effect for consumer is 7.55% lower than

inflation, and we have the transfer of R\$ 950 million of financial components. As we have said, we had an important drop of our CVA in the quarter of almost BRL1 billion. And now with this last adjustment for Paulista, then at the end of this semester, we will be very close to turning this spin out to the positive side for the concession. In terms of cash of the company the question is definitely solved because of these adjustments, especially for Paulista.

Now on page 13, we have our indebtedness, and here we have adjusted net debt of BRL12.2 billion over an adjusted EBITDA of around BRL 3.6 million, reaching 3.42. And remember that with a CVA coming in, we will be running at 3.22, and the adjusted by CVA cash and balance. And here, we will be able to have the benefit of the leverage in creating value for the company. This is a good news, and the bad news is the increase of the nominal cost of our debt amounting 13.7%, obviously that is driven by the increase of the CDI, 70% of the gross debt of the company is indexed by the CDI. So obviously we reached 13.7% and, disregarding inflation, at 4% of real cost of debt.

Turning to page 14. We have -- we can say that we are in a comfortable situation in terms of cash coverage over BRL4 billion, over two times to cover the short-term amortization. The debt have an average term of 3.5 years, and in the short term only 11% of it. So this is a comfortable situation in terms of management of our debt.

On page 15, another subject that concerns -- which is the over contracted position. And the good news here is that, with this PH 04, the exposure that we had above 5% -- that exposure was eliminated. We had 180 average megawatts before PH 04; in six of our eight concessions, and the public hearing of ANEEL is covering 100% of the problems. We have some residual in one of the companies and here we are taking about very, very little figure, maybe less than 10% of those 180. So we are telling you that obviously PH04 mitigated 4%, and we have our distributors totally aligned for 2016. It is very important, because considering the macroeconomic scenario for the future we should do some reinforcements there. So here we have also the approval in April of PH012 that simplifies the process for postponement of new energy contract. Here is the potential, in our view, of 2.5% that has to be dealt with. There is some potential for mitigation, but I believe this is more important, especially for future perspective and we have to work on that.

And also under discussion right now, the impact of what is called the customers migration to the free market, and this is a huge debate here between the agent and ANEEL. And let me remind you that, what I have mentioned about the exposure of 180 average megawatts that residual varies amount is after that 1.8% going out. So it would be almost -- it would be 100% if did not have such an important migration of consumers. 1.8% is a high figure.

So now just to report some viewpoint there. Mata Velha SHPP, 1.5 years before the contracted period, a very important part of CPFL Renovaveis, are 24 MW of installed capacity and 13 MWavg. The auction was the sixteenth of 2013 having a value of R\$ 155.00/MWh and we obviously in these 8 months before

already have a free market sale viable and the company is already funded by BNDES.

On page 17, just to talk about greenfield projects in the free market, Campos dos Ventos and Sao Benedito wind farms that will be in full operation in this year, but also with this new regulation of the agency, that allowed go into operation of certain wind turbines, independent of being a wind farm or unit wind turbine, so we have had to date here the entry of 4 wind turbines.

Remembering that we have here are 231 MW of installed capacity, something like 110 towers will be added. So we have an important schedule for the entry into operation over the next few months in this wind farm which already has, as I said, this project was the first funding approved by the BNDES, linked to free market, and then we have here a perspective also of adding revenue and EBITDA in CPFL Renováveis, which is very important.

Two other projects that are under construction: the complex Pedra Cheirosa in 2018, with 48 MW, which was made possible in the auction, and the SHPP Boa Vista. Both here under construction in the normal structuring process, with BNDES, etc.

Here an important fact is entry into operation in the very short term, either by Mata Velha SHPP, or for these two wind farms in Northeast Region in Brazil.

Finally, here put the issue of CPFL Eficiência, we made a point to bring here, one of the cases, an important case. CPFL's first run on the solar distributed generation through our subsidiary CPFL Eficiência.

You are seeing Algar's plant here in Campinas, already with solar panels installed. This project involved the replacement of over 15 thousand LED lamps, with an important reduction in consumption. Also a work related to the air conditioning, with the replacement refrigerant fluid for air conditioning system in order to become more efficient, build 2 solar plants, one is this plant with 200 kW peak, but also over 400 kW in Uberlândia with a saving of 27% in energy efficiency with a photovoltaic generation. This involved an investment of R \$ 6 million and we opened it here last March.

