VALENER
energy company

2013 Fiscal Year First 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 first quarter of its 2013 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 Pierre Despars, Executive Vice President, Corporate Affairs and Chief Financial Officer; Katia Marquier, Director, Corporate Control; and Caroline Warren, Senior Advisor, Investor Relations. Sophie Brochu, our CEO, cannot be with us today and sends her apologies.

The press release reporting Valener's and Gaz Métro's results for the first quarter of their 2013 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". Our presentation is accessible 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 Pierre Despars.

[Pierre Despars] Thank you, Hélène. Good morning everyone!

Let's start on page 3 of the presentation and look at the key takeaways of the first quarter.

I am pleased to report that Valener's recurring net income for the first quarter is up 4.1 million $ over last year. This strong performance was driven mainly by increased profitability at Gaz Métro, stemming mainly from the benefits associated with the acquisition of CVPS last June.

During the first quarter, Valener paid dividends of $9.4 million in cash and in shares to its common shareholders. This is equivalent to $0.25 per share. For the current quarter, Valener's Board declared a dividend of $0.25 per share, payable on April 15, 2013 as shown on page 4. Valener expects to maintain that level of dividend per common share for each quarter of its 2013 fiscal year.

Turning to Gaz Métro, recurring net income was up $12.5 million quarter over quarter, driven by, among other things, the incremental net income generated by the energy distribution activities in Vermont following the acquisition of CVPS. On October 1st, CVPS combined its operations with those of Green Mountain Power, by way of a merger, to form a single entity, which has kept the name Green Mountain Power. The integration process is going as planned.

In Quebec, natural gas volumes in the industrial market increased by 5.9%, reflecting the sustained strong competitive advantage of natural gas over heavy fuel oil. Natural gas is still competitive with all forms of energy distributed in Quebec and in all market segments, as can be seen in Appendix C of the presentation.

In keeping with its strategy of focusing on energy distribution, transportation and production, Gaz Métro sold its indirect stake in HydroSolution, last November, for cash consideration of $44.4 million, net of related costs. The transaction generated a net gain of $14.7 million and freed up cash for various growth initiatives and improved Gaz Métro's cash position. HydroSolution, which leases a large number of residential electric water heaters, was formerly included in the Energy Services segment.

Let's turn to page 5 for an update on the regulatory front in Quebec.

Last December, Gaz Métro filed Phase II of its 2013 rate case, asking the Régie to suspend the automatic adjustment formula for establishing the rate of return on deemed common equity. This request reflects Gaz Métro's opinion that the rate of return of 7.9% for fiscal 2013, derived from this automatic adjustment formula, is not reasonable, in particular because of the low long-term interest rates prevailing in the market. Gaz Métro filed evidence for a reasonable and fair return of 9.3%.

Following this filing, the Régie issued a procedural decision in January in which it estimated it might be appropriate to suspend the automatic adjustment formula and maintain the 8.90% rate of return on deemed common equity, excluding productivity gains, set in 2012. A hearing is scheduled at the end of this week, during which the Régie will hear Gaz Métro and the intervenors on this matter.

Also, as we mentioned during our previous conference call, the 2013 rate case is being treated solely on a cost-of-service basis, pending a new incentive mechanism starting in fiscal 2014. In that context, as part of phase II of its 2013 rate case, Gaz Métro proposed a mechanism for sharing overearnings or shortfalls related to its fiscal 2013 distribution activities.

Gaz Métro's incentive mechanism, which had been in effect since October 2007, expired in September 2012. Since the Régie has denied the proposal from the working group for application in fiscal 2013, last November, Gaz Métro filed a new incentive mechanism proposal for distribution activities to be applicable for a five-year period as of fiscal 2014. Hearings on this matter will be held in the coming months. This new proposal is based on guidelines provided by the Régie in its previous decision.

Let's turn to page 6 where we present an update on our growth initiatives in Quebec.

With respect to our project to service the Côte-Nord region, the government of Quebec and Gaz Métro are still pursuing the comprehensive studies to determine the feasibility of this project to deploy 450 km of network from Saguenay to Sept-Iles. The conclusion of these studies, initially expected before the end of the 2012 calendar year, is now expected by March 31st.

The project cost had initially been estimated at $750 million. This amount, however, will have to be confirmed by the feasibility studies taking into account the realities identified on the ground (length of the route, physical and environmental constraints, customer consumption profile, etc.).

