

November 24, 2016 – 1:00 p.m. E.T.
Valener Inc. Q4 2016 Results



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Event Date/Time: November 24, 2016 - 1:00 p.m. E.T.

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CORPORATE PARTICIPANTS

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Gaz Métro – President and Chief Executive Officer

Pierre Despars

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Robert Kwan

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Jeremy Rosenfield

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PRESENTATION

Operator

Good afternoon and welcome to Valener's Fourth Quarter and Full Year 2016 Earnings Conference Call.

At this time all participants are in a listen-only mode. Following the presentation we will conduct a question and answer session. Instructions will be provided at that time for you to queue up for questions. If anyone has any difficulties hearing the conference, please press star followed by zero for operator assistance at any time.

Please note that this call is being recorded today, Thursday, November 24, 2016 at one o'clock Eastern Daylight Time.

I will now turn the call over to Ms. Mariem Elsayed, Senior Advisor, Investor Relations. Please go ahead, Ms. Elsayed.

Mariem Elsayed, Senior Advisor, Investor Relations

Thank you, Sylvie. Good afternoon and welcome to Valener's fourth quarter and full year 2016 conference call.

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 being webcast and I encourage you to download the supporting slides, which are available in the investor section of Valener's website under events and presentations.

As always, certain subjects we will cover involve 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 annual 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 non US GAAP financial measures 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.

Sophie Brochu, President & Chief Executive Officer, Gaz Métro

Merci beaucoup, Mariem. Bonjour à tous and good afternoon, everyone.

I am pleased to announce that winter has arrived in Montréal. For any natural gas distributor this is a great time of the year. I am also very pleased to announce that, as per previous guidance, Valener is today confirming its third dividend increase. Valener is raising its annualized dividend from \$1.08 per common share to \$1.12 with the first quarterly dividend of \$0.28 to be paid next January. Valener is also reiterating its target dividend increase of approximately 4 percent per year through to fiscal 2018.

Now let's take a look at the annual results, I am on slide four. 2016 was another solid year for Valener. Adjusted net income came in at \$49.9 million, a \$4.7 million increase from fiscal 2015, this driven by recurred results at Gaz Métro. Adjusted net income per share was \$1.30, up \$0.12 or 10 percent from 2015. For Q4, a typically slow quarter given weather patterns, Valener recorded an adjusted net loss of \$0.02 per share, up \$0.08 from an adjusted net loss of \$0.10 per share in the fourth quarter of 2015.

On to slide five. In 2016 Valener generated normalized operating cash flows of \$52.4 million, down \$6.2 million from last year. This is mainly due to two elements. First, higher distributions from the Seigneurie de Beaupré wind farms received in fiscal 2015, as this was the first year distributions were paid out and as such included distribution relative to 2015 operation. And second element is an income tax reimbursement we had received in 2015. This was offset in part by higher distribution received in 2016 from Gaz Métro following Valener's subscription of almost 4.5 million Gaz Métro units in the second half of 2015 and a \$0.01 per unit increase in Gaz Métro's quarterly distribution to unitholders in late 2015.

Now on to Gaz Métro, I am now on slide six. With an adjusted net income of almost \$215 million, Gaz Métro generated record results once again this year. The 14 percent year-over-year increase reflects the relevance and the effectiveness of our energy and geographical diversification strategy. I will come back to that in a minute. For now, let's review what we did in 2016.

This year's higher net income was driven by the growth in Gaz Métro-QDA's non-rate base investments, the favourable effect of the stronger US dollar on our US operations, and growth at Green Mountain Power. This was partly offset by lower net income at the Seigneurie de Beaupré wind farms which, as we have said many times, have enjoyed particularly strong winds in 2015. On a per unit basis, adjusted net income for the year was \$1.28, up from \$1.22 in fiscal 2015 and again despite the unit issuances in the latter half of last year. For the fourth quarter, a seasonally soft quarter as a result of the warmer summer months, Gaz Métro recorded an adjusted net loss of \$0.06 per unit in 2016 compared to an adjusted net loss of \$0.10 per unit in the same quarter of 2015.

As you know, consistent with its diversification strategy, Gaz Métro is involved in projects spanning territories and end products. Let me walk you through these, please turn to slide seven.

In Montréal, the work is well under way to triple the gas liquefaction capacity of our LSR plant and it's nearing completion. We expect the new liquefaction train to be in service by early 2017. In the meantime, we continue to grow our customer base and are now delivering LNG to customers as far as the Nord-du-Québec region and the Northeastern United States.

