VALENER
energy company

2013 Fiscal Year Second Quarter Results
Conference Call
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(Introduction by the operator)

[Hélène St-Pierre]

Good morning and welcome to our conference call dealing with Valener’s results for the second 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 Sophie Brochu, President and Chief Executive Officer; Pierre Despars, Executive Vice President, Corporate Affairs and Chief Financial Officer; Katia Marquier, Director, Corporate Control; Caroline Warren, Senior Advisor, Investor Relations and Marie-Christine Demers, Senior Advisor, Public Affairs.

The press release reporting Valener's and Gaz Métro’s results for the second 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 Sophie Brochu.

[Sophie Brochu] Thank you, Hélène. Good morning everyone!

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

I am pleased to report that compared to the same period last year, Valener’s recurring net income was up $2.2 million for the second quarter and up $6.3 million for the first half of the current fiscal year. As you will see, this good performance is driven by the increased profitability of Gaz Métro.

Turning to dividends, during the second quarter, Valener paid dividends of $9.4 million to its common shareholders, either in cash or in shares for those who elected to take advantage of the dividend reinvestment plan. For the current quarter, Valener's Board maintains a dividend of $0.25 per common share, payable next July 15. As planned, Valener will have paid to its shareholders an annualized dividend of $1.00 per share for fiscal 2013.

The distribution to be paid by Gaz Métro to Valener this coming July will be the last one to include the enhanced distribution established back in 2010, at the time of Gaz Métro's reorganization which saw the creation of Valener. The total amount of that enhanced distribution will have represented $20 million over a three-year period ending next September 30th.

As communicated at the time of our reorganization, and as shown on page 5, the game plan is now to use the cash flows generated by phase I of the Seigneurie de Beaupré wind power projects to allow Valener to maintain its $1 annual dividend over time. The 272 MW project is on time and on budget. The commissioning is expected to be in December 2013. Any timing difference would be covered by Valener's committed credit facility, which is currently largely unused.

As for the second phase of those wind projects, the consortium is proceeding with the work needed for the project start-up. We are on course with the key planning stages to complete the project by December 2014. By the end of the current construction season, the financing should be in place and most of the foundations, road and collector system work should be completed. More details on that topic are found on page 6.

Let's now turn to Gaz Métro which as you know, is Valener's main asset.

Year over year, our recurring net income was up $9.2 million for the second quarter and up $21.7 million for the semester.

We are doing well in Quebec where, as can be seen in Appendix C, natural gas remains competitive with all forms of energies and across all market segments. Gaz Métro benefits from the competitiveness as well as the environmental attributes of natural gas. We leverage both to further our commercial strategy, be it in the industrial sector where we keep bringing customers on board, or in the new fuel market segment where we are currently developing to serve a growing number of fleet operators.

We are also doing well in Vermont where 40% of our assets are now located since our acquisition of CVPS. Indeed, this acquisition contributed to 50% of the increase in Gaz Métro's net income, year over year.

Green Mountain Power has developed a rigorous three-year plan for merging its processes with those of CVPS. I am pleased to announce that we are ahead of schedule in terms of implementation. Green Mountain Power has completed:

- The negotiation of a new 5-year, single labour agreement with its unionized workers;
- The consolidation of pension plans and other employee benefits;
- The merger of financial operations, controls and reporting; and
- The deployment of a new long-term customer information and billing system that will become the target platform for converting CVPS customer data and operations.

As you can appreciate, we are rigorously implementing the plan that is already making the CVPS acquisition a real success.

Vermont Gas Systems is also growing. As you can see on page 8, last December, VGS filed an application seeking regulatory approval to extend its transmission line south into Addison County to serve the communities of Vergennes and Middlebury. A regulatory decision regarding VGS' proposed investment is expected by the end of this coming October. In addition, VGS also announced an agreement with International Paper Company under which gas service would be extended to its NY mill under a long-term contract starting at the end of 2015. In order to serve that major customer, VGS is planning a second phase of expansion to its already planned system extension into

Addison County. VGS will seek the regulatory approvals needed for the second phase of expansion no later than the end of the current year.

If approved, these system extensions would increase VGS' rate base by approximately US$100 million, thereby doubling its size.