In Algar, there was savings of about 12% of total consumption, 3.500 MWh per year. There was also a postponement of the construction of a substation for this installation and it could also, during this operation, enter in the free market.

Conversely, CPFL Energia participate in gains, whether with the solar generation, either in efficiency, for the next 10 years, and we have a BOT contract to remunerate the installed asset that during six years.

And it is still supplier of energy in the free market for the next 10 years. So indeed an important win-win operation. Another important case here for CPFL Eficiência.

I am almost finishing... on page 19, we have here the stock performance. CPFE3 had a better performance than both IEE and IBOVESPA in this first quarter, virtually double, appreciating almost 30%. The same occurs in ADRs, increasing 47%, so the exchange rate effect, and the key highlight is the entry in January of CPFL, back to the IBX50 index and the Carbon Efficient Index for the first time.

So this has reflected positively in terms of number of trades and volume that are reported on the left side, it is a demonstration of this. So here is something important for the future perspective.

I conclude on page 20 saying you some facts about my succession. In April, we have announced this succession plan. It's part of a planned process. The company within the best governance practices.

I have been here with the group for more than 18 years. So I will finish the second quarter and I will be replaced by Andre Dorf who is the CEO of CPFL Renováveis, which is there also by the same date, and he has been with us now for about three years in the company and has done exceptional work in the CPFL Renováveis and will come with all his youth to manage this new phase of CPFL, and we are delighted with this.

And in this quarter, we have carried out an integration program with the team and Andre has taken part in many activities with us, so that he committed on the 1st of July playing to win.

So, ladies and gentlemen, this is what we have to say about our results. And my team and I are now at your disposal for questions. Thank you.

Questions and Answers

Operator

Ladies and gentlemen, we'll now begin the question-and-answer session. (Operator Instructions). Our first question comes from Kaique Vasconcellos from the Citigroup.

Kaique Vasconcellos, Analyst

Good morning. I have two questions. First regarding demand. You said that you will have a more stable demand and we have had a lower shrinkage than the previous months. So up to May what are things being like and what are the prospects for the second quarter?

And a second question regarding amortization. I see here that you have cash to pay short-term amortization. So what should be the strategy adopted by the company, you should seek scroll or wait for a better increase in the debt market? And if you have plumbed the market to see what would be the cost of this scroll, if you have any range therein, a percentage of CDI or a spread that you see if the best option to roll the debt today? Thank you.

Wilson Ferreira Junior, Chief Executive Officer

I'll ask Leandro to answer the first question and Gustavo the second.

Leandro Cappa, Investor Relations Officer

Hello, Kaique. Good morning everyone. In April, the market still not presented the recovery that we expected, because it came in load, right.

We've seen the load improving already at the end of March and now in April, but this unbilled that Wilson mentioned has not yet come in billed, because of the mismatch that we have of reading days.

So, we already in April has a good recovery of the load, April was a very hot month, so this impacted greatly in low voltage, helping the recovery of the residential segment, but even in the billed market we will only see it there in the second quarter.

Wilson Ferreira Junior, Chief Executive Officer

Just take a supplement Caique, I mean, we're seeing here, we had indeed an expectation that this year here we were to work with an almost flat volume. Today we are actually working with a prospect that it will not be flat, it will be slightly negative, somewhere between 1-2 % in terms of volume.

Let the second answer, then.

Gustavo Estrella, Chief Financial and Investor Relations Officer

Well, Kaique, regarding liquidity and roll over, I think that the market has confirmed our expectations of credit restrictions allied to the increase of costs. And I think this has been a market trend in general. What we did was anticipate our rollovers, basically last year. So, therefore, we have very little need for debt rollover today in the company. Wilson showed with that 4 billion cash that we have here today already covered all the debt maturities that I have 2016 and 2017.

So today our focus here scroll it goes to the only maturity in 2018, which brings us a much more comfortable situation, obviously we get here and take all the time available to us to seek the best opportunity debt rollover.

Again, you know as well is that we work on debt management, we are already looking at these 2018 debt maturity, but here with the time needed to find the best moment in credit market.

I think maybe a point here is that those important discussions on infrastructure debenture. This discussion continues, both in the Ministry of Finance and the Ministry of Mines and Energy.

We have here a positive outlook so that we may access this market infrastructure bonds for the distribution segment and we can then make rolls of lower costs and longer terms.

But again, so we today have no imminent exposure to market forces us to seek money for short-term rollover. We are in a comfortable position for the company in the next months.