In Vermont, we are awaiting a decision by the Vermont Supreme Court to lift an automatic stay in effect that would allow us to resume construction. Of course, we are respectful of this process. Pierre will go through this in greater detail.

Back in Québec, we are building a new compression station in La Tuque and upgrading the existing station in Saint-Maurice in order to improve and strengthen the transmission network to serve current and additional demand in the Saguenay. All engineering work is complete and we're now laying the foundation at both sites. Ultimately, this \$80 million project will ensure reliable gas supply to our customers and will allow us to meet the growth of their requirements over the next 10 years and service is planned for late 2017.

In Bellechasse, where we are extending the network by 72 kilometers, construction work is well under way and we expect it to be completed by the end of 2016. And as recently as this past August we began work to extend the gas network to Asbestos. This consists of a 7.5 kilometer extension and it is an important step for us and the city of Asbestos, which has mobilized to make its business greener and more competitive through the use of natural gas. This project is also scheduled to be commissioned by the end of this year.

Our project to build an LNG storage and liquefaction site at Bécancour next to the TransCanada Energy power plant is currently under review as we await regulatory approvals. The project was designed to supply Hydro-Québec with electricity during its peak winter demand period. A flexible and safe solution with limited environmental and community impact.

The BAPE, the Bureau des audiences publiques en environnement, held hearings to examine the project in June and July of this year before issuing a public report last month. While certain conclusions in the report are considered inaccurate and debatable as there were certain omissions in the analysis of alternatives to the proposed project, the report nonetheless acknowledges the minor social and environmental impacts of the project. Both Gaz Métro and Hydro-Québec continue to believe in the significant

potential benefits of this project, as it offers the best solution to satisfy a very specific need in times of peak, peak demand.

As you know, our Seigneurie de Beaupré wind farms benefit from a 20-year power supply agreement with Hydro-Québec. We are very pleased with the performance of all three of these parks. We are pleased with the partnership structure in place and we are pleased with the refinancing we did this year, which brought approximately \$20 million to each of Gaz Métro and Valener.

Switching over to solar power, I am pleased to announce that Green Mountain Power has now obtained approval for all five of the solar parks it is building. One of them was put in service this September and another is nearing completion. We continue to expect that the remaining three will be finished by the end of 2016. This project will grow GMP's rate base by approximately US\$40 million. This will add 22 megawatts of renewable energy capacity to GMP's already green energy offering. As of September 30th, US\$20 million has been injected in to the project.

And finally in hydro, GMP is awaiting on regulatory approvals from the Vermont Public Service Board and the FERC to finalize its acquisition of certain assets of Enel Green Power North America. We expect the deal to close in fiscal 2017.

So, as we begin another year in Gaz Métro's chapter, we will continue the tireless pursuit of offering natural gas to a growing number of communities in Québec and in Vermont by building on its environmental and economical benefits in order to progressively replace oil products. We will keep a firm grip on operating costs for both our regulated and non-regulated businesses and we will keep moving forward with our strategy of energy diversification that we initiated just a few short years ago, a strategy that allows us today to announce the great results we had in 2016. In fact, 2017 will be another significant year as much of the construction of our ongoing projects will come to an end and we will begin ramping them up.

I will now turn the call over to my colleague, Pierre, who will walk you through segment performance.

Pierre Despars, Executive Vice President, Corporate Affairs & Chief Financial Officer, Gaz Métro

Thank you, Sophie.

On to slide eight, excluding special items Gaz Métro generated adjusted net income of \$214.7 million in fiscal 2016, a \$25.7 million increase compared to last year. Gaz Métro generated an adjusted net loss of \$10.9 million during the seasonally slower fourth quarter, a \$4.4 million improvement compared to the fourth quarter of 2015.

The energy distribution segment generated adjusted net income of \$201.5 million in 2016, up \$25.7 million or 15 percent from 2015.

Turning to slide nine, natural gas distribution in Québec generated adjusted net income of \$129.7 million in 2016, up \$19.2 million or 17 percent from 2015, driven by the parameters in the 2016 rate case, which had projected a \$13.2 million gain over 2015,

as well as growth in Gaz Métro-QDA's non-rate base investment not forecasted in the rate base at the beginning of the year. Gaz Métro's authorized ROE for fiscal 2017 will remain at 8.9 percent, as was confirmed by the Régie last year, and based on the 2017 rate case, which calls for an \$88 million increase in the average rate base, we expect Gaz Métro-QDA's 2017 net income to be approximately \$136 million.

