VALENER
energy company

2014 Fiscal Results

Conference Call

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(Introduction by the operator)

[Caroline Warren]

Good afternoon and welcome to our conference call covering Valener's results for fiscal 2014.

With me today from Gaz Métro are Sophie Brochu, President and Chief Executive Officer and Pierre Despars, Executive Vice-President, Corporate Affairs and Chief Financial Officer.

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"* section, which can be found on the second page of our presentation as well as in our MD&A, which has been published today and is 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.

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[Sophie Brochu] Merci Caroline and good afternoon everyone.

If you will, we will begin on page 3 of the presentation.

For fiscal 2014, Valener's recurring net income totalled $36.7 million, an increase of nearly 8% compared to last year. This result reflects the strong performance of Gaz Métro's distribution activities in both Quebec and in Vermont.

Now, as you can see on page 4, since the day of its creation, Valener has recorded an average increase of 11% per year in its recurring net income per common share. This is reflective of Gaz Métro's successful growth strategy.

On page 5, we address the Seigneurie de Beaupré Wind Farms. Since their commissioning last December, wind farms 2 and 3 have produced and generated over $60 million in operating cash flows, a portion of which is expected to be distributed to the three partners during fiscal 2015. The productivity of those projects exceeded expectations due to very favourable winds experienced at the site.

Building on this success, commercial commissioning of wind farm 4 is expected to take place in the next few days, on schedule and within budget, and we certainly aspire of doing more.

Gaz Métro and its partners responded to Hydro-Québec's call for tenders to purchase another 450 megawatts of wind power. Our submitted bids are for up to 150 megawatts to be developed, yet again, on the Seigneurie de Beaupré property. The bids are being reviewed by Hydro-Québec, and we will keep you posted as the situation progresses.

Let's turn now to page 7. Valener's normalized operating cash flows per common share totaled $1.02 during fiscal 2014, sufficient to cover the annualized dividend of $1.00. This is despite the fact that the wind farms have not yet begun to pay distributions to their partners.

We in fact expect that Wind Farms 2 and 3 will begin paying distributions during the second quarter of fiscal 2015. Wind Farm 4, for its part, might also be able to begin paying distributions in the current year. On average, the expected annual distributable cash flows from the wind farms should total about $33 million— approximately $8 million for Valener—which will contribute to the cash flow. As such, we expect to maintain the annualized dividend of $1 per common share for fiscal 2015, as mentioned on page 8.

Let's turn now to page 9 and Gaz Métro's results. Recurring net income for fiscal 2014 stood at nearly $175 million, an increase of 5.4% year over year. The main drivers are higher natural gas and electricity deliveries in Quebec and Vermont, greater-than-anticipated synergies from the operational integration of Green Mountain Power (GMP) with Central Vermont Public Service (CVPS), as well as the favourable impact of the appreciation of the U.S. dollar on the results of our U.S. business activities.

As you can see, Gaz Métro's prudent and targeted diversification strategies continue to translate into solid returns, as shown on page 10, as Gaz Métro continues to experience year-over-year increases in recurring net income.

Pages 11 and 12 outline initiatives that should allow Gaz Métro to sustain this growth trend.

Looking first at page 11, in line with Gaz Métro's plan to extend the commercial and geographical reach of natural gas in Quebec, a partnership was announced earlier this year with the Government of Québec for an investment of $118 million, to which the government will contribute up to $50 million through Investissement Québec (IQ). This investment will triple the liquefaction capacity of Gaz Métro's LSR plant in Montreal east. By 2016, it will provide for even more LNG as a cost-effective and cleaner energy source to industries far removed from the main distribution network, in particular the Nord-du-Québec and Côte-Nord regions. Moreover, road and maritime transportation sectors, which are large energy users, will be able to benefit from a cleaner and cheaper fuel than diesel.

As for growth initiatives south of the border, Vermont Gas continues to move forward with the extension of its natural gas distribution network. With respect to Phase I, to service Addison County, construction began last June with projected construction costs of US$121.6 million. This portion of the project should be completed by the next December 2015.

As for Phase II, to service International Paper's mill in New York State, the next step is the technical hearings scheduled for January 2015. We will continue to keep you abreast of further developments on this front.

On page 12, we take a look at the operational integration and optimization of GMP and CVPS which is proceeding as planned. The synergies that were generated have thus far surpassed those originally expected. GMP has been able to deliver on its commitment by returning US$5 million in cost-savings to its customers during fiscal 2014, this pursuant to the memorandum of understanding that was entered into upon the CVPS acquisition.

Lastly, I want to reiterate Gaz Métro's commitment to investing in its existing distribution and transportation infrastructure. During fiscal 2014, more than $325 million in CAPEX was invested to maintain our networks' security, reliability and sustainability.

Before I turn the call over to Pierre, I would like to reaffirm Gaz Métro's position on TransCanada's proposed Energy East project.

In principle, we are not opposed to the construction of an oil pipeline and to the conversion of certain underutilized natural gas transportation assets to carry oil to Eastern Canada.

However, in its current form, the Energy East project is unacceptable to natural gas consumers in Quebec and Ontario. This is because of the planned conversion of a pipeline segment between North Bay and Ottawa, which is critical—critical to providing the two provinces with reliable gas supply. This key section in Ontario is used to transport natural gas from Western Canada as well as from southern Ontario, and 100% of its capacity is used to satisfy peak winter demand in both Quebec and Ontario.

It's a section that we, as the three local distribution companies (LDCs)—Enbridge Gas, Union Gas, and Gaz Métro—have agreed to pay for, on a year-round basis, whether or not it is fully utilized, because it is so crucial to the supply security of our customers during winter. Even if a portion of the required capacity were replaced—an adjunct project proposed by TCPL between Toronto and Ottawa called the Eastern Mainline project—the net net effect would still mean a 20% loss in the capacity needed. This would not have any impact on Gaz Métro's bottom line, nor on Enbridge

Gas, nor on Union Gas, but it would have a dramatic impact on our customers, and this is why we are so vocal about it.

