2012 Fiscal Year Third Quarter Results

Conference Call

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(Introduction by the operator)

[Hélène St-Pierre] Thank you very much.
Good morning and welcome to our conference call dealing with Valener's results for the third quarter of its 2012 fiscal year.

As you know, under an administration and management support agreement Gaz Métro acts as manager of Valener. 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; Katia Marquier, Director, Corporate Control; and Caroline Warren, Senior Advisor, Investor Relations.

The press release reporting Valener and Gaz Métro's results for the third quarter of their 2012 fiscal year was published earlier today and is available on Canada Newswire's website at "newswire.ca" and on Valener's website at "valener.com". If you didn't receive a copy of our presentation by e-mail, you can access it on Valener's website in the "Investors" section under "Events and Presentations". The call is also webcast recorded on Valener's and Canada Newswire's websites. A replay will be available later today.

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] Thank you, Hélène. Good morning everyone!

Let's start on page 3 of the presentation for an overview of the quarter's key takeaways.

The third quarter saw the completion of the acquisition of CVPS, the largest electricity distributor in Vermont. This transaction marks one more important milestone in the rigorous execution of our strategy of prudent targeted diversification in the electricity distribution industry.

Gaz Métro had already made a successful entry into this market back in 2007 with the acquisition of Green Mountain Power, the then second-largest electricity distributor in the same State.

The acquisition of CVPS and its consolidation with Green Mountain Power are supported by a quality management team in Vermont. Bringing these two electricity distributors together will result in considerable synergies that will benefit both our customers in Vermont and our investors.

This same strategy also led Gaz Métro to get involved and invest in the 341 MW Seigneurie de Beaupré wind power projects being developed with Valener and Boralex in Quebec, and to support Green Mountain Power in its development of a 63 MW wind farm in northern Vermont.

During the quarter, Valener successfully closed a $100 million preferred share issue that was partly used to fund a $75.4 million subscription to Gaz Métro's capital as part of a $260 million equity issue in connection with the CVPS acquisition.

For its third quarter, Valener's net income, excluding non-recurring items related to the CVPS acquisition, stood at $1.8 million, a $1.4 million increase over last year, and at $33.6 million for the first nine months, comparable to last year.

Capitalizing on the strong competitive position of natural gas, results for Gaz Métro's Quebec distribution activity in the third quarter were stronger than anticipated in its 2012 rate case as Pierre will cover in greater detail later on. This mainly stemmed from stronger than anticipated deliveries, particularly in the industrial market.

For the current quarter, Valener's Board of Directors has declared a dividend of $0.25 cents per share, payable next October 15. Valener expects to maintain the dividend at $0.25 cents per common share for each quarter of fiscal 2013.

Let's now turn to page 5 and look at recent developments on the regulatory front in Quebec.

As you may be aware, Gaz Métro's incentive mechanism, which has been in effect since October 2007, will expire this coming September.

Last year, Gaz Métro filed a proposal with the Régie for a new incentive mechanism that had the support of a majority of its intervenors. Public hearings on the proposal were held last February with a view to implementing it in fiscal 2013.

A few weeks ago, the Régie issued a surprising and disappointing decision. It denied the mechanism proposed by the working group. However, the decision emphasized that the Régie still considers that an eventual balanced well-calibrated incentive mechanism, as opposed to regulation based solely on cost of service, is a tangible benefit for the distributor, its customers and the Régie itself. In accordance with the Régie's request, Gaz Métro will file a new proposal for a performance incentive mechanism as part of a more traditional framework by this fall, for implementation starting in fiscal 2014.

In the meantime, the Régie's decision stated that the 2013 rate case will be treated on a cost-of-service basis, and requested that a method for sharing potential overearnings or shortfalls be proposed for fiscal 2013.

We are currently working diligently on a proposal for a fair sharing of overearnings and shortfalls for the forthcoming fiscal year.

During fiscal 2011, Gaz Métro also requested that the Régie recognize, for rate-setting purposes, certain changes to accounting policies, mainly concerning the treatment of property, plant and equipment, IT developments, accrued vacation and post-employment benefits. The main purpose of these accounting changes is to harmonize their regulatory treatment with the treatment used by Canadian peers and with Canadian and U.S. GAAP.

Last June, the Régie issued a decision approving all of the proposed changes except for the accounting treatment of post-employment benefits.

In our view, this decision involves serious fundamental errors that could have significant impacts on the Company and its customers. For this reason, on July 27, Gaz Métro filed a request with the Régie to have this decision reviewed.