Before turning over the call to Pierre, I would like to say a few words about our project to serve the Côte-Nord region. On March 21, we announced that we were postponing project-related activities.

Following the feasibility studies conducted in recent months, we concluded that the current global metals market conditions, particularly for iron ore and iron processing, make it very difficult for now to reach long-term agreements with major industrial customers in the Côte-Nord.

Moreover, in light of the decisions that had been announced by certain companies to defer major investments or to lower the level of plant operations, the minimum volumes of natural gas that are required to launch the next phase of the project are not there at the moment.

We are keeping in touch with the large energy users of the Côte-Nord as well as local representatives. We will keep abreast of developments that may re-launch our work although we cannot at this time predict when that might be. However, one thing for sure: as has been the case with every large system extension we have seen in Quebec, financial contributions or other forms of support from different levels of government would be needed to resume project activities.

I will now turn the call over to Pierre for an update on various regulatory matters and a detailed review of Valener's and Gaz Métro's second quarter results.

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

Let's now turn to page 10 for an update on regulatory matters in Quebec.

Last December, Gaz Métro filed Phase II of its 2013 rate case, asking the Régie de l'énergie to suspend the automatic adjustment formula for establishing the rate of return on deemed common equity. 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% base rate of return on deemed common equity set in 2012 for fiscal 2013 as well. Following hearings held in February, on March 5th the Régie ordered the suspension of the automatic adjustment formula and set the authorized ROE at 8.90% for fiscal 2013.

On the same subject, as part of Phase I of its 2014 rate case, on April 9th, Gaz Métro filed a rate of return application requesting the same ROE of 8.90% for its 2014 fiscal year beginning next October 1. The rationale for that request is that the economic criteria used to determine the rate of return have not changed since the last decision.

As we mentioned during our previous conference call, Gaz Métro's incentive mechanism, which had been in effect since October 2007, expired in September 2012. Last November, after the Régie denied the proposal made by the working group, Gaz Métro filed a new incentive mechanism proposal for distribution activities to be applicable for a five-year period as of fiscal 2014.

In April, the Régie issued a decision to stop reviewing this application and asked Gaz Métro to file a new proposal that would take into account the Régie's directives and the coming changes to its rate structure. In the meantime, the Régie determined that Gaz Métro will be regulated on a cost-of-service basis.

Turning to page 11, 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. On March 20th, the Régie ruled that some of the investments related to that project are not assets for natural gas distribution purposes under the *Act respecting the Régie de l'Énergie*, and therefore denied Gaz Métro's application.

Biomethanation is important to Gaz Métro and, as such, we are currently working to redefine the conditions for injecting biomethane into our system in order to find an optimal solution.

For a quick update on PNGTS's rate cases, let's turn to page 12.

On March 20th, the FERC issued decisions on two rate cases that had been filed by PNGTS on April 1st, 2008 and May 12th, 2010 respectively. The effective transportation rate resulting from the 2008 rate case decision is 85 cents US per dth/day. The transportation rate resulting from the 2010 rate case decision is 87 cents US per dth/day, effective December 1, 2010.

On April 19th, PNGTS requested rehearing of the FERC decisions, seeking to have specific aspects of the decisions re-examined.

Gaz Métro is currently unable to determine the final impacts of these decisions on its consolidated financial results. While awaiting the decisions by the FERC with respect to the rate cases, PNGTS billed customers based on interim rates and recorded its revenues based on the last FERC approved rates. The difference was recorded in a liability account.

Please now turn to page 13 for an overview of Valener's consolidated results.

For the second quarter, Valener's net income attributable to common shareholders, on a recurring basis, was $24.0 million or 64 cents per common share, up $2.2 million or 6 cents per common share from last year. The main reason for this was the $2.7 million increase in its share of Gaz Métro's recurring net income.

Recurring net income after six months was $38.3 million, up $6.3 million or 16 cents per share from the same period last year. This was mainly due to a $6.3 million increase in its share of Gaz Métro's recurring net income and to a decrease in income tax expense. This was mitigated by the impact of the $2.2 million of Valener's net income attributable to preferred shareholders for the cumulative dividends on the Series A preferred shares.