Kaique Vasconcellos, Analyst

Thank you very much.

Operator

Our next question comes from Mr. Vinicius Canheu from Credit Suisse.

Vinicius Canheu, Analyst

Hi good morning. I have 2 questions regarding the results here. One, I want to know if you could break down what was the loss with the distribution overcontracting? And second, something which I did not understand, when you see slide nine regarding distribution, you show the gains through the pass through of Parcel A, I'd like to know why did this impact the results, because generally these movements of Parcel A are in the asset and liabilities, regulatory liabilities. Why did this come into the result? Thank you.

Leandro Cappa, Investor Relations Officer

Hello, Vinicius. This is Leandro Cappa. In the moment that we have the tariff adjustment, we have some gains, because we have been very conservative during the year in our accounting. And when we do the adjustments as happened here with Paulista, we had a gain with Parcel A at the time of the tariff adjustment. This amount of 66 million, about half of that is just simple, because of the mismatch and also because of the unbilled amount which is greater, and does not have sector charges. So we have a temporary effect.

And during the second quarter, we will normalize it. So of this 66, half is temporary. So this will comeback during the year and half is because we were conservative during the year and we have some gain at the moment of the annual adjustment.

Vinicius Canheu, Analyst

Okay. Now could you talk about the over-contracting please?

Leandro Cappa, Investor Relations Officer

This, we had zero impact in the first quarter in none of the distribution companies.

Operator

Our next question comes from Miguel Rodrigues, Morgan Stanley.

Miguel Rodrigues, Analyst

Good morning everyone. I also have 2 questions. The first, recently we had the regulation of ANEEL for the grouping of concessions. I would like you to comment on some of the potential gains and risks to CPFL in case you decide to group the five minor concessions. And the second point, if possible, I'd like you to comment a little the change in PLD calculation methodology, which has been discussed. I was wondering if you also understand that an increase in the "risk aversion" component is required and if this would be the best way to make an adjustment in the model, or you believe that the model would need to be revisited in a more broadly way? So, have some opinion from you on this issue too. Thank you very much.

Wilson Ferreira Junior, Chief Executive Officer

Very well. So, starting by the part of the grouping of concessions, Miguel, we are here at this time evaluating the alternatives, we must bring to the Board of Directors most likely next month. I would say so, the grouping has marginal gains to the company, but I think it has, as well, something that we cannot evaluate and you talk like that: "Look, we have five balance sheet reports against one balance sheet report." This is not to have a gain, no doubt. There are five processes that we have, related to the tariff readjustment and review and will be only one process. I have no doubt, then, that some marginal gain we will have.

So, our evaluation here is more of a rationalization, because this within the company also ends up determining for each adjustment process has a set of men/hour of people who are identified here to do the work, they will do now collectively. I would say this: there is some gain, the gain is not a process that I would say so significant, but it does rationalizes both our work team and especially the agency itself. So, we understand here that the gain is much more of a rationalization process, something that makes much more sense. I would say that from the point of view of consumers it might have the advantage of a larger area with the same tariff, I mean, it's very difficult for us here to face tariff differences from one municipality to another, this would occur in these five distributors. We will then also avoid this kind of problem. We understand that the regulation established is adequate and no doubt we must do in the coming months this proposition to the agency.

Regarding now to the subject of the PLD, the spot price, I'll ask here that Daniel make a consideration to you.

Daniel Marrocos Camposilvan, CPFL Brasil Manager

Well, putting in relation to revision of the price formation methodology, I'll just leave some highlight and relevant points here. The concern of minimize orders

out of merit order is always welcome, so that the model reflects in the best possible way the system operating cost, which is very welcome.

Another relevant point in this regard is that in case of a change in the price formation methodology, that this is not done in an abrupt way because it impacts on market trading on price formation itself that the market ... that agents are seeing. So it is necessary that you have time to apply this change and that this does not cause negative impacts to the agents and possibly even judicialization situations. Regarding the methodology that is to change the CVaR mechanism of risk aversion, this is still under study and the CPFL group is still evaluating whether this is the best way for you to make an adjustment in the model to reduce this dispatch out of merit. So, do not have a conclusion of the best way to do this. It is currently being studied.

Miguel Rodrigues, Analyst

It's great. Thank you for answers.

Operator

Our next question comes from Marcelo Sá , UBS.