We know that the Côte-Nord industries would be interested in consuming natural gas if it were available in the region. We are still in discussions with potential customers despite the adverse economic conditions in the metals markets, which are making it significantly more challenging for the major industries to enter into long-term (20 year) agreements—contrary to what had been envisioned one year ago.

Government involvement is essential to resolve this dilemma:

- Gas networks are public service infrastructures that must be planned for the long-term;
- As such, their profitability should not be analyzed as if they were private projects because the benefits are not merely financial and are shared.

We need to pursue our discussions with the Government of Quebec to determine the terms and conditions of its financial involvement, which is critical to the project's completion.

On the biomethanation front, an investment project to receive biomethane produced by the City of Saint-Hyacinthe was filed with the Régie at the end of September. Hearings on this matter were held at the end of January.

With respect to our wind power initiatives, Gaz Métro is involved alongside Valener and Boralex in the 340 MW Seigneurie de Beaupré wind power projects, a project of nearly $1 billion.

Work at the Seigneurie de Beaupré construction site ceased for the winter on December 21. Construction of this 272 MW first phase will resume in spring and is scheduled for commissioning in December 2013.

As for wind power project 4, on January 22 the consortium obtained a decree issued by the government of Quebec, on the recommendation of the Minister of Sustainable Development, Environment, Wildlife and Parks, authorizing the project, representing an installed capacity of 68 MW. Having successfully completed the key environmental approvals stage, the consortium can now move on to the next steps which comprise, among others, applying for construction permits, signing final agreements with Enercon, the turbine and maintenance service supplier, and arranging the financing. This wind power project is scheduled for commissioning in December 2014.

Turning to our initiatives in Vermont (on page 7), On December 20th, VGS filed for regulatory approval with the VPSB for its system extension into Addison County to serve the communities of Vergennes and Middlebury. Assuming a positive decision from the VPSB by the end of fiscal 2013, construction could start in 2014.

In addition to that planned extension, 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 order to serve that customer, VGS would have to expand its planned system extension into Addison County. VGS plans on seeking the regulatory approvals needed for the construction of those additional facilities in fiscal 2013. If approved, these system extensions could increase VGS' rate base by approximately 100 million US$.

Before covering in detail the financial results for the first quarter, I would like to discuss the reorganization that we implemented in order to address the consequences of a legislative measure included in the 2011 federal budget.

This measure was aimed at limiting a corporation's ability to defer the taxation of income earned through a partnership and required multi-tiered partnerships to adopt a common fiscal year-end.

Since Gaz Métro and its subsidiaries and joint ventures formed as limited partnerships, namely, TQM, Intragaz and Rabaska, constituted a multi-tiered partnership structure, they had to comply with this new legislative measure.

In order to maintain December 31 fiscal year-ends for TQM, Intragaz and Rabaska, a reorganization was implemented last September whereby the interests held by Gaz Métro in those joint ventures were transferred to a new numbered company, which is a wholly-owned subsidiary of Gaz Métro.

Since Gaz Métro Plus has a September 30th fiscal year-end, it was not involved in this reorganization and remains a direct subsidiary of Gaz Métro.

As shown on page 8, prior to the reorganization, income from TQM, Intragaz and Rabaska flowed through to Valener and GMi and was taxed at the Valener/GMi level. Under the current structure put in place with the reorganization, the income of TQM, Intragaz and Rabaska is taxed in the new numbered company and it's now the after-tax income from those 3 entities that is included in Gaz Métro's net income, thereby having a negative impact on Gaz Métro's net income. However, for Valener, the impact is neutral. Its lower share in the net income of Gaz Métro is offset by a lower tax expense.

Let's now review in detail Valener's and Gaz Métro's results.

Please turn to page 9 for an overview of Valener's consolidated results.

For the first quarter of fiscal 2013, Valener's net income attributable to common shareholders, on a recurring basis, was $14.3 million or 38 cents per common share, an increase of $4.1 million or 11 cents per common share compared to last year. This is mainly explained by the $3.6 million increase in the share of Gaz Métro's recurring net income. Since this increase is partly attributable to an increase in the net income of taxable corporations, it has no impact on Valener's income tax expense.

Page 10 presents an overview of Valener's cash flows for the first quarter. Cash flows related to operating activities totalled $10.5 million, up $14.8 million from last year. This increase was mainly due to a $14.9 million favourable change in non-cash working capital items, mainly related to income taxes payable. In the first quarter of fiscal 2012, Valener had to pay the current income taxes of its previous fiscal year which was its first. It is also attributable to a $1.4 million favourable change in distributions received from Gaz Métro during the first quarter of this year, following Valener's subscriptions to Gaz Métro's capital in fiscal 2012.

