Fiscal 2015 First-Quarter Results
Conference Call
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Only the delivered speech shall be considered as authoritative.

(Introduction by the operator)

[Caroline Warren]

Good afternoon and welcome to our conference call covering Valener's results for the first quarter of fiscal 2015.

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 quarterly 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.

[Sophie Brochu] Thank you Caroline and good afternoon everyone.

We will begin, if you will, on page 3 of the presentation, which shows normalized operating cash flows per share, which is a key performance metric used to measure Valener’s ability to pay common dividends. During the first quarter, these cash flows reached 26 cents per share, an increase of 8 cents or 44% when compared to last year. The main driver behind this increase is the tax benefit arising from the accelerated amortization of the Seigneurie de Beaupré wind power assets. Please keep in mind that, even though the wind farms have been in operation for over a year now, they have not yet begun paying distributions.

Turning now to page 4, as you may have read in this morning’s press release, we are pleased to announce that Valener has increased its quarterly dividend by 4%, to 26 cents per common share, starting with the next dividend payable on April 15. This corresponds to an annualized dividend of $1.04 per share.

Now, I will briefly pass the call to Pierre, who will provide more visibility on expected future growth of Valener’s dividend and supporting cash flows.

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

In addition to the current 4% dividend increase, Valener has also set a targeted annual dividend growth rate of approximately 4% for the next three fiscal years through to 2018, as outlined on slide 5.

On page 6, we demonstrate the ability of Valener to build on the reliable cash flows generated by Gaz Métro, representing between $0.94 and $1.02 per share. Going forward, Valener expects to receive distributions from its wind farm assets ranging between $0.19 to $0.23 per share, per year. With these distributions, Valener will be well positioned to sustain its targeted annual dividend growth rate of 4% over the next three fiscal years and reach the projected dividend of $1.16 per common share in 2018. Over and above these 2 important sources of cash flows, there is some further upside providing additional support to this target: First, the tax benefit arising from the accelerated amortization of the wind farm assets, and second, the distributions on the additional Gaz Métro units subscribed by Valener.

[Sophie Brochu] Merci Pierre.

Let's move now to page 7, to take a second look on our wind farm operations. Commercial operations are going as planned at wind farms 2 & 3, and this is thanks to favourable winds. $18.5 million in operating cash flows were generated this past quarter. A portion of these cash flows as well as a portion of those accumulated over the previous ten months are expected to be distributed to partners in the second quarter.

As you see on page 8, wind farms 2 and 3 have benefited from favourable winds since they began operations. On average, the realized utilization factor was above 35% on a trailing 12-month basis. This is surpassing the expected annual average range of between 32% and 34%. Note that the quarterly variations in utilization factor is usual and it stems from the seasonal nature of winds, which are typically stronger in winter months and weaker in summer months.

Finally, as you can see on page 9, wind farm 4 began commercial operations last December, on schedule and within budget. We also expect wind farm 4 to begin paying distributions to its partners during the course of this fiscal year.

Let’s now turn to page 10, Valener’s recurring net income for the first quarter, was $16.4 million, up nearly 4% from last year. The favourable contribution from the wind farms more than offset the decrease in Gaz Métro’s earnings.

As shown on page 11, Gaz Métro’s results were adversely affected by lower natural gas and electricity deliveries, due in part to warmer temperatures than last year. This was partly offset by higher LNG deliveries and a positive impact from the appreciation of the U.S. dollar on the results of our U.S. operations.

Lastly, page 12 and 13 provide an overview of various initiatives undertaken by Gaz Métro.

Let’s start with the LNG business. There has been a significant increase for the demand in the use of LNG, and this is evidenced by the rise in deliveries resulting from new short-term contracts. To date, those favourable results support the sound decision we made to invest in that market. We are having continuing discussions with very motivated potential clients.

In Vermont, GMP continues to invest in the state’s electric transmission system through Transco. During the last fiscal year and the first quarter of the current fiscal year, more than $50 million were invested in Transco, increasing GMP’s rate base and allowing it to generate additional net income.