Turning to slide 10, Vermont operations generated a combined adjusted net income of \$71.8 million during the year, up \$6.5 million or 10 percent from last year. Results were positively affected by the increase in Green Mountain Power's average rate base, the favourable impact of a stronger US dollar, and the favourable effect stemming from GMP's power purchase cost adjustment mechanism as 2016 market prices were lower than in 2015. These were offset partly by the net effect of the synergy sharing mechanism relating to GMP's merger with CVPS. GMP was required to reimburse its clients an amount equal to 50 percent of the synergies realized during the 2016 fiscal year. This amounted to \$15.6 million. In comparison in fiscal 2015, an amount of \$8 million was returned to clients.

During the third quarter of 2016 we stated that we now expect total cost for the Vermont Gas Addison project to be closer to \$165 million; therefore above the US\$134 million cap that was reached with the Vermont Department of Public Service in 2015. As such, we took a US\$20.6 million pre-tax impairment charge during fiscal 2016. In 2015, following the ratification of the agreement with the Vermont Department of Public Service, we took a US\$10.3 million pre-tax impairment charge. We have not changed our projected cost estimate for the Addison project and continue to expect total cost to be approximately US\$165 million.

Vermont Gas is currently seeking to get a pipeline easement through the Geprags Park in Hinesburg, which represents the last section required for the Addison project completion. The town of Hinesburg and VGS had previously reached an agreement on the term of an easement. On September 13, 2016 the Vermont Public Service Board issued an order recognizing the easement and allowing VGS to move forward with the Addison project; however, residents opposed to the project sought reconsideration of the decision with the VPSB and concurrently filed an appeal with the Vermont Supreme Court. This appeal comprises an automatic stay preventing construction and as such VGS has interrupted work in the area. The Vermont Public Service Board has since denied the resident motion to reconsider, after which time VGS immediately filed a motion to lift the stay with the Vermont Supreme Court.

On to slide 11, the Natural Gas Transportation segment generated net income of \$18.1 million in 2016, up \$1.5 million from 2015. The increase is mainly the result of the provision recorded in the second quarter of 2015 relating to the FERC decision on the PNGTS rates as well as the favourable impact of a stronger US dollar. And had it not been for the impact of a warmer fiscal 2016 winter on the transported volumes, results would have been even stronger.

Gaz Métro recorded \$1.4 million of net income in the electricity production segment in 2016 compared to \$3 million in 2015. 2015 results were positively impacted by particularly strong winds that lasted throughout the year. 2016's wind patterns were much more in line with expectations and we are very pleased with the performance of all the parks and with the distributions they continue to pay out. Collectively in fiscal 2016 the park paid out \$14.2 million in distributions to Gaz Métro and Valener combined, in

addition to the \$40 million special distribution paid out by parks two and three following its refinancing in May. Gaz Métro and Valener together received \$29.1 million in distributions from the parks in fiscal 2015.

The energy services storage and other segment generated net income of \$4.3 million this year, up \$1.3 million or 43 percent from last year, driven by improved profitability at Gaz Métro Transport Solutions and our growing LNG business. We shipped 34.2 million cubic metres of LNG this year. That's over 40 percent more than last year.

On slide 12, Gaz Métro generated \$530 million in cash flow from operations this year, up \$6 million from last year. We invested approximately \$575 million in capex and interests in affiliates in fiscal 2016, above the \$480 million we guided to as a result of an additional US dollar investment by Green Mountain Power in Transco, as well as a stronger US dollar and GMP's investment in the Vermont solar parks. For fiscal 2017 we expect to deploy approximately \$430 million in capex.

We also closed two private placements of first mortgage bonds for a total \$225 million. Both sets of bonds are secured and were assigned a rating of A and A+ by DBRS and Standard & Poor's respectively. Proceeds from the private placement were used to pay down part of Gaz Métro's credit facility and for general corporate purposes.

Last month Valener terminated an interest rate swap that it had entered into in October of 2014 in order to hedge a potential debt that ultimately was not issued. This resulted in a \$7.8 million cash outlay and will have a \$0.8 million favourable impact on net income that will show up in Valener's financial statement for the quarter ended December 31, 2016.

Finally, and as Sophie mentioned earlier, we are very pleased to announce that, as expected and owing to the excellent result of Gaz Métro and the performance of the Seigneurie de Beaupré wind parks that remain steady and on target, Valener is increasing its annual dividend to \$1.12 per share, up from \$1.08 per share. Quarterly distributions will increase to \$0.28 per share with the first one to be paid in January. We're also reiterating our 4 percent dividend growth target for one more year, that is until 2018.