Last April, Gaz Métro filed an application with the Régie requesting authorization to create a non-rate-base interest-bearing deferral account for the costs incurred for the studies and preparatory work for the project to serve the Côte-Nord region with natural gas. The costs, up to a maximum of $40 million, would be included in this account until the Régie hands down its final decision on the project. If the project is not proven to be feasible, the Quebec government, as outlined in its March 2012 budget, would reimburse 75% of the first $40 million disbursed, i.e. a maximum of $30 million. A decision by the Régie is expected later this month.

Lastly, let me give you some details regarding our 2013 rate case.

Phase I of the rate case was filed with the Régie last July. It included the 2013-2015 supply plan, the renewal of the existing financial derivatives program and a proposed new performance indicator for transportation and load-balancing.

Phase II of the rate case will be filed this coming fall and will include evidence on the rate of return and, as I explained a few minutes ago, a mechanism for sharing overearnings and shortfalls on a cost-of-service basis. A decision is expected in the spring of 2013. Given this timetable, Gaz Métro has asked the Régie to temporarily renew the 2012 rates until it has rendered a final decision on the 2013 rate case.

Before I turn the call over to Pierre, I would like to give you an update on our growth initiatives. I'm now on page 6.

The official start-up date of the combined activities of CVPS and Green Mountain Power, to create the new "Green Mountain Power", is planned in the coming months. The new leadership team is already in place. A joint base-rate application for both CVPS and GMP was filed with the VPSB last August 1st, under the terms of GMP's Alternate Regulation Plan. As part of its new rate plan, GMP has asked the VPSB to lower customer rates by 0.4% beginning October 1, the first such reduction in Vermont in decades. GMP's guaranteed merger savings of US$2.5 million in the first year of the newly merged company contributed to that rate decrease. This application includes a provision allowing the sharing of the synergies resulting from the merger over a

10-year period. The targets, plans and tracking of the synergies are well in place.

Let's now look at our wind power initiatives on page 7.

In Vermont, construction activity for the 63 MW Kingdom Community project is progressing as planned with commissioning scheduled towards the end of 2012. At this time, construction of the access road and all the turbine pads has been completed as well as the power transmission line for the wind farm. Installation of the turbines began last month.

In Quebec, construction activities for first phase of the Seigneurie de Beaupré projects resumed in early May and are proceeding as planned. Access road and foundation work have almost been completed, and work began on the collector system and electrical substation as well as on the installation of some of the concrete towers.

Regarding the 69 MW second phase of the project, the public environment-related hearings by the Bureau d'audiences publiques sur l'environnement were held last June. The final report is expected by the end of September 2012. The decree from the Quebec government is expected to be received next January, which will constitute the final authorization required to begin the work. This wind power project is scheduled to begin operations in December 2014.

And now, a few words on the Côte-Nord project. The Quebec government and Gaz Métro are exercising due diligence in performing three comprehensive feasibility studies, namely:

- market studies to determine the expected potential energy consumption in the Côte-Nord if natural gas were available;
- environmental and social studies to select the lowest-impact route for the gas pipeline; and

- technical and financial feasibility studies, including engineering, to optimize the design and confirm the costs.

These studies are well underway and the conclusions are expected by the end of 2012. As we mentioned in our previous call, if the conclusions are positive, Gaz Métro will continue the regulatory and environmental approval process in 2013, following which, if all the necessary approvals are obtained, the preparatory work and construction of Gaz Métro Côte-Nord service could start in 2014 with a view to beginning operations at the end of 2015 or in 2016. We will keep you posted on the evolution of this major opportunity for us and our shareholders.

Finally, a quick look at our "green" initiatives for using natural gas as fuel for the transportation industry and in the biomethanation field.

As part of the agreement to supply LNG to fuel Robert Transport trucks, construction by Gaz Métro Transport Solutions of the third refuelling station, to be located in the Quebec City region, is scheduled for fiscal 2013. As you know, the two other refuelling stations, located in Boucherville and Mississauga, have been in operation since last September and January respectively. Delivery of trucks ordered by Robert Transport began in autumn 2011 and is continuing during this current fiscal year.

