VALENER
energy company

2012 Fiscal Year 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 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's and Gaz Métro's results for 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.

I am very pleased to report that Valener's recurring net income for its 2012 fiscal year increased by $3.7 million, or 14% year-over-year. This strong performance was driven mainly by the net income generated by CVPS since it was acquired by Gaz Métro last June and by a lower income tax expense for Valener.

During the 2012 fiscal year, Valener invested $97.2 million in Gaz Métro's capital for our acquisition of CVPS and the development of our Vermont wind power project.

Valener also invested more than $47 million as its equity contribution in the development of the Seigneurie de Beaupré wind power projects.

In order to fund these investments, Valener successfully issued $100 million of preferred shares and used a portion of its $200 million committed credit facility.

Let's turn to page 4.

For the current quarter, Valener's Board of Directors has declared a dividend of 25 cents per share, payable on January 15, 2013. Valener expects to maintain that level of dividend per common share for each quarter of its 2013 fiscal year. This is exactly what we indicated to the market at the time of its creation.

Let's now turn to page 5 and review some of Gaz Métro's highlights. During fiscal 2012, net income on a recurring basis was $151.6 million, up $4.1 million compared to last year.

As you will see, 2012 saw major advances in our goal to enlarge our commercial offering and to reach a growing number of customers.

Over the years, Gaz Métro has positioned itself progressively in the electricity distribution sector in Vermont with the acquisition of Green Mountain Power in 2007 and CVPS just a few months ago. The merger of these two electricity distributors created a strong public utility, the new Green Mountain Power, which now serves more than 255,000 customers in Vermont, which represents over 70% of the total electricity distributed in that state. The resulting economies of scale allow for considerable synergies to be shared between customers and shareholders over the next 10 years. For our customers, those synergies have already resulted in a rate decrease of 0.4% for fiscal 2013, the first decrease since 1989. For our shareholders, the CVPS acquisition is expected to add approximately US$20 million to Gaz Métro's net income in fiscal 2013.

Gaz Métro is now present in two important territories, Quebec and Vermont, who share the same sustainable development values. It is worth pointing out that Vermont now represents approximately 41% of Gaz Métro's total assets of $5 billion and about 60% of our distribution customers. The combined rate bases of approximately US$1.2 billion in Vermont are equivalent to almost 67% of Gaz Métro's rate base in Quebec. This trend is poised to continue as our two subsidiaries, Green Mountain Power and Vermont Gas Systems, will be growing their operations.

Let's turn to page 6. Last October, VGS announced an agreement with International Paper Company under which one of its mills will purchase natural gas from VGS under a long-term contract starting at the end of 2015. In 2013, VGS plans on seeking regulatory approvals needed for the construction of the required facilities. This would be an expansion to the already planned system extension into Addison County in order to serve the communities of Vergennes and Middlebury. VGS plans to file for regulatory approval by the end of 2012. If approved, these two projects could double VGS's rate base, increasing it by approximately US$100 million.

On the electricity front, GMP is implementing a smart electricity distribution system as part of a state-wide initiative supported by the federal government. This is a US$100.4 million project over three year, supported by a grant of US$50.2 million, mainly the project consists of replacing the current customer information system, purchasing and installing smart meters for customers, incorporating certain detection and automation capacities to the distribution system. GMP and CVPS began implementation of this major project during fiscal 2010. To date, the work has been progressing as scheduled, with investments reaching $73 million so far.

Gaz Métro as you know continues to be committed to reuniting energy and environment, notably by rigorously pursuing its wind power development plan. I am now on page 7.

Gaz Métro has supported GMP in developing its 63-MW wind farm in northern Vermont, called Kingdom Community Wind Project. The project was completed on time and on budget. I am pleased to announce that this project is now fully operational.

In Quebec, Gaz Métro is involved alongside Valener and Boralex in the 341 MW Seigneurie de Beaupré wind power projects, a development of nearly $1 billion.

Construction activities for the first phase of the Seigneurie de Beaupré projects went according to schedule. The winter shut down is expected on December 14. To date, 50 towers have been built, including 9 fully installed turbines. All access roads and all foundations have been completed, as has most of the construction work on the substation and operations building.

Next year, the site will employ some 400 workers a day to complete construction in time for its planned start-up date of December 1, 2013.

Public hearings were held last June by the Bureau d'audiences publiques sur l'environnement (BAPE) for the 69 MW second phase of the project and the final report was recently made public. The consortium welcomes the BAPE's conclusion which stipulates that this project could be achieved under certain conditions. We expect to receive the decree from the Quebec government 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 our natural gas initiatives in Quebec.