Investments during the first quarter were minimal while in the first quarter of last year they totalled $39.2 million, $38.9 million of which was to cover Valener's equity contribution to the development of the Seigneurie projects.

During the first quarter, dividends paid to common shareholders totalled $8.7 million, virtually unchanged from last year, and dividends paid to preferred shareholders totalled $1.6 million, representing the initial dividend covering the period from the June 6 issuance date to October 15, 2012.

For the first quarter, Valener's cash flows related to operating activities were sufficient to cover investments and dividend payments, leaving Valener with $146.6 million available on its $200 million credit facility as at December 31, 2012.

Now, let's look at Gaz Métro's results starting on page 11. As usual, throughout the presentation, when I refer to "net income", it means "net income attributable to the Partners of Gaz Métro".

For the first quarter of fiscal 2013, Gaz Métro's consolidated net income excluding non-recurring items was $67.8 million, up $12.5 million from last year.

During the quarter, distributable cash decreased by $32.7 million compared to last year, resulting in a cash deficiency of $24.3 million.

As shown on page 12, this decrease in distributable cash was mainly due to:

- a $34.1 million unfavourable change in non-cash working capital items, mainly on account of a smaller reduction in inventory levels combined with the impact of lower natural gas prices; and
- Higher changes in deferred charges and credits, for $8.5 million, mainly explained by the charges incurred for the studies and preparatory work for the project to serve the Côte-Nord region with natural gas;

This was partly offset by:

- A $7.5 million $ favourable variation in rate stabilization accounts, which is mainly attributable to closer-to-normal temperatures than in the first quarter of fiscal 2012.

Appendix D to this presentation shows a summary of the changes in deferred charges and credits.

During the first quarter, investments in development activities of $62 million were mainly related to the investments in the wind power projects and the development of energy distribution systems in Quebec and Vermont.

The $24.3 million distributable cash deficiency, the $40.2 million of distributions to partners and the investments in development activities resulted in financing needs of $126.5 million.

As detailed on page 13, those financing needs were mainly covered by a $51.4 million net increase in term loans and by a $77.1 million net increase in long-term debt, mainly attributable to the issuance of US$85 million of first-mortgage bonds by Green Mountain Power by way of a private placement.

Let's now take a look at the segmented information which is presented on pages 14 to 20.

As shown on page 14, during the first quarter, Gaz Métro modified its financial reporting structure for segment disclosures to better reflect its new profile given the sale of certain non-core entities and the development of important wind power projects. The new *Energy Production* segment consists of non-regulated energy production activities related to the Seigneurie de Beaupré wind farms. It was previously included in the *Corporate Affairs and Other* segment. As you know these projects are under construction and, as such, have not yet begun to generate revenue.

Gaz Métro also combined the *Storage* segment with the *Energy Services and Other* segment to create a single segment named *Energy Services, Storage and Other*. Last year's first-quarter figures have been reclassified to present financial information that reflects the new business segments.

Page 15 shows the split of the $12.5 million year-over-year increase in net income between the various segments. The main variance stems from the energy distribution activities in Quebec and Vermont.

Let's start with the Quebec Distribution activities, QDA. The diagram on page 16, explains in a nutshell the unusual situation encountered this quarter due to the fact that Gaz Métro's 2013 rate case is not yet finalized. During the first quarter, Gaz Métro applied, for billing purposes, the interim rates approved by the Régie, i.e. the 2012 rates. These rates are based on a 9.69% ROE (including productivity gains) and on Gaz Métro-QDA's 2012 cost of service. However, given the procedural decision rendered by the Régie, as I explained earlier, Gaz Métro-QDA recognized its quarterly revenues based on an 8.9% ROE with no productivity gain and based on its 2013 cost of service, as filed with the Régie. The difference between the revenues generated by the billing parameters and those recognized using the revenue parameters were recorded in a deferral account.

