

Defying the law of gravity...

Presentation by Sophie Brochu, CEO of Gaz Métro
Camput conference 2007

Kelowna
May 2007



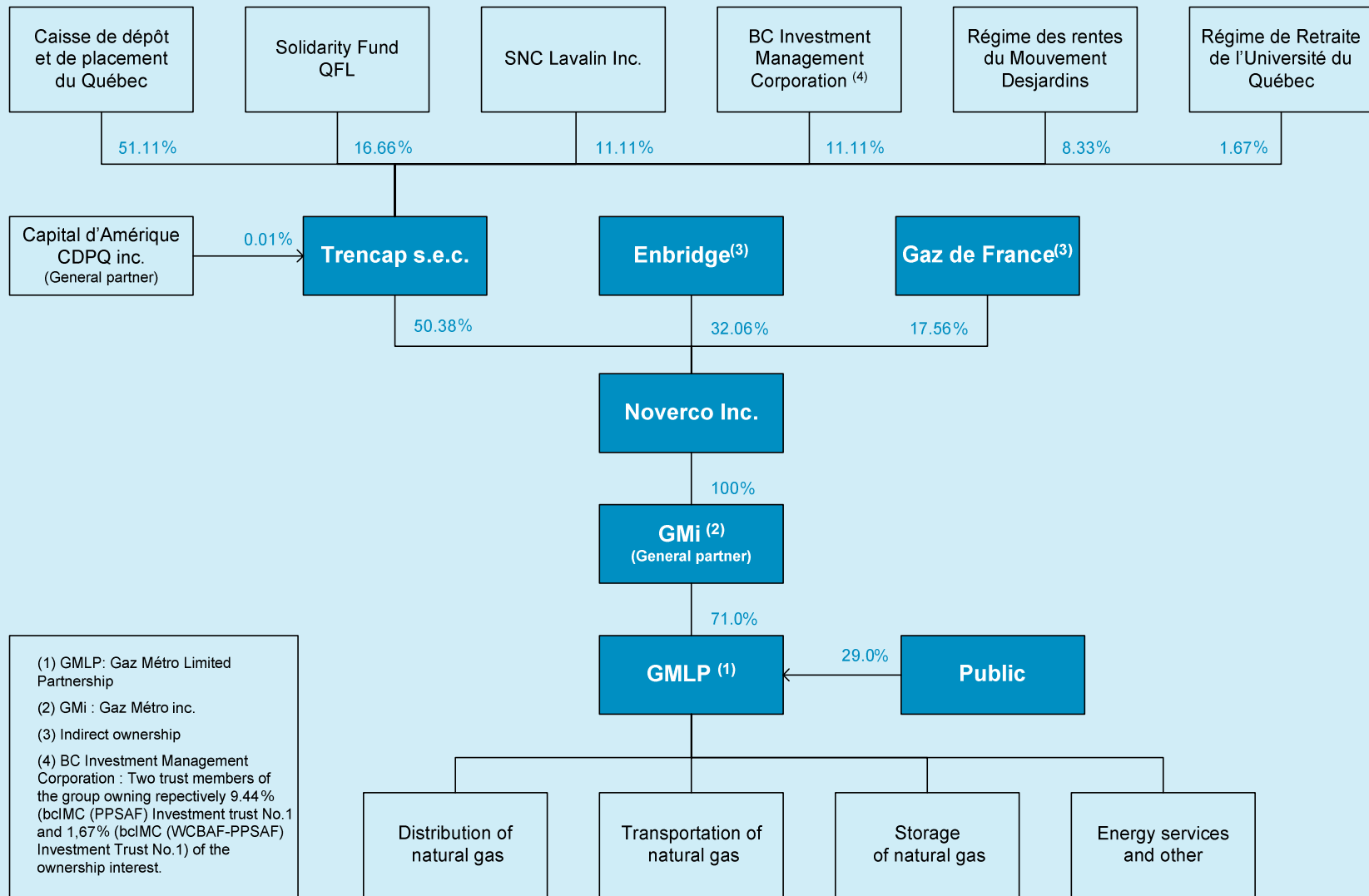
Presentation Outline

- Gaz Métro at a glance
- The story of the last decade
 - Our commercial turnaround
 - Our regulatory environment
 - The challenges
- Guessing the future
 - Markets and regulatory observations