On another front, on July 26, Gaz Métro announced the first project to inject biomethane into its network. This is an important milestone in the development of a new renewable energy in Quebec. The project involves the construction of an anaerobic digestion plant in Saint-Hyacinthe along with infrastructure for feeding biomethane into Gaz Métro's distribution network. Under the agreement, Gaz Métro will install the infrastructure required to inject biomethane into its distribution network, purchase the energy produced by the city of St-Hyacinthe and make it available to its customers. This project is subject to the Régie's approval.

I will now turn the call over to Pierre for a detailed review of Valener's and Gaz Métro's third quarter results.

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

Please turn to page 10 for an overview of Valener's consolidated results.

For the third quarter of fiscal 2012, Valener's net income, on a recurring basis, was $1.8 million and $0.04 cents per share, which are $1.4 million and $0.03 cents per share higher than last year. During the quarter, the decrease in income tax expense more than offset the decrease in the share in Gaz Métro's net income. This lower income tax expense resulted from the lower share in Gaz Métro's net income and from lower income tax rates.

Page 11 presents an overview of Valener's cash flows for the first nine months of the current fiscal year. Cash flows related to operating activities totalled $14.1 million, which was $7.3 million less than in the same period last year. This decrease was mainly due to a $24.9 million unfavourable change in non-cash working capital items, explained mainly by a $27.9 million unfavourable variance related to income taxes payable. In fiscal 2012, Valener had to pay the income taxes related to its previous fiscal year, which was its first, in addition to also making tax instalments for its current fiscal year. The income tax paid during the first nine months of the current fiscal year totalled $21.7 million.

This was partly offset by higher distributions of $10.8 million received from Gaz Métro. During that period, Valener received three distributions from Gaz Métro, totalling $35.8 million, whereas it had received only two distributions totalling $25.0 million in the first nine months of fiscal 2011, as Gaz Métro had paid an additional distribution in fiscal 2010 as part of its corporate reorganization.

Investments totalled $120.1 million, up $87.5 million, mainly reflecting a $75.4 million subscription to Gaz Métro units, compared to a subscription of $29 million the previous year, and investments of $43.6 million in Beaupré Éole to cover its equity portion for the development of the Seigneurie de Beaupré wind power projects 2 and 3.

For the first nine months of the year, dividends paid to common shareholders totalled $26.1 million, an increase of $8.2 million. The reason for this is that Valener had paid only two dividends in the first nine months of fiscal 2011 in the context of Gaz Métro's corporate reorganization.

Valener's financing needs were $132.1 million for the first nine months of the year. These were covered by a $100 million preferred share issue as well as drawdowns on its credit facility.

As of June 30, 2012, Valener's capital structure was very healthy, with a debt to total capitalization ratio of 3.7%. It had $168.4 million available under its $200 million credit facility, which will amply cover the net cash needs of approximately $25.0 million in the fourth quarter of the current fiscal year to finance additional capital contributions to Gaz Métro and Beaupré Éole.

Now let's look at Gaz Métro's results starting on page 13. Please note that, throughout the presentation, when I refer to "net income", it means "net income attributable to the Partners of Gaz Métro".

During the third quarter, Gaz Métro's consolidated net income excluding non-recurring items, was $6.1 million, down $5.7 million from the same period last year. After nine months, it was $167.2 million, down $12.4 million from the same period last year.

For the first nine months, distributable cash was $188.8 million down $49.4 million from the same period last year. As shown on page 14, this $49.4 million decrease was mainly due to:

- A $32.1 million increase in rate stabilization accounts, a reflection of the much warmer-than-normal temperatures, as opposed to close to normal temperatures last year;
- Higher changes in deferred charges and credits, mainly the one related to the cost of energy, for $35.8 million; and
- An $18.3 million decrease in amortization of deferred charges and credit, financing costs and intangible assets, resulting mainly from higher amortization of the deferred credit related to the customers' share in Gaz Métro-QDA's overearnings.

This was offset by:

- A $13 million increase in distributions received from companies subject to significant influence and a favourable change of $27 million in non-cash working capital items, mainly the result of lower natural gas prices and their effect on accounts receivable, inventories and accounts payable.

This distributable cash was sufficient to cover the distributions to Partners but the $668.3 million of investments in development activities, mainly related to the acquisition of CVPS and the investments in the energy distribution systems and in the wind power projects in Quebec and Vermont, resulted in financing needs of $585.6 million.

As shown on page 15, those financing needs were more than covered by:

- A $260 million unit issue by Gaz Métro to its Partners, GMi and Valener;
- A US$260 million note issue by way of a private placement by GMi (loaned to Gaz Métro on similar terms); and
- 2 First Mortgage Bond issues totalling US$75 million by GMP.