That concludes the call. Operator, we'll now be open for questions.

QUESTION AND ANSWER SESSION

Operator

At this time I would like to inform everyone in order to ask a question press star then the number one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster. Your first question comes from the line of Robert Kwan of RBC Capital Markets. Please go ahead.

Robert Kwan, RBC Capital Markets

Good afternoon. If I can just start on the Addison project and the delays that you've got, if there are further delays does that qualify under the circumstances beyond your control? I.e., would you be able to see cost recovery?

Pierre Despars, Executive Vice President, Corporate Affairs & Chief Financial Officer, Gaz Métro

It will depend on the nature of those costs and what caused those costs and I can't tell you if it will be covered or not. It will really depend on the nature of the element that caused those cost increases. But as of today we're still expecting that the total cost of the project will be \$165 million.

Robert Kwan, RBC Capital Markets

Understood. And just, I guess, if the nature of those causes is what's happening right now in terms of the injunction, would that be qualifying or not?

Pierre Despars, Executive Vice President, Corporate Affairs & Chief Financial Officer, Gaz Métro

Yeah, actually we are minimizing the cost to the project because the project is almost completed except for that last mile of construction, so there's very minimum cost associated with the project. So the remaining cost will be incurred when we'll have the removal of the stay or the decision from the Supreme Court of Vermont.

Robert Kwan, RBC Capital Markets

Okay. Understood. I guess maybe just turning to QDA and just to be clear, the guidance that you've given for 2017 you've noted it includes the non-rate base investments, but does that also include the capitalized interest associated with that?

Pierre Despars, Executive Vice President, Corporate Affairs & Chief Financial Officer, Gaz Métro

Yeah, that includes the capitalized interest that we foresee during the year. The way we're doing it is that we expect some construction during the year but sometimes there's more or there's more deferral accounts and so the variance during the year is mainly due to those differences. So in the 136 there's a minimum there, but there could be fluctuations at that level.

Robert Kwan, RBC Capital Markets

Okay. And just when you're referring to the non-rate base investments, can you just talk about some of the larger investments that are kind of—?

Pierre Despars, Executive Vice President, Corporate Affairs & Chief Financial Officer, Gaz Métro

It was mainly construction-related activity that we did earlier than expected.

Robert Kwan, RBC Capital Markets

So early, like the spending went out the door before the recovery in rate base?

Pierre Despars, Executive Vice President, Corporate Affairs & Chief Financial Officer, Gaz Métro

Yeah, before it was included in the rate base. And it's going to be included in the rate base when the construction will be completed and approved by the Régie.

Robert Kwan, RBC Capital Markets

Understood. Okay. And if I can just finish with one last question, have you looked at the possible impact of any potential corporate tax rate changes in the US as it relates to your utilities and any cross-border tax structuring that you've done?

Pierre Despars, Executive Vice President, Corporate Affairs & Chief Financial Officer, Gaz Métro

Not yet. Not yet. For the operation in Vermont, the tax expense is included in the cost of service, so a decrease there will have an impact in the rates to the customers, and we haven't analyzed the impact of the cross-border structure.

Robert Kwan, RBC Capital Markets

Okay. And maybe just at the utilities, are there any material deferral accounts that you might apply? Because the cost of service would reduce, which would be good for customers, but is there something that you could see as may be trading to recover any deferrals or ramp up any spending?

Pierre Despars, Executive Vice President, Corporate Affairs & Chief Financial Officer, Gaz Métro

No, I don't see that.

Robert Kwan, RBC Capital Markets

Okay. Thank you.

Operator

Again, if you would like to ask a question press star then the number one on your telephone keypad.

Your next question comes from the line of Avery Haw of TD Securities. Please go ahead.

Avery Haw, TD Securities

Good afternoon. Just back to QDA, you stated that you submitted a proposal to the regulators seeking regulatory relief for 2018 and 2019. Can you also describe what other elements were submitted and whether you've contemplated things requesting elements of incentive mechanisms in 2018 and 2019?