Gaz Métro at a Glance

- Publicly traded limited partnership
- Distribution, transportation and storage of natural gas
 - Québec, US Northeast
- Electricity distribution
 - Recent acquisition of Green Mountain Power in Vermont
- Serving close to 300,000 customers
- \$2.8 billions of assets
- \$2.0 billions revenues

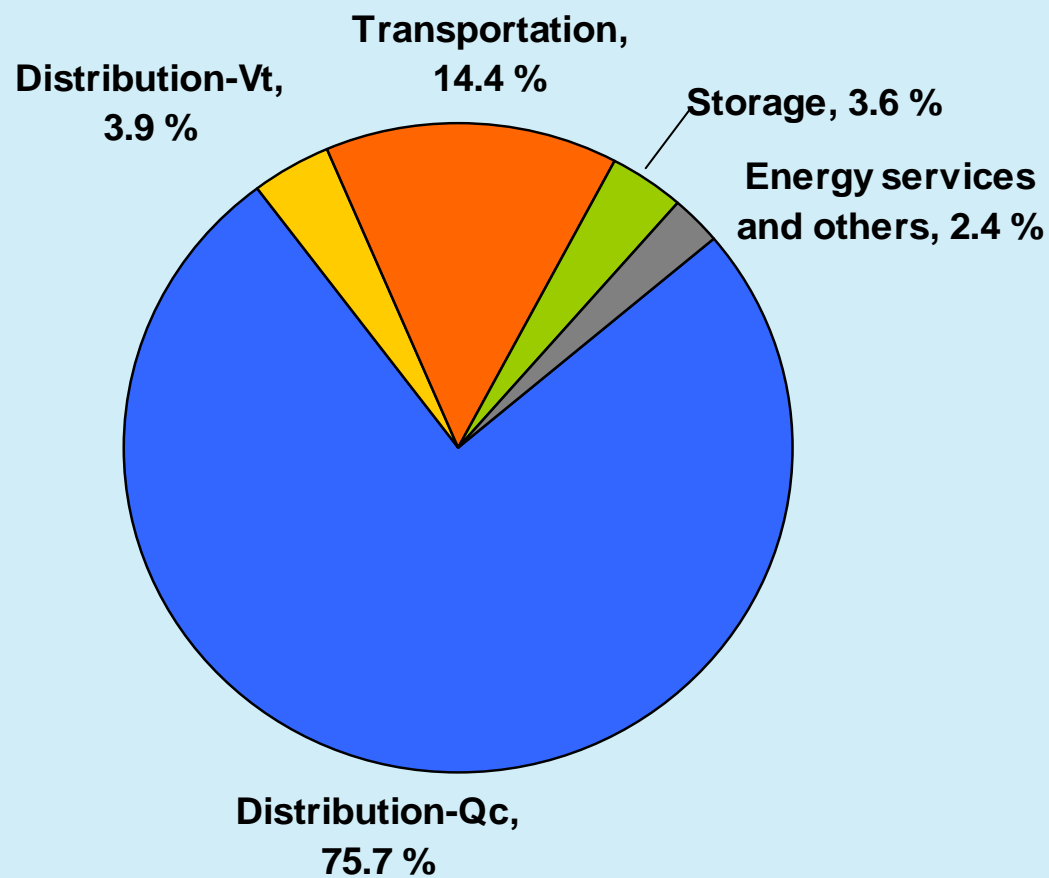
Ownership structure



(1) GMLP: Gaz Métro Limited Partnership
 (2) GMi: Gaz Métro inc.
 (3) Indirect ownership
 (4) BC Investment Management Corporation: Two trust members of the group owning respectively 9.44% (bclMC (PPSAF) Investment trust No.1 and 1.67% (bclMC (WCBAF-PPSAF) Investment Trust No.1) of the ownership interest.