We have completed our 80-km distribution network expansion into Thetford Mines. This $25.3 million project, which benefits from a grant of $18.1 million from the federal government, was recently commissioned.

As for the Côte-Nord project, studies are underway to determine the feasibility of this $750 million project to deploy 450 km of network from Saguenay to Sept-Iles. They should be finalized by the end of this year. If the conclusions of the studies are positive, Gaz Métro will start the regulatory and environmental approval process in 2013. Assuming all necessary approvals are obtained, preparatory work and construction could start in 2015 with a view to beginning operations in 2016.

The Régie has authorized the creation of a non-rate-base interest-bearing deferral account for the costs incurred for the comprehensive studies for the project, this is up to a maximum of $40 million. If the project was to be proven not to be feasible, the Quebec government, as outlined in its March 2012 budget, will reimburse 75% of the first $40 million disbursed, i.e. a maximum of $30 million.

A few words, now, on our “Green” Initiatives.

As you know, Gaz Métro has elected 2 years ago to enter the fuel market, aiming specifically at the heavy transportation segment. Our first customer, Transport Robert has just ordered 50 more trucks fuelled by LNG. With 120 trucks now, Transport Robert will have dedicated more than 10% of its fleet to what he considers fuel of the future.

One other carrier, Transport Gonthier, also began fuelling trucks with natural gas. Gaz Métro now operates three refuelling stations, one in Boucherville and one in Mississauga, dedicated to the Transport Robert fleet, and a public one, located in the Quebec region. Our 2013 plan calls for the implantation of additional stations including Rivière-du-Loup in order to extend the transportation corridor that we already serve.

Capitalizing on the environmental and economic attributes of natural gas compared to diesel, transportation is definitely a promising market. A growing number of short distance Quebec fleet operators, like waste management vehicles, are converting to natural gas. We believe this trend will continue over time and will benefit Gaz Métro.

Also on the front of our green initiative, I am pleased to report that Gaz Métro has signed agreements with the cities of St-Hyacinthe and Quebec to inject biomethane into our network. These are important milestones in the development of a new renewable energy in Quebec. Under these agreements, Gaz Métro will install the infrastructure required for such injection, and will afterwards purchase the energy produced by the cities and make it available to its customers. Both projects are subject to the Régie’s approval.

Before turning the call over to Pierre, I would like to spend a few minutes and touch on the developments on the Quebec regulatory front.

As we mentioned on our previous conference call, Gaz Métro’s incentive mechanism, which had been in effect since 2007, expired in September. Since the Régie has denied the new incentive mechanism proposed by the working group for application in fiscal 2013, Gaz Métro is about to file a new proposal with the Régie based this time around on a more traditional framework. If accepted, it would be implemented starting in fiscal 2014 and be applicable over a five-year period. In the meantime, in accordance with the Régie's decision, the 2013 rate case will be treated solely on a cost-of-service basis.

Phase II of the 2013 rate case will be filed in the coming weeks and will include evidence on the rate of return as well as a mechanism for sharing overearnings and shortfalls on a cost-of-service. Based on the formula set by the Régie as part of its decision on the 2012 rate case, the rate of return on the deemed common equity would be 7.89% for fiscal 2013. I am sure you will share with me that we cannot be satisfied with such a low rate of return. Therefore, we will, once again, ask the Régie for a reasonable and fair return, comparable to the rest of the industry in Canada. A decision is expected in the spring of 2013. Given this timetable, the Régie has authorized Gaz Métro to apply the 2012 rates until it has rendered its final decision on the 2013 rate case.

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

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

Please turn to page 11 for an overview of Valener's consolidated results.

As Sophie mentioned in her introduction, for fiscal 2012, Valener's net income attributable to common shareholders, on a recurring basis, was $30.2 million or 81 cents per common share, an increase of $3.7 million or 10 cents per common share compared to last year. This result is mainly explained by 2 elements: first, the $1.2 million increase in the share of Gaz Métro's net income, on a recurring basis, and second, a lower income tax expense which stems from lower tax rates and the use of capital losses from previous fiscal years.

Page 12 presents an overview of Valener's cash flows for the 2012 fiscal year. Cash flows related to operating activities totalled $23.8 million, down $10.7 million from last year. This decrease was mainly due to a $26.8 million unfavourable change in non-cash working capital items, mainly related to the decline in income taxes payable. As we mentioned on previous calls, in fiscal 2012 Valener had to pay income taxes related to its previous fiscal year, which was its first, in addition to making tax instalments for its current fiscal year.