While the share in the net income of Gaz Métro increased, that increase was partly attributable to an increase in the net income of companies whose income tax expense was recognized by Gaz Métro, notably the subsidiaries in Vermont, consequently having no impact on Valener's income tax expense.

Page 14 presents an overview of Valener's cash flows.

For the second quarter, cash flows related to operating activities totalled $11.4 million, up $2 million from last year. This was mainly attributable to a $1.8 million increase in distributions received from Gaz Métro following Valener's subscriptions to Gaz Métro's capital in fiscal 2012.

For the first six months, cash flows related to operating activities totalled $21.9 million, a $16.8 million year-over-year increase that was mainly due to a $14.9 million favourable change in non-cash working capital items, primarily related to income taxes payable. In the first quarter of the last fiscal year, Valener had to pay the income taxes of its 2011 fiscal year which was its first. This increase in cash flows related to operating activities was also attributable to a $3.2 million increase in distributions received from Gaz Métro, mitigated by a $2.1 million unfavourable change in future income taxes, mainly due to the net impact of Gaz Métro's disposal of its interest in HydroSolution.

Investments during the second quarter were minimal at $700 thousand, a slight increase of $200 thousand over the same period last year. After six months, they totalled $1.3 million, $38.4 million less than in the same period in fiscal 2012. This decrease mainly came from the fact that $39.4 million was disbursed in the first six months of fiscal 2012 to cover Valener's equity contribution to the development of the Seigneurie de Beaupré projects.

Cash dividends paid to common shareholders totalled $8.6 million during the second quarter and $17.3 million for the first six months, down slightly from the same periods in fiscal 2012, explained by greater participation to the Dividend Reinvestment Plan.

Dividends paid to preferred shareholders totalled 1.1 million $ for the second quarter and $2.7 million for the first six months. There were no preferred dividends paid in the first six months of last year as the Series A preferred shares were issued on June 6, 2012.

For the first six months, Valener's cash flows related to operating activities were sufficient to cover investments and dividend payments, leaving Valener with $147 million available on its $200 million credit facility as at March 31, 2013.

Now, let's look at Gaz Métro's results starting on page 15. As usual, throughout the presentation, when I refer to "net income", it means "net income attributable to the Partners of Gaz Métro".

For the second quarter, Gaz Métro's consolidated net income excluding non-recurring items was $115.8 million, up $9.2 million from last year. After six months, it was $183.6 million, up $21.7 million from the same period last year.

As Sophie mentioned earlier, these increases were driven by, among other things, the incremental net income generated by the energy distribution activities in Vermont following the acquisition of CVPS and its merger with Green Mountain Power.

For the second quarter, cash flows related to operating activities totalled $259.4 million, up $13.9 million from last year. For the first six months, they totalled $326.3 million, virtually unchanged from last year.

During the quarter, distributable cash totalled $160.3 million, a decrease of $18.8 million compared to last year. After six months, it totalled $134.6 million, down $52.9 million from the same period last year. As shown on page 17, this decrease in distributable cash was mainly due to:

- Higher changes in deferred charges and credits, for $30.3 million, mainly explained by the cost of natural gas recoverable from customers and by the charges incurred for the studies and preparatory work for the project to serve the Côte-Nord region with natural gas;
- a $14.8 million increase in restricted cash mainly related to the Seigneurie projects; and
- a $10.0 million increase in maintenance CAPEX.

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

For the first half of fiscal 2013, investments in development activities of $82 million were mainly related to the investments in the wind power projects and the development of energy distribution systems in Quebec and Vermont. Taking into account distributable cash of $134.6 million, these investments in development activities combined with the $81.9 million of distributions to partners resulted in financing needs of

$29.3 million, which were mainly covered by debt issuance at GMP and the wind projects levels.

Let's now take a look at the segmented information which is presented on pages 18 to 21.

Page 18 shows that the energy distribution activities in Quebec and Vermont were the main contributors to the year-over-year increases in net income for the second quarter and the first six months of fiscal 2013.

Let's start with the Quebec Distribution activities, QDA, on page 19.

Net income generated by Gaz Métro-QDA was 95 million $ in the second quarter, up $2.6 million from the same period last year. After six months, it stood at $144.5 million, up $8.4 million compared to last year.