Partners' Income by sector

As at September 30, 2006

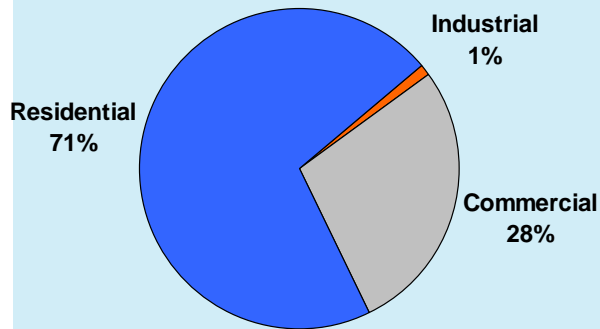


Quebec Distribution

Customer Breakdown

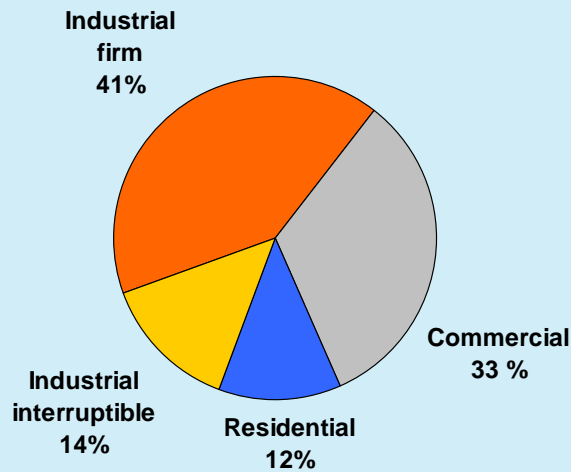
2006

Number of customers



Total customers: 167,000

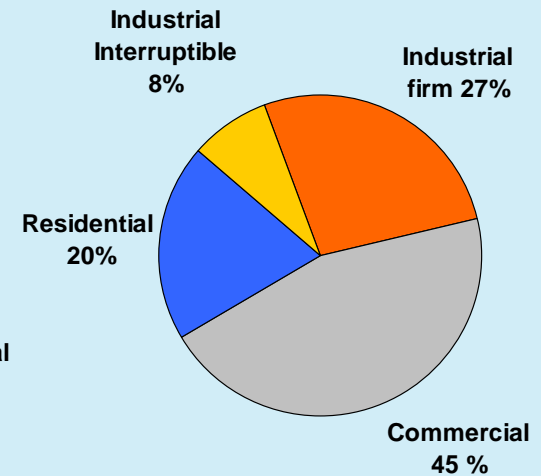
Normalized volumes



Total normalized volumes:

193.8 Bcf

Revenues



Total revenues:

\$1,775M

**Quebec Distribution
Story of the last decade**

Quebec Distribution

Competitive Environment – Price of Gas

in \$/Gj at AECO

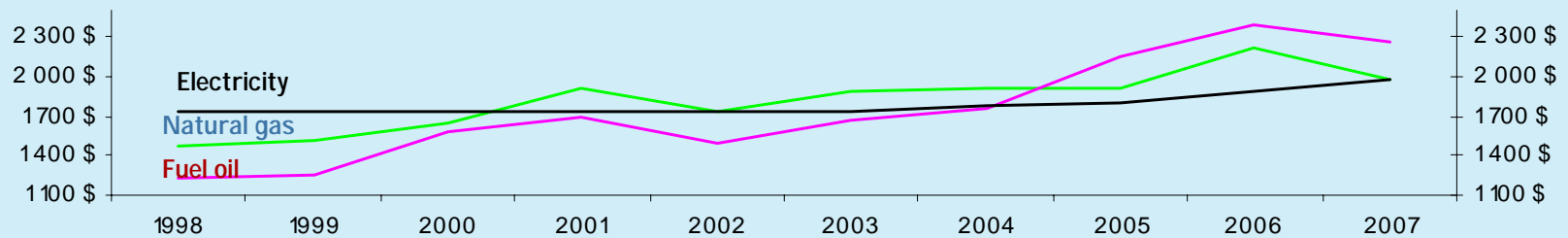
(in \$)