Marcelo Sá, Analyst

Good morning folks. I think, first giving continuity to this question, I could see that there was an increase if you look a month in relation to the current long-term price expectation, for example, that Dcide [consulting firm] discuss ... discloses, right, R\$ 120.00 to R\$ 125.00? Do you think this increase was due to expected change of PLD, which is somehow already there pricing long-term price, or if it was for some other reason, if the market is there seeing a tighter hydrological scenario for the next year, if it eventually affected?

And then another question is if you could give some more data regarding the possible privatization of CELG, if you have a new schedule, some expectation of price revision, if something changes with the new government? Thank you.

Wilson Ferreira Junior, Chief Executive Officer

Daniel?

Daniel Marrocos Camposilvan, CPFL Brasil Officer

Well, with respect to the first question, of course the evaluation in the price curve involves several elements. The discussion regarding the price formation is one of them, but you also have elements as the delay of the Belo Monte transmission line, which affect this price formation. Regarding hydrology, have no difference of expectation from what had before, it is very calm, and reflects various elements, okay. So, there is not a significant variation in the price, is simply a one-time adjustment of a diverse group of variables. There is nothing that stands in relation to this price change.

Wilson Ferreira Junior, Chief Executive Officer

Well, with respect to the second question, we do not have, we have not been informed officially of any change in the CELG process. Although I have no doubt that, in the light of the new government and this new era that we live in the economy, that this is an important alternative to be reviewed as soon as possible, the price, clearly the price has an error, you can compare comparable multiples here, relative to the base, in relation to what you want, you will realize that there we have a mistake.

I would say so, the sector that has now given the new regulatory time, I mean, I think we have made important progress regarding the rules of distribution and we see the states and Eletrobras itself in cash necessity situation. So, the issue of privatization, which I think can bring much benefit to the holders of such concessions and consumers, should be, in my personal view, very intensified in the coming months.

Especially if we do not want to increase taxes significantly here, right. So one way you obviously capitalize on companies and governments is that we make this sale of shares, where everyone has gains. The greater efficiency of the private sector, is shown in 2/3 of the concessions are private. In every government there was a greater gain of tax by greater efficiency of these operations, the largest gain in quality for increased efficiency of these operations and of course the use of that resource to rebalance public accounts here who are doing this sale. So I do believe that since all analysts have already put, all stakeholders have spoken, I imagine that in the coming days or months we expect there to review this amount of CELG, yes.

Marcelo Sa, Analyst

Great. Thank you.

Operator

Our next question comes from Sergio Tamashiro from Haitong.

Sergio Tamashiro, Analyst

Well, first I would like to wish success to you, Wilson, Andre, in your new activities. Second, still continuing in this question about the new government, now with the entry of the Minister Fernando Bezerra we know that this future government has a quick need to attract new investments to try to make a reversal of this economic downturn trend. Then, within the infrastructure industry, electricity, what attitudes, measures that you expect them to be ... might take? It was mentioned about the process of privatization of the distribution sector, acceleration, but which other measures you believe that he will implement, easing the environmental process, what can you imagine?

The second question, regarding the level of indebtedness, you have already spoken that is now reaching a level of indebtedness, you have commented also

that you have no short-term cash problem and quickly you will be entering in a very fast process of deleveraging, you will have a lot of cash. Then you will be thinking what about these new projects? You see overcapacity of generation, more new projects of transmission, what are you seeing? Are you interested or not in these other projects, expansion in other countries, what would be the alternatives?

And finally, I just want an understanding a little better of this level of losses. For me it's a simple thing, loss: numerator equal to losses and at the denominator is low voltage consumption. And for me, these 2 indicators right here taking this leap year they go to the same degree, so I could not understand why only the part of the numerator it suffers from the effect of the leap year?

Wilson Ferreira Junior, Chief Executive Officer

Good Sergio, thanks for the question and thanks for the desire and the vows you made me. In one of the things that, as well as linked to the CPFL. I will continue to lead the Council of ABDIB. That is, we have had even a chance to talk with some of the representatives who will be involved here in this process, and I think that looking in general, I think yesterday the government itself has put it, right, establishing that interim measure with the partnerships and investments, I feel, with absolute clarity that they understand that attracting investment is perhaps the most important sign of reversal of these negative expectations of the economy and therefore the path is, and for improvement ... attracting capital for infrastructure investment. So, I think there's two points here: first obviously a good part of the projects ... we have projects have been bided and were not enabled, so there are a number of trends, including the environment.

