VALENER
energy company

2014 Fiscal Year First Quarter Results
Conference Call
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(Introduction by the operator)

[Caroline Warren] Thank you very much.

Good afternoon and welcome to our conference call covering Valener's results for its first quarter of the 2014 fiscal year.

With me today from Gaz Métro are Sophie Brochu, President and Chief Executive Officer; Pierre Despars, Executive Vice President, Corporate Affairs and Chief Financial Officer; Hélène St-Pierre, Treasurer and Marie-Christine Demers, Senior Advisor, Public Affairs.

Before we begin, please note that during this conference call we may refer to or talk about certain forward-looking information. Please refer to the *Cautionary Note Regarding Forward-Looking Statements* which can be found on the second page of our presentation as well as in our MD&A published today and available on Valener's Website and on SEDAR. We may also refer to certain indicators that are not standardized in accordance with Canadian GAAP and should not be considered in isolation or as substitutes for other performance measures that are in accordance with GAAP.

I will now turn the call over to Sophie Brochu.

[Sophie Brochu] Merci Caroline and good afternoon everyone.

If you will, please let's start on page 3 of the presentation.

I am pleased to report that for the first quarter of fiscal 2014, Valener's recurring net income reached $15.8 million, up 10.5% compared to the same period last year. The main driver behind this strong performance is the growth in earnings from Gaz Métro's energy distribution both in Québec and in Vermont.

We are also pleased to report the successful commissioning of the first phase of the Seigneurie de Beaupré wind power projects. As planned, wind project 2 was commissioned on November 28th and wind project 3 was commissioned on December 10th. All 126 turbines, totalling 272 MW of installed capacity, are now operational. Hard work by the construction team, combined with close monitoring by the partners, has contributed to the fruition of this significant endeavour. We are now generating electricity that is sold to Hydro-Québec at a fixed price that will be indexed annually over the term of our 20-year contracts.

As well, during the first quarter, a long term financing of $166.1 million for the second phase of the project, which we call wind project 4, was secured. With this financing, and given investments and commitments totalling $43.8 million undertaken by Valener, Gaz Métro and Boralex, the second phase of development is now fully funded. The consortium is on course with the key planning stages to complete the project by this coming December. The construction site was closed for the winter in December and is scheduled to reopen this coming May.

Please now turn to page 6. We expect Valener's dividend to be maintained at $1 per common share for fiscal 2014. Of note, the Board of Directors is maintaining the 5% discount on shares to be issued in April through the dividend reinvestment plan.

You will recall that at the time of Gaz Métro's reorganization in September 2010, Valener was granted an enhanced distribution of $20 million over a three-year period. This period has now come to an end. Forthcoming distributions from the Seigneurie de Beaupré wind power projects will compensate for that shortfall. However, due to certain conditions that are typical for this type of financing, a lag is expected before the projects can start making distributions to their partners. In the meantime, Valener will use its credit facility to fund a portion of the dividends paid to its common shareholders, as it did during this last quarter.

Let's now look a bit deeper at Gaz Métro itself. As can be seen on page 8, year over year our recurring net income is up 11.8% or $8.0 million.

This increase reflects the strong performance of our energy distribution activities thanks to higher volumes of natural gas and electricity distributed by Gaz Métro in Québec and Vermont. Synergies from the operational integration of Green Mountain Power with Central Vermont Public Service positively impacted this quarter's results as well.

In fact, the three year operational integration plan aiming to merge GMP's processes with those of CVPS is going very well. So far, the total synergies generated by GMP have been greater than anticipated. For fiscal 2014, GMP expects to be able to generate US$5.0 million of synergies to the benefit of its customers. This is as approved by the VPSB and agreed at the time of the CVPS acquisition.

Also in Vermont, we are pleased to announce that, last December, Vermont Gas obtained regulatory approval to proceed with the construction of Phase I of its development project to serve the communities of Vergennes and Middlebury in the Addison County. Construction is expected to begin later this year once the required building permits have been obtained.

I will now turn the call over to Pierre who will provide you with more details and colour on our results.

[Pierre Despars] Thank you Sophie and good afternoon everyone.

Let's start on page 10 with our natural gas distribution activities in Québec.

During our last conference call, we outlined that the 2014 rate case, based on an 8.90% rate of return, was expected to translate into an $800 000 increase in net income for fiscal 2014 compared to fiscal 2013.

We provide the quarterly breakdown of that expected variation. As you can see, a $5.6 million increase in net income was anticipated for this quarter, mainly due to a timing difference between the recognition of revenues and that of costs. This difference is expected to mostly reverse during the remainder of the year.

On page 11, net income generated by Gaz Métro-QDA totalled $56.8 million, up $7.3 million over last year. This variation was $1.7 million higher than expected under the rate case. This was mainly due to the impact of significantly colder than normal temperatures on natural gas deliveries. Gaz Métro-QDA does not normalize all of its volumes and for those that are subject to the normalization mechanism, extreme temperature variations cause some inaccuracy in its application. This had a favourable impact on net income.

Energy distribution activities in Vermont generated net income of $16.1 million in the first quarter, an increase of $3.4 million or 26.8% over last year.

This increase comes from:

- Higher distribution rates for GMP based on its 2014 rate case parameters;
- Higher volumes delivered by GMP due to colder temperatures compared to last year as these volumes are not normalized;
- Savings tied to the synergies from the operational integration of GMP and CVPS;
- Higher deliveries from increased customer usage for Vermont Gas; and
- Favorable impact of a stronger U.S. dollar relative to the Canadian dollar.

As for the Energy production segment, wind projects 2 and 3 generated 44,161 MWh during their first month of operation. Under the terms of their electricity supply contracts, the average price for the first month of operation was established at $107.85 per MWh. This price will be indexed each year on January 1st for the duration of the contracts.

As indicated on page 12, the $900 000 increase in net income for this segment stemmed mainly from the reversal of all of the ineffective portion of the swap arrangements designated as hedges and recognized in previous periods.

For the other segments, net income was down $3.6 million from last year.

The positive impact of increased short-term and interruptible sales on PNGTS net income was more than offset by the negative impact of lower revenues for TQM and Intragaz and the sale of the interest in HydroSolution in November 2012.

You will find more detailed information on Valener and Gaz Métro's net income as well as a summary of the current competitive position of natural gas in Québec in the appendices.

That concludes our presentation. Sophie and I will be pleased to take your questions.

[Question and answer period]

Thank you very much for your participation this afternoon.