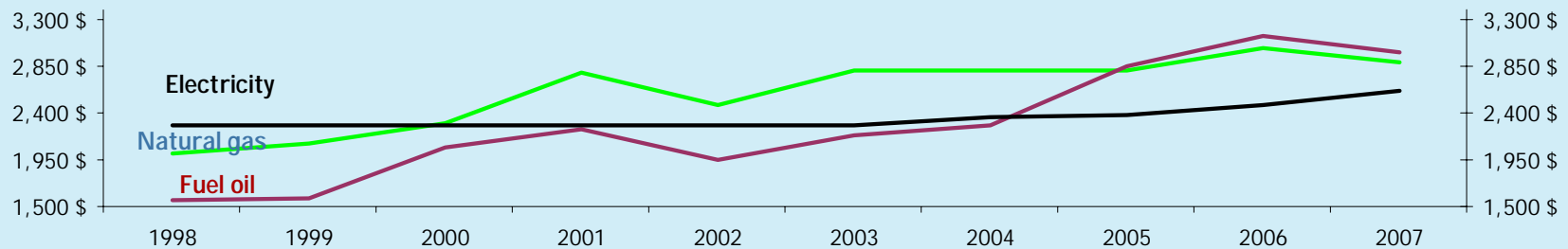
Quebec Distribution

Competitive Environment – Residential Market

**New house
(high efficiency equipment)**

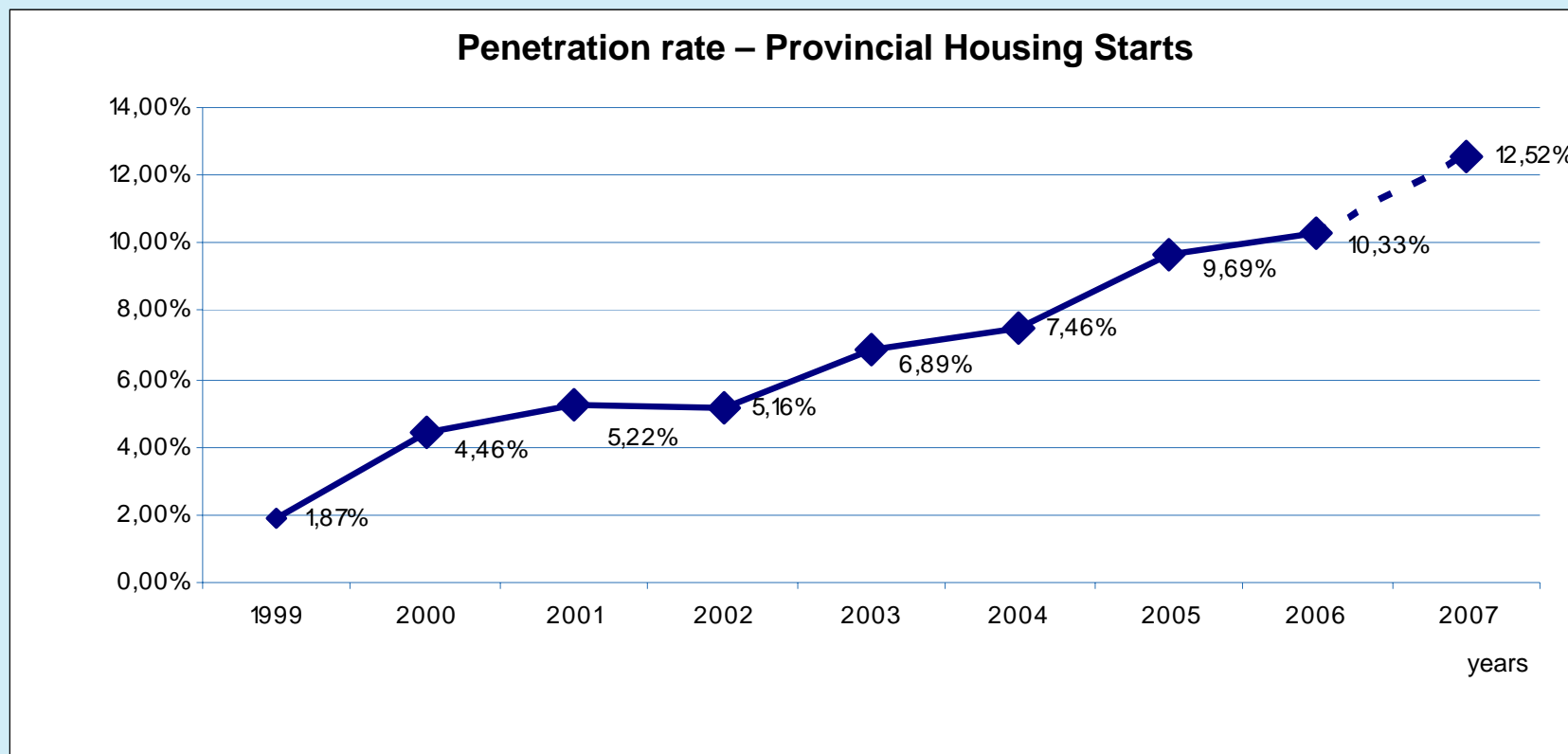


**Existing house
(conventional equipment)**



