Fiscal 2015 Third Quarter Results
Conference Call
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(Introduction by the operator)

[Mathieu Lepage]

Thank you Steven. Good afternoon, and welcome to our conference call covering Valener's results for the third 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.

This call is webcast and I encourage those of you listening on the phone to view the supporting slides which are available on our revamped website.

Before we begin, please note that during this conference call we may refer to or talk about 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 was published earlier today and is available on our 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] Merci Mathieu, bonjour à tous, good afternoon everyone.

Let's begin by saying that Valener's third-quarter results were globally stronger compared with the same period last year, marked by the excellent performance of the wind farms and the strength of Gaz Métro's results.

Let's begin, if you will, with page 3 of the presentation, which shows normalized operating cash flows per common share of Valener, which as you know is a key metric used to measure ability to pay dividends. During the third quarter, these cash flows reached $0.32 per share, an increase of 3.2%. Year-to-date, they totalled $1.00 per share, up $0.26 or 35.1% compared with last year. You will recall that Valener received its first distribution from the Seigneurie de Beaupré Wind Farms last February. That represented $4.7 million or $0.12 per share. Moreover, the accelerated depreciation of these wind power assets also contributed favourably to Valener’s cash flows by reducing the cash taxes.

Let’s turn to the dividend discussion on page 4. Valener has declared a quarterly dividend of $0.26 per common share, payable on October 15, which reflects the 4% increase we announced last February. This corresponds to an annualized dividend of $1.04 per share. This provides a yield of 6.22% based on yesterday’s closing price.

On a year-to-date basis, Valener reiterates with confidence its annual dividend growth rate target of 4% for the next three fiscal years, i.e. through to 2018. This will be supported by the solid and reliable distributions from Gaz Métro, and by the distributions from the Seigneurie de Beaupré Wind Farms, which continue to perform above our expectations.

As shown on page 5, during the first nine months of fiscal 2015, Wind Farms 2 and 3 generated $51.5 million in operating cash flows. In February, Wind Farms 2 and 3 was able to make a first distribution of $19.1 million to its partners, with Valener having received its pro rata share of $4.7 million. The next distribution is expected to be paid this fourth quarter.

On to page 6. During the third quarter, Wind Farm 4 generated $4.5 million in operating cash flows. We still expect Wind Farm 4 to begin paying distributions during this fourth quarter.

Overall, when you look at it, the three wind farms performed very well. They reached a combined utilization factor of over 37% during the third quarter, and over 41% year-to-date.

As you can imagine, we are very happy with the performance of our wind farm assets.

Let’s now turn to page 7. You will recall that during the third quarter a small loss is typical due to the seasonality of Gaz Métro’s natural gas distribution activity in Québec.

As such, Valener reported a recurring net loss of $0.1 million. Yet it is an improvement of $1.6 million compared with last year. This progression mainly reflects the excellent performance of the wind farms.

As shown on the next page, during the third quarter, Gaz Métro's net loss stood at $3.2 million. Again this is typical for this time of the year, and it is a relatively stable level compared with last year. This reflects the favourable impact of our diversification strategy, as the temporary increase in net loss from the natural gas distribution activity in Québec and lower revenues at Green Mountain Power were offset by the increase in net income resulting from the energy production segment and the positive impact of the appreciation of the US dollar.

Although the net loss increased in the natural gas distribution activity in Québec, this situation, as anticipated in the rate case, should reverse itself in the fourth quarter and Pierre will go through that in more detail later on.

Let's now turn to page 9 and take a look at the outlook for the energy distribution segment in terms of authorized ROEs.

In May, in response to Gaz Métro's request, the Régie de l'énergie confirmed the renewal of the 8.9% rate of return on deemed common equity for fiscal 2016 and 2017. You will recall that since fiscal 2013, the

Régie has suspended the automatic formula for the determination of the authorized rate of return for natural gas distribution activity in Québec, and set it at 8.9%.

Needless to say, we are very happy with the fact that it has been renewed for two years, as it provides visibility and stability for our core business.

As for Green Mountain Power and Vermont Gas, requested ROEs for fiscal 2016, based on their filings to the Vermont Public Service Board, stand at respectable levels of 9.44% and 10.1% respectively and they are largely in line with those of last year.

If you will, let's move on to page 10 in order to discuss the positive developments in our liquefied natural gas activity, which is an important growth vector for us.

The demand for LNG is increasing. This is evidenced by the rise in our current deliveries as well as by the discussions we continue to have with many interested offtakers.

During the third quarter, Gaz Métro LNG delivered 3.6 million cubic metres, bringing the year-to-date total to almost 20 million compared with 6 million for the first nine months of fiscal 2014. This favourably contributed to Gaz Métro's net income.