As for GMP’s operational integration with CVPS, efficiencies and synergies continue to meet expectations. GMP is right on-track to reaching the US$8 million in synergy savings that will be attributable to its customers for fiscal 2015. Any additional synergy savings realized this year will be retained by GMP, as stipulated by the sharing mechanism.

Lastly, allow me to provide you with an update on the natural gas distribution system extension project in Vermont. Phase I of the project to Addison County, has now an updated budget that was submitted to the Vermont Public Service Board, with costs now estimated at US$153.6 million. The timeline has also been revised, and Phase I is now estimated to be completed during fiscal 2016. To date, VGS has invested US$50.5 million in the project. The company remains fully committed to the efficient and proper management of the project, and continues its focus on reaffirming the Phase I Certificate of Public Good at the higher budgeted level, as well as on obtaining remaining Phase I rights-of-way.

Regarding Phase II, which consists of extending natural gas service to International Paper Company (IP)'s mill in New York State on February 10, VGS announced that it would not proceed with this phase, further to IP's decision to withdraw from the agreement it had previously reached with VGS. The IP's decision came following VGS' thorough review of the schedule, the costs and the challenges to complete this second phase of the project under current business conditions. It is resulting in Phase II no longer being commercially practical for IP.

Now this announcement does not affect Phase I and we still believe that natural gas remains a sound energy choice for consumers thanks to its environmental attributes and its competitive position in relation to other fossil fuels. The network extension project is still viewed as a beneficial solution for the State of Vermont.

I will now, once again, turn the call over to Pierre.

[Pierre Despars] Thank you Sophie.

We will continue on page 14, which shows the results of our energy distribution activities in Quebec and Vermont.

During the first quarter, the Quebec distribution activities generated $53.0 million in net income, down $3.8 million from last year. The three main reasons for this decrease were:

- First, a $2.4 million timing difference between the revenue recognition profile and that of costs, as forecasted in the rate case. It is expected to completely reverse during the remainder of the fiscal year, as shown on page 15.
- Second, a decrease in natural gas deliveries, mostly in the industrial market, due in part to warmer temperatures.

And

- Finally, an increase in financial expenses.

Moving on to the results from our energy distribution activity in Vermont, net income totalled $15.9 million, down $0.2 million compared to last year.

Lower electricity deliveries, mainly due to warmer temperatures, was offset by:

- an appreciation of the U.S. dollar,
- an increase in GMP's rate base, and
- a return on VGS's non-rate-base investments related to its distribution network extension.

Looking now at page 16, we review the results of our other segments.

The energy generation segment generated $0.6 million in net income, down $0.2 million from last year.

The favourable impact of wind farms 2 and 3, which operated during the whole first quarter as opposed to only one month last year, did not totally offset the unfavorable change in the inefficiency related to swaps and the increase in the income tax expense.

For the other segments, net income totalled $3.1 million, up $1 million from last year. The main drivers for this increase were higher LNG deliveries due to an increase in short-term contracts and an increase in PNGTS' short-term sales. These favourable results were partly mitigated by the decrease in TQM's rate base.

On page 17, we present Gaz Métro's expected cash requirements for the next three quarters of fiscal 2015.

Gaz Métro expects to require about $227 million to fund its investments in property, plant and equipment, in particular for the extensions and improvements of the energy distribution systems in Quebec and Vermont as well as for the LSR plant expansion project.

Given the delay in spending for the extension of VGS's network and the decision to not proceed with Phase II, the anticipated capital spending has been adjusted accordingly.

The sources of financing will come from operating cash flows and credit facilities, the contribution from Investissement Québec, and anticipated capital injections from Valener and Gaz Métro inc., as mentioned during our previous conference call.

In that context, Valener's expected cash requirements for the remainder of the fiscal year are currently estimated at $35 million, but they could be higher given the implementation of the Cap-and-Trade System for Greenhouse Gas Emission Allowances (CATS) Regulation.

Valener's sources of financing will come from its operating cash flows, which, starting next quarter, will include distributions from the Seigneurie de Beaupré wind farms. Its largely unused credit facility will constitute another source of financing.

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.

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.