Quebec Distribution

Residential Market

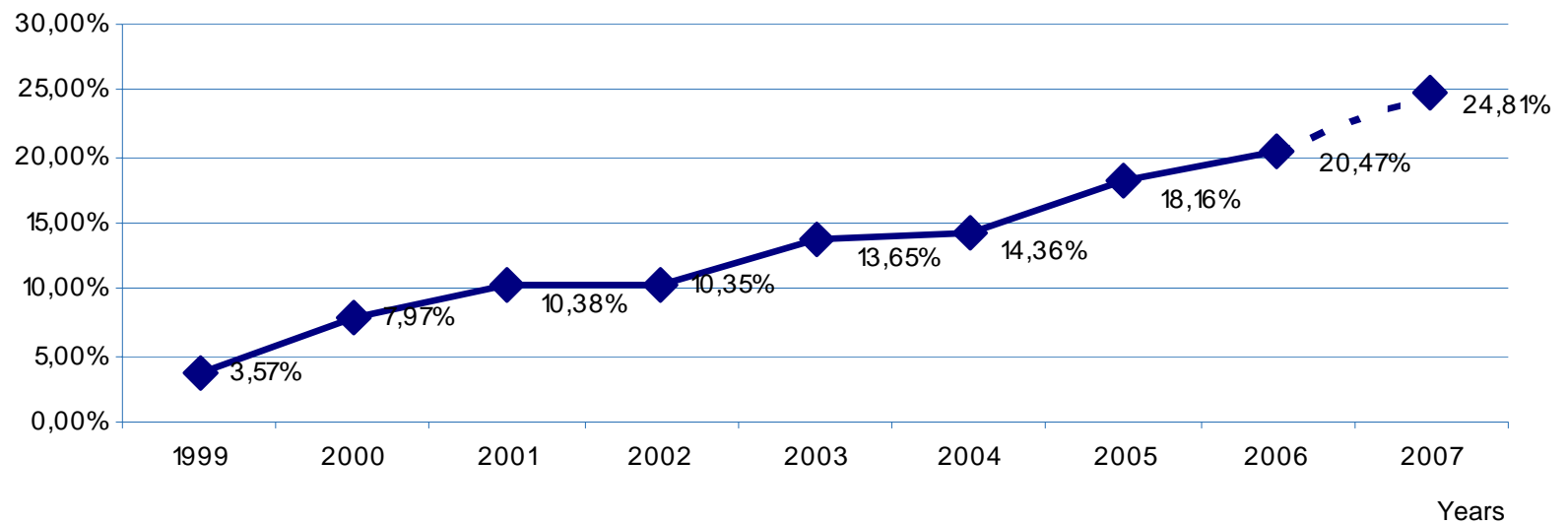


Sources: Canada Mortgage and Housing Corporation

Quebec Distribution

Residential Market

Penetration rate – Montreal Housing Starts