As mentioned during our last conference call, Gaz Métro has entered into an agreement with Hydro-Québec Distribution in order to supply LNG to the TransCanada Energy power plant in Bécancour. This would start in winter 2018. With this project, Gaz Métro would build, supply and operate an LNG storage, treatment and regasification site close to the TCE power plant. This, in order to supply the natural gas required to generate electricity during winter peak demand periods. This project is moving forward and is subject to approvals from the Régie de l'énergie and from the Québec government.

All this supports the sound decision we have made to invest in partnership with Investissement Québec to further expand our liquefaction facility and the commissioning is still slated for the end of 2016.

Before I turn the call over to Pierre, I would like to briefly comment on recent developments regarding our natural gas distribution activity in Québec.

In terms of network development and improvement, the Régie de l'énergie just approved our request to invest about $80 million to improve and strengthen the transmission systems in the Saguenay region. Work is expected to start in June 2016 and should be completed in the fall of 2017. This investment will provide additional capacity to ensure reliable gas supply to customers located in this area.

In June, we also announced a project to extend our natural gas network to the Bellechasse region. This 60-km extension will be realized with the help and the support of the Québec and the federal governments. Gaz Métro will invest itself $7 million in the project. Subject to the Régie's approval, construction is expected to begin in spring 2016 in order to make natural gas available as of December of next year.

Lastly, regarding our green initiatives, last July, the Régie authorized Gaz Métro to purchase the renewable natural gas produced by the City of Saint-Hyacinthe and to build the infrastructure required to connect the output to our distribution network. Once the work is complete, up to 13 million cubic metres of renewable natural gas will be produced by the municipality per year, most of which will be then injected into Gaz Métro's network, this, for the next 20 years. This forward-thinking initiative will give Québec natural gas consumers access to clean, renewable and locally produced energy. This project positions ourselves very well in the eye of our environmentalist friends.

I will now turn the call over to Pierre, who will give you an update on what we are doing in Vermont and more details on our financial results.

[Pierre Despars] Thank you Sophie.

Let's turn to page 11. With respect to Green Mountain Power's operational integration with Central Vermont Public Service, efficiencies and synergies continue to meet expectations. Green Mountain Power has already reached the US$8 million in synergy savings attributable to its customers for fiscal 2015. Additional savings will be realized and retained by Green Mountain Power, as per the sharing mechanism.

Turning to Vermont Gas' distribution system extension project, the updated budget was submitted to the Vermont Public Service Board last December, with costs now estimated atUS$154 million. The company remains fully committed to the efficient and proper management of the project, and continues to focus on obtaining remaining rights-of-way and on reaffirming the Certificate of Public Good at the higher budgeted level. The Vermont Public Service Board held public hearings to that effect during the month of June and a decision is expected later this fall. To date, Vermont Gas has invested US$66 million in the project, which is expected to be completed towards the end of the year 2016.

Now let's look at the results of our energy distribution activities in Québec and Vermont on page 12.

During the third quarter, the Québec distribution activity generated a net loss of $12.3 million, which is $1.7 million higher than last year.

The main reason for this increase in net loss, which was expected based on the 2015 rate case, was a timing difference between the revenue recognition profile and that of costs, partly offset by a decrease in financial expenses. This timing difference is expected to reverse during the fourth quarter, as shown on page 13.

It is worth noting that for the third quarter and year-to-date respectively, net income is $0.8 million and $1.9 million higher than anticipated in the 2015 rate case.

Moving on to the results from our energy distribution activity in Vermont, during the third quarter, net income totalled $8.3 million, up $0.3 million compared with last year. The main drivers for this increase were an appreciation of the US dollar, an increase in Green Mountain Power's rate base and a return on Vermont Gas's non-rate-base investments related to its distribution network extension. It was, however, partly mitigated by a decrease in Green Mountain Power's revenues.

Looking now at page 14, we'll review the results of our other segments.

During the third quarter, net income generated by the energy production segment was up $0.6 million from last year.

This increase was driven by strong revenues generated by Wind Farms 2 and 3 due to favourable winds as well as the introduction of Wind Farm 4, which was commissioned in December of last year.

For the other segments, net income totalled $0.5 million during the third quarter, up $0.9 million from last year. This increase is explained by various elements, including higher short-term and interruptible sales at PNGTS as well as higher LNG deliveries

On page 15, we present Gaz Métro's expected cash requirements for the fourth quarter of fiscal 2015.

Gaz Métro expects to invest about $139 million in property, plant and equipment, in particular for the extensions and improvements of the energy distribution systems in Québec and Vermont, as well as for the LNG plant expansion project.

The sources of financing will be operating cash flows and credit facilities, equity contributions from Valener and Gaz Métro inc. totalling $120 million, and a contribution from Investissement Québec representing its pro rata share of the costs associated with the expansion of our LNG plant.

In this context, Valener’s expected cash requirements for the fourth quarter are estimated at $35 million, to be financed with its operating cash flows, which now include distributions from the Seigneurie de Beaupré Wind Farms, as well as from its largely unused credit facility.

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. We encourage you all to take a look at Valener’s new website at www.valener.com. Have a great day.