For the first six months, the increase 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 timing difference, amounting to $2.9 million in the first quarter, partially reversed during the second quarter as anticipated; and

- Secondly: a favourable impact of closer-to-normal temperatures in the first six months of fiscal 2013, whereas temperatures had been considerably warmer than normal in the first six months of fiscal 2012.

If you remember, in the context of those extremely warm temperatures last year, the normalization mechanism didn't fully eliminate their negative impact on revenues. Those considerably warmer-than-normal temperatures also had an impact on load-balancing and transportation costs;

These positive items were mitigated by the unfavourable impact of a lower authorized ROE and a decrease in revenues related to the GEEP performance incentive.

As you can see in appendix B, for the first six months, Gaz Métro-QDA's normalized natural gas deliveries increased by 0.5% from same period last year. This increase was essentially due to:

- the residential market where deliveries increased by 3.2% due to greater maturation of new sales; and
- the industrial market where deliveries increased by 1.7% due to heavier consumption, particularly in the metallurgy and pulp and paper sectors, partly mitigated by lower consumption in the electricity generation and petrochemicals sectors.

These positive elements were partly mitigated by lower consumption in the commercial market due to energy conservation measures combined with weak economic growth.

As presented in the previous quarter, the 2013 rate case, based on an authorized 8.90% rate of return on deemed common equity, is expected to translate into a $6.6 million decline in net income for fiscal 2013 compared to actual net income in fiscal 2012.

Page 20 illustrates the quarterly breakdown of that expected shortfall in net income and where we stand after six months compared to the 2013 rate case. As you can see, we are ahead of expectations by $2.4 million. However, we cannot comment on what to expect for the remainder of the fiscal year since the Régie's decision on the 2013 rate case has still not been received.

Now let's turn to Vermont, on page 21. Once again, we are happy to report that the anticipated benefits of the CVPS acquisition have materialized and have contributed positively to Gaz Métro's results.

Net income generated by the energy distribution activities in Vermont was $14.6 million, up $7.2 million from the second quarter last year. For the first six months, it stood at $27.3 million, up $13.5 million over last year.

The main reasons for these increases 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; and

- higher net income at Vermont Gas Systems due to higher natural gas deliveries, the favourable impact of weather normalization mechanism and a higher number of customers

These positive elements were partly mitigated by:

- An increase in financing costs of investments of \$3.7 million and \$7.5 million respectively for the quarter and the first six months, resulting mainly from the additional financing incurred for the CVPS acquisition.

Finally, in the natural gas transportation segment, net income was \$6.0 million in the second quarter and \$10.4 million after six months, up \$0.6 million and \$0.9 million, respectively, from the same periods last year.

These variances were due to the increase in short-term and interruptible natural gas volumes transported by PNGTS mitigated by the income tax expense allocation to TQM of \$0.6 million and \$1.7 million for the quarter and for the first six months respectively.

You will recall that since October 1, 2012, the income tax expense related to TQM, Intragaz and Rabaska has been recognized by Gaz Métro rather than by its Partners, Valener and Gaz Métro inc.

Page 22 illustrates Gaz Métro's expected cash requirements for the next two quarters of fiscal 2013. Gaz Métro expects to require funds of approximately \$400 million to finance its investments in property, plant and equipment.

Since last quarter, we updated our CAPEX projections to take into consideration the status of our projects. This update translated into an annual increase of approximately \$60 million resulting mainly from:

- Extensions resulting from new industrial customer additions and improvements to the energy distribution system in Quebec; and
- Investments made ahead of schedule for the Seigneurie de Beaupré wind power project 4 and for the VGS' system development project.

Gaz Métro's available sources of financing are cash flows related to operating activities, its available credit facilities and bank loans as well as the project financing in place for the 1st phase of the Seigneurie de

Beaupré wind power projects. A 50 million $ equity contribution from its two partners will be also required to rebalance Gaz Métro-QDA’s capital structure.

Page 23 presents Valener’s expected cash requirements. Over the next two quarters of fiscal 2013, Valener expects its cash requirements to be approximately $23.5 million in order to finance its pro rata share of $14.5 million to the $50 million capital contribution in Gaz Métro and its $9 million equity injection required for the development of the wind power projects.

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. We will be pleased to take your questions.

[Question and answer period]

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