This was partly offset by the $47.7 million of distributions received from Gaz Métro, which were $10.3 million higher than last year. If you recall, Valener received only three distributions in fiscal 2011 as Gaz Métro had paid an additional distribution in fiscal 2010 as part of its corporate reorganization.

Investments totalled $145.3 million, up $107.4 million, mainly reflecting the subscriptions of $97.2 million to Gaz Métro's capital, compared to $29 million the previous year, and investments of $47.5 million to cover its equity contributions to the development of the Seigneurie projects, compared to $8.9 million the previous year.

For the 2012 fiscal year, dividends paid to common shareholders totalled $34.6 million, an increase of $7.8 million, explained by the fact that Valener paid four dividends in fiscal 2012 compared to three dividends in fiscal 2011, partly mitigated by a larger contribution to Valener's dividend reinvestment plan in fiscal 2012.

As a result, Valener's financing needs totalled $156.1 million for the year. These were mainly covered by a $100 million preferred share issue as well as draw downs on its credit facility.

Valener has been able to maintain a strong capital structure, with a debt to total capitalization ratio of 7.1% as of September 30, 2012. It also had $147.1 million available under its $200 million credit facility.

Now, let's look at Gaz Métro's 2012 fiscal year results starting on page 14. As usual, throughout the presentation, when I refer to "net income", it means "net income attributable to the Partners of Gaz Métro".

For fiscal 2012, Gaz Métro's consolidated net income excluding non-recurring items, was $151.6 million, up $4.1 million from last year.

Distributable cash was $137.9 million, down $10.6 million from last year.

As shown on page 15, this decrease was mainly due to the following elements:

- A $32.0 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 $33.2 million; and
- An $18.8 million decrease in amortization of deferred charges and credit, financing costs and intangible assets, resulting mainly from a higher amortization of the deferred credit related to the customers' share in Gaz Métro-QDA's overearnings.

This was mitigated by:

- A $16.2 million increase in distributions received from companies subject to significant influence; and
- A favourable change of $41.8 million in non-cash working capital items, mainly explained by a greater reduction in inventory levels combined with the impact of lower natural gas prices.

You will find in appendix A to this presentation a summary of the changes in deferred charges and credits.

The $814.2 million of investments in development activities mainly relate to the acquisition of CVPS ($485 million), the investments in the wind power projects in Quebec and Vermont, and the development of energy distribution systems in Quebec and Vermont.

The distributable cash of $137.9 million was sufficient to cover the majority of the $141.5 million of distributions to Partners. The $3.6 million shortfall and the investments in development activities resulted in financing needs of $817.8 million.

Those financing needs were mainly covered by:

- the $335 million unit issue by Gaz Métro to its Partners, GMi and Valener;
- the US$260 million debt issue by GMi; and
- the US$75 million First Mortgage Bond issue by GMP, as shown on page 16.

Gaz Métro benefits from strong credit metrics reflected in its corporate credit rating of A- with a stable outlook by S&P. As of September 30, 2012, it had $700 million available on its $1.2 billion of term credit facilities.

Let's now take a look at the segmented information which is presented on pages 18 to 20.

Net income generated by Gaz Métro-QDA was $110.7 million for fiscal 2012, virtually flat with last year.

As presented on page 19, the impact of the rate reduction authorized by the Régie for fiscal 2012, which resulted in a $1.1 million decrease in net income compared to fiscal 2011, was more than offset by overearnings realized on optimization transactions of transportation and load-balancing tools.

You will find information on natural gas deliveries, the competitive position of natural gas in relation to other energy sources, the realized ROE as well as customer count and contracts signed for Gaz Métro-QDA in appendices to this presentation.

Net income generated by the energy distribution activity in Vermont was $20.2 million for fiscal 2012, up $5.1 million compared to last year. This increase is mainly explained by:

- $5.2 million in net income generated by CVPS since its acquisition in June; and
- A $10.2 million increase in GMP's gross margin, attributable among other things, to the favourable impact of GMP's rate case parameters.

Partly mitigated by:

- A $9.8 million increase in financial expenses, mainly from additional financings for the CVPS acquisition and GMP's Kingdom Community Wind project; and
- Lower deliveries by VGS and GMP due to much warmer temperatures.

Details on the other segments' variations in net income, which are less significant, are presented on page 20 for your information.

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!