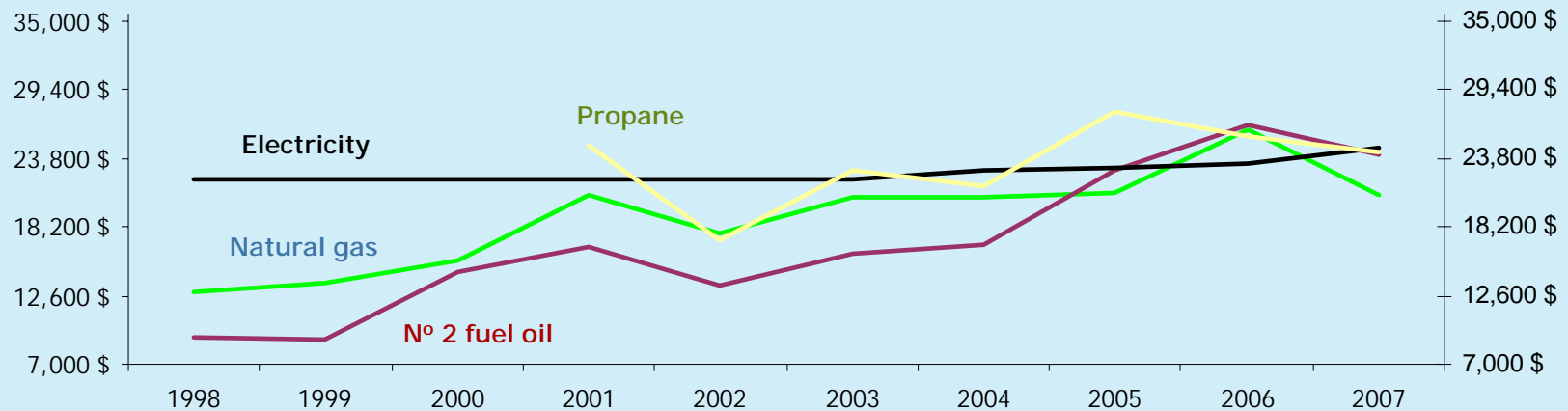


Source: Canada Mortgage and Housing Corporation

Quebec Distribution

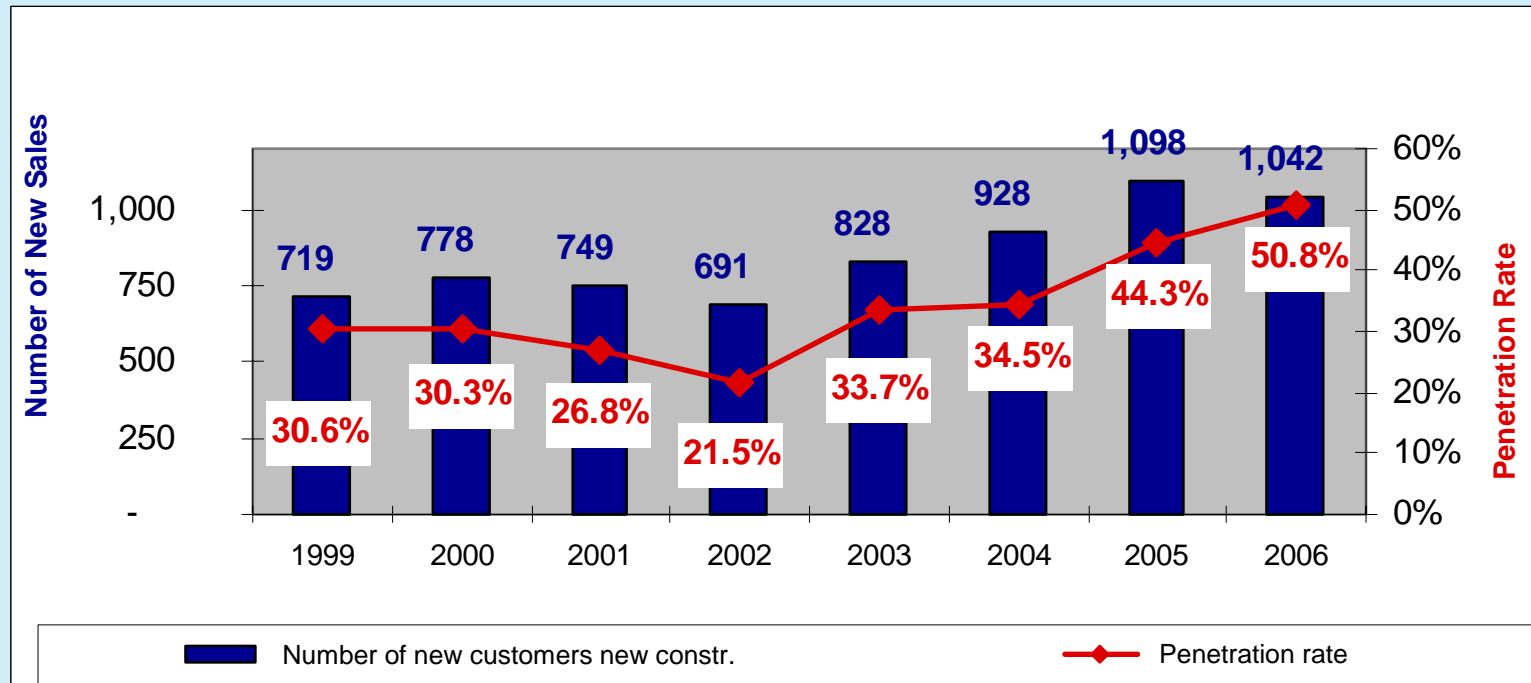
Competitive Environment – Commercial Market