Pierre Despars, Executive Vice President, Corporate Affairs & Chief Financial Officer, Gaz Métro

What we suggested to the Régie in terms of timing and efficiency is to have, I would say, a simplified rate of return for the year 2018 and 2019 so that we'll expedite that regulatory process, and also maintaining the return on equity at 8.9 percent. So we are still waiting for the decision of the Régie on that. In terms of incentive for 2018 and 2019, we keep the sharing mechanism of any overearnings that we have actually and also we keep the incentives linked with the energy efficiency program that can allow us to increase our net income by \$1 million if we achieve certain targets in terms of energy savings for customers. So what we have in front of us for 2017 and also 2018, 2019 and what we've suggested, it's the same incentive.

Avery Haw, TD Securities

Okay. Thanks for that. Now maybe moving toward the dividend, can you give a preliminary assessment on what your long-term growth rate might look like post 2018 and how you might achieve that rate?

Pierre Despars, Executive Vice President, Corporate Affairs & Chief Financial Officer, Gaz Métro

This is an interesting question. I will answer that our objective to grow it as much as we can. And I have to tell you that when we announced that 4 percent increase up to 2018 we were extremely comfortable of delivering it and we are even more comfortable at this point. We are in the process of doing a strategic review at Gaz Métro looking forward and beyond 2018 and when we'll have completed that review we'll be in a much better position to confirm our dividend growth. But I can tell you at this point that we're working really hard to maintain that growth, but I can't confirm it or provide guidance at this point.

Avery Haw, TD Securities

Okay, great. Thank you.

Operator

Your next question comes from the line of Jeremy Rosenfield of Industrial Alliance. Please go ahead.

Jeremy Rosenfield, Industrial Alliance

Thanks. Sorry, I missed a little bit of the beginning, so I apologize if I'm coming back on stuff that was touched on already. Just in terms of the Bécancour LNG project and the decision from the BAPE that was received recently, are there any updates in terms of what you might do, what your next steps are for the development?

Pierre Despars, Executive Vice President, Corporate Affairs & Chief Financial Officer, Gaz Métro

We're still in discussion with Hydro-Québec, so we had the BAPE decision, after that we still have to negotiate with Hydro-Québec and obtain the different permit. So we're at that stage now and I cannot tell more than that at this point.

Jeremy Rosenfield, Industrial Alliance

But fundamentally do you still see an avenue to develop the project even though the BAPE's recommendation was not in favour of the project?

Sophie Brochu, President & Chief Executive Officer, Gaz Métro

The BAPE recommendation, this is Sophie speaking, the BAPE report was a weird report essentially. The BAPE tried to do — to be polite — the BAPE tried to do an economical analysis, which is not the mandate of the BAPE, and sure enough they got it wrong. The economical analysis was thoroughly made at the Québec Regulatory Board, Energy Regulatory Board, which found the project to be good to go forward. So, on the substance of the BAPE mandate itself, they found very few social and environmental issues. So the BAPE expressed itself on a platform that was not the platform it was created for and for the reason it was created for found the project to be essentially fine. So from there we'll move on and work with Hydro-Québec and we still need to have the decree from the Québec government. So we'll see where it leads.

Jeremy Rosenfield, Industrial Alliance

Okay. The only other question I think I have is just if you have any insight into the performance of the wind farms in the last couple of months that we've seen. We're two-thirds through the quarter so far.

Pierre Despars, Executive Vice President, Corporate Affairs & Chief Financial Officer, Gaz Métro

What do you mean? The performance of the wind farms?

Jeremy Rosenfield, Industrial Alliance

Yeah, just relative to average wind conditions, if you're seeing relatively good performance so far in October and November or...?

Pierre Despars, Executive Vice President, Corporate Affairs & Chief Financial Officer, Gaz Métro

What we've seen is, ah, it's as expectation. I don't have it right in front of me but if I recall I think it's in line with that we expected when we did the forecast and the analysis of the project itself. So nothing special there.

Jeremy Rosenfield, Industrial Alliance

Okay, great. Those are my questions and, Pierre, congratulations on your retirement again and wish you the best.

Pierre Despars, Executive Vice President, Corporate Affairs & Chief Financial Officer, Gaz Métro

Thank you.

Sophie Brochu, President & Chief Executive Officer, Gaz Métro

He still have one year to go, eh? Don't send him away; I still need him.

Operator

There are no further questions at this time. I will turn the call back over to the presenters.

Sophie Brochu, President & Chief Executive Officer, Gaz Métro

We thank you very much for your time and we look forward to the next call beginning of 2017. Ciao.

Pierre Despars, Executive Vice President, Corporate Affairs & Chief Financial Officer, Gaz Métro

Thank you. Bye.

Operator

This concludes today's conference call. You may now disconnect.