I think there are, on the other hand, an important agenda for you to demonstrate legal security and regulatory stability. So I believe that the discussions will come towards the improvement of the regulation for the agency, I think the improvement of conditions for auction.

I think we had an extraordinary progress over the last year and this year, and the greatest demonstration of this is that most of the auction, except the last transmission auction, had participants, had duels, and all lots were sold. In the specific case of the transmission auction, the last one, we had the entry of new players and we had not the presence of important players, private and even public, that have always been part of it, and the main reason is because, in fact, the nonpayment of RBSE of those assets before 2000, that was damaging significantly the prospect of this to these agents, something that was done on the last day of the management of Eduardo Braga.

I think the electric sector remains today ... so the electric sector increased auction ceiling prices and promoted a competition; this is the correct way to set price, it has to be due to a competition and I think that the electric sector in generation and transmission did it. I think of course this implicit in each of these topics, this higher equity remuneration despite the economic moment and also, as has been said by Gustavo, the increase of financing costs. Then, the ceiling increases are these, have this right and I would say ... the environmental theme

and dispossession will be addressed by the next government, it is very important that we have ... the infrastructure, if it has this utility for the country and we can get out of an investment of 2% of the GDP to 4% very quickly, it will have to be accompanied by... the recognition of this importance. It means that we have people with us, the entrepreneurs, trying to make things easier in the government and not complicate it. Everybody wins with this.

The work is cheaper, the work is delivered more quickly to the population and the resource is internalized more rapidly in the country. So, obviously, I would say so, I think it is a very intelligent explicit demonstration that the infrastructure investment theme is a priority. Already the manifestation of this committee that will make this management I would say that the path is correct. And I think that the electric sector has already implemented a large part of this improvement, but of course, in general, so that the environment is widespread and not specific to the electric sector, a set of elements is necessary, whether in agencies or in the laws that give support, for example, to dispossession, which is from 1941, to limiting, or at least to the time limits established for the environmental theme for these things to have a deadline to be met, as is done in many countries, without neglecting to care for the environment. So I think this is an important way and I'm very optimistic about this. But let's talk now about the issue of loss, I called here Luiz Americo, from our Market Planning area, to technically put this to you as well.

Luiz Americo Gonçalves, CPFL Market Planning area

Sergio, good morning, this is Luiz Americo from Market Planning area. As you well placed, the calculation is simple. What is the difference, why we are performing a loss in March of 8.6% while the average is 8.1%? That is when we accumulate... the relationship between... the relationship between the load and the market, you have more load at this moment than market. Why? You have the effects of temperature on the load where you do the reading on the civil calendar, while the market is doing in the billing calendar... billing on average is read for the period from March 15th to April 15th, from February 15th to March 15th, this energy range that has not been billed that is in the period from March 15th until March 31st, it had a strong temperature effect. Moreover, as Wilson has put, the load of the year is with one more day, is with 366 days, while billing scripts are still with 365 days. This difference gives a certain effect in the month. But the most important factor is more than 100 GW of cumulative effect ... temperature in the residential and commercial classes.

Sergio Tamashiro, Analyst

Then, seeing through this part of losses, as these indicators will be performing, will the temperature also be affecting other quarters, the loss also tends to be reduced?

Luiz Americo Gonçalves, CPFL Market Planning area

The effect of the loss it returns in ... the temperature tends to give back this effect in other months, and also the calendar. Around mid-year, we come back

with the billing calendar with 366 days. The effect of calendar, as well as the temperature effect, both giving back... and the loss stabilizing, this is the expectation.

Sergio Tamashiro, Analyst

Now going back to this question of new investments, Wilson, I think the government will be attracting new investments as a priority. Now, specifically the electric power, especially the great generators, there was a strong participation of the construction companies. Do you see any structural changes for the fact that these companies no longer here, and there is not a participation of Eletrobras and it will be only private companies? Are we going to have higher returns in new projects?

Wilson Ferreira Junior, Chief Executive Officer

Yes Sergio. I think you have had that, for example, if you take the last auction in transmission segment, the largest lot was sold to Patria, a fund investing in infrastructure.

So these agents that are coming in. And if the government is skilled, there are many resources in the world looking for investment that have these perspectives that we have in Brazil. I would say that we will have new agents here. But we will also have some private agents, like Cteep, as soon as they have the recognition of the asset base. In the specific case of public companies, just look at the balance sheet. It is a difficult situation and I think it's already difficult to incorporate what they had already signed.