In order to get the support from the Eastern LDCs, TCPL has to commit to 2 things: (1) the price of natural gas delivered to the customers in our territories (the price of the commodity itself and the transportation thereof) will under no circumstances whatsoever increase because of the Energy East project, in either the short-, the medium- and the long-terms;
and (2) under no circumstances will the natural gas transportation capacity required by the customers in Ontario and Quebec be curtailed, not even for a single day in the winter.

We are not asking for anything more for our customers than what they already have. No more, and certainly no less.

I will now turn the call over to Pierre, who will provide you with more detail on Gaz Métro's financial results.

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

So let's turn to page 13 and begin with the results of our energy distribution activities in Quebec and Vermont.

During fiscal 2014, Gaz Métro-QDA generated $111 million in net income, a $5.1 million increase compared to last year.

As we mentioned during our last conference call and as presented on page 14, based on the 2014 rate case parameters as approved by the Régie, a $0.7 million increase in net income was expected.

However, as shown on slide 15, realized net income for fiscal 2014 was $4.4 million higher than that expected. The main reasons for this strong performance were:

First, the recognition of a $2.5 million share in overearnings from the distribution service, being the maximum amount allowable under the current sharing mechanism approved by the Régie. These overearnings resulted primarily from higher natural gas deliveries, reflecting very cold temperatures experienced last winter;

Second, the realization of a $1.0 million performance incentive under the Global Energy Efficiency Plan;

Lastly, a decrease of $0.9 million in financial expense, resulting mainly from an increase in capitalized interest on non-rate-base investments.

If we turn back to page 13 for a moment, net income generated by energy distribution activities in Vermont totalled $58.2 million, up $12.5 million compared to last year. The main drivers contributing to this 27% increase in net income were:

First, the synergies achieved from the operational integration of GMP and CVPS;

Second, the positive impact of the 2014 rate case parameters for both GMP and VGS;

Third, higher volumes delivered by GMP due to much colder winter temperatures, partly mitigated by higher supply, production and transmission costs;

And lastly, the favourable impact of the appreciation of the U.S. dollar.

Turning to page 16, the results of the energy production segment reflect net income generated by wind farms 2 and 3 since their in-service date, which contributed to the decrease in net loss by $1.1 million during fiscal 2014.

For the other segments, recurring net income totalled $5.5 million, down $9.7 million compared to last year. The positive impact of higher short-term sales on PNGTS' net income was more-than-offset by higher pipeline maintenance costs for TQM, by lower storage revenues from Intragaz due to its rate case parameters, and by lower profitability from Climatisation et Chauffage Urbains de Montreal given its higher fuel supply costs last winter.

Let's now discuss the outlook for fiscal 2015. On page 17, we present the rate case parameters for Gaz Métro-QDA.

Last May, the Régie approved the renewal, for fiscal 2015, of the 8.90% ROE authorized for fiscal 2013 and 2014. The cost of service and rate impact were filed last October and a final decision by the Régie is expected by summer 2015. Meanwhile, the Régie renewed the rates authorized for fiscal 2014 on an interim basis.

Page 18 presents Gaz Métro-QDA’s expected net income for fiscal 2015 based on the rate case filed to the Régie. As shown, we expect a $2.5 million increase in net income compared to fiscal 2014, mainly driven by growth in the rate base and non-rate-base investments. The other variations relate to items, such as overearnings, that were realized in fiscal 2014 but are not anticipated in the rate case.

Let’s turn to page 19 to discuss Green Mountain Power and Vermont Gas 2015 rate case parameters, which were approved by the VPSB last August and October, respectively. Green Mountain Power’s authorized ROE is 9.60% with an equity ratio of 50%, while Vermont Gas’ authorized ROE is 10.20% with an equity ratio of 55%. These parameters are relatively similar to those in their respective 2014 rate cases. Therefore, growth in net income is expected to be driven mainly by the US$71 million increase in the average rate base of Vermont Gas, due to investments related to its network expansion to Addison County, and by additional synergies for Green Mountain Power resulting from its operational integration with CVPS.

On page 20, we present Gaz Métro’s expected cash requirements for fiscal 2015.

Gaz Métro expects to require funds totalling about $460 million to finance investments in property, plant and equipment. This is related mainly to extensions and improvements to be made in the energy distribution systems in Quebec and Vermont, to the LSR plant expansion project and to the completion of wind farm 4. The sources of financing will come from cash flows from operations and credit facilities, the contribution from Investissement Québec, expected capital injections from Valener and Gaz Métro inc., as well as long-term debt, a portion of which has already been funded.

In that context, Valener’s expected cash requirements for fiscal 2015 are currently estimated at $35 million, but they could be higher given the implementation of the CATS Regulation.

Valener’s sources of financing will come from its cash flows from operations, which are expected to increase in fiscal 2015 due to distributions from the Seigneurie de Beaupré wind farms as well as from its largely unused credit facility.

Finally, please note that Appendix A presents a financial update of the Seigneurie de Beaupré wind farms. Appendix B presents the current competitive position of natural gas in Quebec, while Appendices C and D present Valener and Gaz Métro's fourth quarter and fiscal 2014 results. Given the seasonal nature of Gaz Métro's operations and the normally low demand for energy during the summer months, Gaz Métro, and consequently Valener, have historically incurred a loss during the fourth quarter of their fiscal year.

That concludes our presentation. Thank you for your attention. We will be pleased to answer your questions.

[Question and answer period]

Thank you very much for your participation this afternoon. Have a great day!