Gaz Métro benefits from strong credit metrics reflected in its corporate rating of A- with a stable outlook by S&P. As of June 30, 2012, it had $846 million available on its $1.2 billion of term credit facilities.

Let's now take a look at the segments that contributed the most to the variation in net income, namely the Quebec distribution activity and the energy distribution activity in Vermont, which are presented on pages 17 to 21.

Net income generated by Gaz Métro-QDA was $2.9 million in the third quarter, down $4.7 million from the same period last year. After nine months, it stood at $139.0 million, down $9.2 million from last year.

For a better understanding of the evolution of the net income generated by Gaz Métro-QDA, let's focus on slide 19 which shows the quarterly and year-to-date variations in net income for the Quebec distribution activity, based on actual results as well as on the anticipations in the 2012 rate case.

During the third quarter, the $4.7 million decrease in net income from the same period last year was actually better than the $6.8 million decrease that we were anticipating based on the 2012 rate case.

This can be explained by higher normalized natural gas deliveries than anticipated in the 2012 rate case, as shown on slide 20. This was particularly true for the industrial market where volumes increased by 0.5% during the first nine months of fiscal 2012 as opposed to a 7.5% reduction anticipated in the 2012 rate case. The favourable impact of those higher deliveries on the gross margin of the distribution services made it possible to recover part of the negative impacts of the considerably warmer-than-normal temperatures in the first six months of fiscal 2012.

As a result, after nine months, the $9.2 million decrease in net income is $3.6 million behind the expectations in the 2012 rate case.

This year-to-date decrease of $9.2 million in net income is expected to partially reverse in the fourth quarter, based on the 2012 rate case.

Appendices A and B of the presentation provide information on natural gas deliveries and on the current competitive position of natural gas in relation to other energy sources.

Let's turn to page 21. The net loss generated by the energy distribution activities in Vermont, excluding non-recurring items, was $1.4 million, down $2.9 million from the third quarter last year. For the first nine months, net income stood at $12.4 million, down $1.7 million from last year.

These decreases were the result of, among other factors:

- The increase in financial expenses, mainly from the additional financing for the CVPS acquisition and for Green Mountain Power's Kingdom Community Wind project;
- Lower deliveries by VGS and GMP due to warmer temperatures; and
- The increase in operating and maintenance expenses of VGS and GMP.

Which were partly offset by:

- The favourable impact of Green Mountain Power's rate case parameters and the decrease in direct electricity supply costs.

Details on the other segments' variations in net income, which had a less significant impact on results, are presented on pages 21 to 23 for your information.

Let's now turn to pages 24 to 27 for an overview of the financial perspectives associated with the CVPS acquisition.

CVPS was acquired for net cash consideration of $513.5 million, $20.0 million of which was disbursed during fiscal 2011. Transaction-related costs expensed stood at $7.9 million net of taxes for the first nine months of fiscal 2012 and $1.8 million in fiscal 2011. The preliminary purchase price allocation resulted in the recognition of $233.1 million of goodwill.

Slide 25 presents the planned merger synergy savings, which will be shared between customers and GMP. Overall, US$144 million of the expected savings have been guaranteed to customers over the next 10 years. From years 1 to 3, customers are guaranteed savings of US$2.5 million, US$5 million and US$8 million respectively. For years 4 to 8, the sharing will be split 50%-50% between GMP and customers. For years 9 and subsequent, all savings will be returned to customers.

The regulatory plan is designed to allow rate recovery of operations & maintenance costs at "as if no merger". This O&M Platform, including synergies, will be set in rates in fiscal 2013, and adjusted for inflation for years 1 to 8.

The net present value of the synergies to be retained by GMP is estimated at approximately US$60 million over 8 years. For the first year, the targeted synergies are US$6.5 million, of which GMP will retain US$4 million.

As shown on slides 26 and 27, taking into account the projected synergies, the CVPS acquisition is expected to add approximately US$20 million to Gaz Métro's net income in fiscal 2013.

On slide 28, we provide some financial parameters for wind power projects 2 & 3 and the expected financial impact associated with Valener's 24.5% investment in those projects. The projects' contribution to Valener's net income will be marginal, due to their capital intensive nature, however they should generate between $6 and $7 million in annual cash flows starting in fiscal 2014, allowing Valener to sustain its current dividend on common shares.

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 morning. Have a great day!