

**Rating Action: Companhia Energetica de Sao Paulo**

**Moody's Upgrades CESP's ratings to Ba2; outlook stable**

**Approximately USD 870 million in debt securities affected**

Sao Paulo, September 16, 2008 -- Moody's Investors Service upgraded Companhia Energética de Sao Paulo's ("CESP") corporate family rating and long-term senior unsecured debt rating to Ba2 from Ba3. The outlook is now stable. This action concludes the review with direction uncertain initiated on March 6, 2008.

The upgrade to Ba2 reflects CESP's continued focus on deleveraging its balance sheet and stronger cash flows. Leverage as measured by funds from operations to total adjusted debt has improved to 11% in the last twelve month period ending on June 30, 2008 from 7% in 2006. During the same period, total adjusted Debt to EBITDA has dropped to 4.7x from 5.6x and free cash flow to total adjusted Debt has improved from 1% to 9% Moody's expects that CESP's free cash flow will continue to represent approximately 10% of total debt and that the company will continue to use free cash flow for debt reduction. After conducting its review, Moody's view is that CESP should continue to be treated as a government-related issuer (GRI) and does not expect the level of support from the State of Sao Paulo to change. The privatization of CESP now seems unlikely in the near term.

In accordance with Moody's GRI rating methodology, CESP's Ba2 rating reflects the combination of the following inputs:

- Baseline credit assessment (BCA) of 14 (mapping to a B1)
- Mid-level dependence
- Mid-level government support
- The Ba2 rating of the State of São Paulo, which has a stable outlook.

CESP is a GRI as defined in Moody's rating methodology "The Application of Joint Default Analysis to Government Related Issuers". Moody's methodology for GRIs is to systematically incorporate into the rating both the stand-alone credit risk profile or Baseline Credit Assessment (BCA) of the company as well as an assessment of the likelihood that its government owner would provide extraordinary support to the company's obligations. The BCA of a GRI is expressed on a 1-21 scale or as a range within the 1-21 scale, according to the issuer's preference, where one represents the equivalent risk of an Aaa, two a Aa1, three a Aa2 and so forth. Please refer to Moody's special comments "Rating Government-Related Issuers in Americas Corporate Finance" and "Government-Related Issuers: July 2006 Update" at moodys.com for additional information on GRIs.

Moody's action affected the following issues:

- USD 1.4 billion Unsubordinated Unsecured Medium-Term Notes Program
- USD 184 million 10% Senior Unsecured Notes due 2011 issued under the MTN program
- USD 220 million 9.25% Senior Unsecured Notes due 2013 issued under the MTN program
- BRL 750 million 9.75% IPCA Linked Notes due 2015 issued under the MTN program

Moody's notes that CESP has generation concessions expiring in 2015 that are equivalent to 67% of CESP's current installed capacity. Moody's believes that the most likely outcome is that the federal government will decide to renew CESP's concessions with some conditions, such as a tariff ceiling, a concession fee, the obligation to sell energy in the regulated market or a combination of these alternatives. Any final decision with regard to CESP's concessions must result in the change of the current legislation.

CESP is the fourth largest electricity generation company in Brazil, operating six hydro power plants in the state of São Paulo with an installed capacity of 7,456 MW and 3,916 MW of assured energy. The

government of the state of São Paulo is CESP's major shareholder with 93.4% of its voting capital and 33.4% of its total capital.

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