So it is very likely, with needed financial discipline to manage these companies, that they reduce the participation in these investments. But I believe that with the improvement of the economic and regulatory environment, and the legal environment, and the business environment that this new government is bringing in, we will certainly be capable of attracting investments from other places in the world which here because of the demand that you will be offering each one of them. This is the only reason -- the only good point of not having invested very much in the last few years is that there is a lot of refresh demands that can't be met.

And in fact as I had said at the beginning of the year, we overcame this acute moment of the crisis. And CPFL... just looked at the indicators of solvency of liquidity and of indebtedness that company situation allowed it, and I think that this is the main point of this new phase will come in to a new cycle of growth. The company has a very good structure to evaluate these alternatives, and fortuitously we have here, if you take the breakdown of the company's EBITDA, it has a 45% of distribution, 45% of generation and 10% in commercialization and services, and it's fairly well balanced. If we could keep this, then certainly we will do so because I think this balance is very good.

The opportunities appear and we are looking at most of them, according to our strategy, which is to follow in the three businesses that we have said, very

focused on the electric power segment, consolidating in distribution, also M&A or greenfield in generation, we have experience in both, and in the strengthening in activities related to services which has been an important arm for the company to make consumers more loyal or to capture new clients. So this strategy is possible. But you can't choose if it's a consolidation that makes sense for us, that allow us to create value. This is very important. We don't want market share. We want prospects of value creation and improve our corporate structure, with intelligence and strategy. So this is what we want, to make a move in distribution and, after that, look for a balance.

The company is very aware of this and a group of opportunities is in place. We are evaluating them and we will present the best option which will bring about a better value creation for our shareholders. This is our mission, to create value and share it with shareholders.

Sergio Tamashiro, Analyst

If you'll allow me a quick follow-up, although you have considered the entry of Patria as a positive factor and also we see other companies in the electric energy sector with no tradition. And I don't know, maybe my point of view that could be somewhat risky. We have seen in other auctions of energy generation that the new players later had difficulties in going forward, for example Gen Power and Bolognesi. I'm not talking about Abengoa, but do you see hereafter these assets that are being developed by them coming to the secondary market. What is your point of view?

Wilson Ferreira Junior, Chief Executive Officer

Yes, you are right on your comment. I believe that in the development of the regulation for the auction process will have two things. First, a more correct evaluation, by the financial system, of the bidders. So some of the mishaps you have mentioned would not be approved by the bank. So there was an improvement in the bidder's qualification. And on the other side, we have a faster pace in the assessment of the delay. There are projects in the distributors' portfolio that we already know that will not happen.

So, here, we surely have a faster pace to make the decision and say cancel the project. That will generate the needed demand for the future because so far when the project is seeing a potential to be connected, in addition to the delay it might cause -- and sometimes this is a serious delay, that could cause fluctuation in the market price. And then you did not make the investment that would be needed.

So here we do have adjustment and improvement to be made until the process, and I believe that in the system of partnership and investment, that has been announced yesterday, probably will address the issue. But yes, we do have homework to do both in qualification, as well as, in following up the process and in a possible cancellation of that participation considering all the consequences that could be attributed to the bidders.

Sergio Tamashiro, Analyst

Thank you very much.

Operator

Our next question is from Ms. Carolina Carneiro, Santander.

Carolina Carneiro, Analyst

Good afternoon everyone. My question is about the next reserve energy auction. The company has any projects that would be interested to participate on that? And a second question, in the prior call, you talked about a flat demand this year, and you see a small growth. And I would like to know if the economic data and billing data that you have seen in the first quarter, if that estimate is still there? Thank you.

Wilson Ferreira Junior, Chief Executive Officer

Carolina, starting on your second question, I mentioned in the call, yes, with the results of this first quarter we reviewed our projections and we estimate that it's not going to be flat, zero. It's going to be slightly negative, maybe one, could be reaching two. About the reserve energy auction, especially in renewables, I believe that has been said yesterday, yes, we do have a set of assets and we'll assess timely our interest in taking part on it, but yes, we do have potential assets to take part in this auction actually. And we'll have a saying on that briefly.

Carolina Carneiro, Analyst

Ok, thank you.

Operator

The conference call of CPFL Energia is concluded. We thank you all for your participation. Have a nice day. Thank you.