As presented on page 17, net income generated by Gaz Métro-QDA during the first quarter totalled $49.5 million, a $5.8 million year-over-year increase that was essentially due to:

- First: a timing difference between the revenue recognition profile of the distribution service, which follows the customers' consumption profile, and that of costs. This resulted in a $2.9 million increase in net income, which is expected to reverse in the next quarters of the current fiscal year;
- Second: If you remember, last year the normalization mechanism didn't fully eliminate the negative impact on revenues of extremely warm temperatures experienced during the first quarter. Those considerably warmer-than-normal temperatures also had an impact on load-balancing and transportation costs. This quarter, we didn't experience that phenomenon since temperatures were closer to normal;

- And last: Higher deliveries to the industrial market compared to the 2013 rate case, partly mitigated by lower deliveries of short-term interruptible service sales, resulted in a $1.2 million increase in the gross margin of the distribution service.

These elements were partly mitigated by the unfavourable impact of a decrease in the rate of return on deemed common equity and in revenues related to the GEEP performance incentive.

As you can see in appendix B, for the first quarter, Gaz Métro-QDA's normalized natural gas deliveries increased by 2.9% from the first quarter last year. This increase was essentially due to the industrial market, where deliveries increased 5.9%, due to heavier consumption, particularly in the pulp and paper and metallurgy sectors.

As presented on page 18, the 2013 rate case, based on an 8.9% rate of return, is expected to translate into a $6.6 million decline in net income for fiscal 2013 compared to actual net income in fiscal 2012. This decrease would primarily stem from the following factors:

- First, a lower rate of return on the deemed common equity proposed in 2013 compared to that authorized in 2012, which represents $7.4 million, partly offset by an increase of $5.8 million stemming mainly from an increase in the average rate base combined with an increase in investments not included in the rate base.;
- Second, a $4 million decrease in revenues related to the GEEP performance incentive; and
- Third, the impact of having no share in overearnings anticipated in the 2013 rate case, whereas a 1 million $ share had been realized in fiscal 2012.

Page 19 illustrates the quarterly breakdown of that expected shortfall in net income. It is important to remember that $2.9 million of the $4.4 million advance realized in the first quarter resulted from a timing difference between revenues and costs, and is therefore expected to reverse over the next three quarters.

Now let's turn to Vermont, on page 20. We are happy to report that the anticipated benefits of the CVPS acquisition in June 2012 have materialized and have contributed positively to Gaz Métro's results. Net income generated by the energy distribution activity in Vermont was up $6.3 million year-over-year at $12.7 million during the first quarter. The main reasons for this increase are:

- The positive impact of the CVPS acquisition on Green Mountain Power's net income, partly mitigated by a $1.2 million unfavourable impact from costs incurred in the wake of Hurricane

Sandy, net of the portion that can be recovered in future rates through the profit and loss sharing mechanism; and

- A $5.5 million increase in the share in earnings of entities subject to significant influence, following the acquisition of CVPS, which also owned an interest in these entities.

These positive elements were partly mitigated by:

- A $3.8 million increase in financing costs of investments, resulting mainly from the additional financing incurred for the CVPS acquisition.

Finally, the natural gas transportation segment. Net income was $4.4 million for the quarter, up $300,000. This slight variance can be explained by two main elements:

- The increase in the volume of natural gas transported by PNGTS.

This was mitigated by:

- The income tax expense allocation of $1.1 million to TQM, due to the reorganization I explained earlier on.

Pages 21 and 22 illustrate Gaz Métro and Valener's expected cash requirements for the last three quarters of fiscal 2013.

Gaz Métro expects to require funds of approximately $395 million to finance its investments in property, plant and equipment. They are mainly related to extensions and improvements to be made to the energy distribution systems in Quebec and Vermont, estimated at $175 million, and to the wind power projects, representing approximately $220 million.

Gaz Métro's available sources of financing are cash flows related to operating activities as well as its available credit facilities and bank loans. A $50 million equity contribution from its two partners will be required to rebalance Gaz Métro-QDA's capital structure.

In order to refinance $150 million of First Mortgage Bonds maturing in April, GMi recently entered into a note purchase agreement with investors, by way of a private placement, for a subsequent issuance of 30 and 35-year notes, secured by Gaz Métro, for a total capital amount of US$200 million. The notes will be issued no later than April 30 and the proceeds of the issuance will be loaned to Gaz Métro on conditions similar to those of the secured notes.

Over the next three quarters of fiscal 2013, Valener expects its cash requirements to be approximately $22.5 million in order to finance its pro rata share of $14.5 million to the capital contribution in Gaz Métro and its $8 million capital contribution in Beaupré Éole 4, for the development of the wind power project 4.

Valener's available sources of financing come from its cash flows related to operating activities and from its $200 million committed credit facility which is currently largely unused.

That concludes our presentation. 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!