Commercial building, primary school, apartment building (11+ units)
(annual consumption: 41,500 m³)



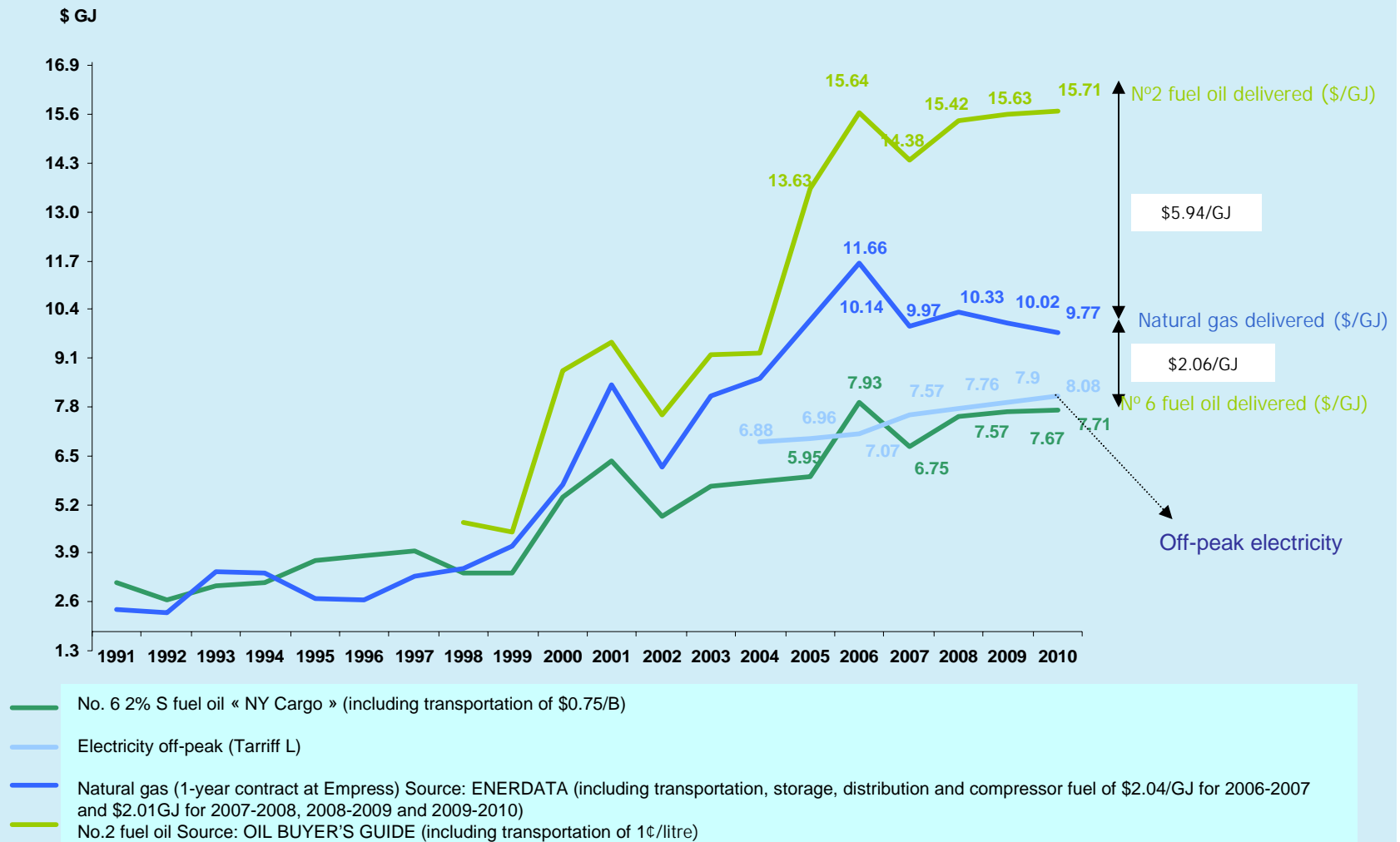
Quebec Distribution

Commercial Market - New Construction

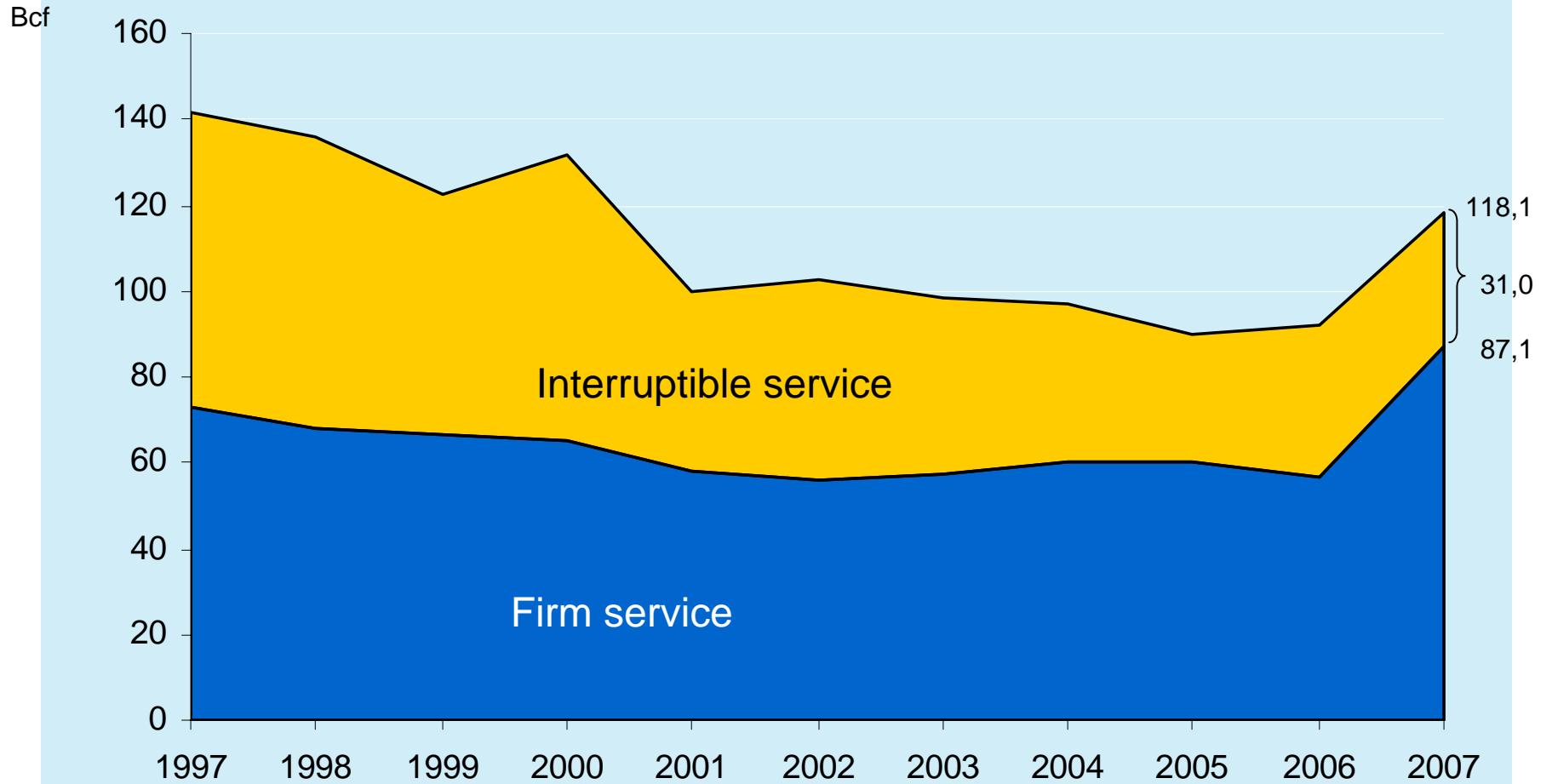


Source: Statistics Canada, building permits

Quebec Distribution Competitive Environment – Industrial Market



Quebec Distribution Industrial Deliveries



Bcf	141,7	136,2	122,6	131,8	99,9	102,7	98,1	97,3	90,1	92,23	118,11
											(5/7)

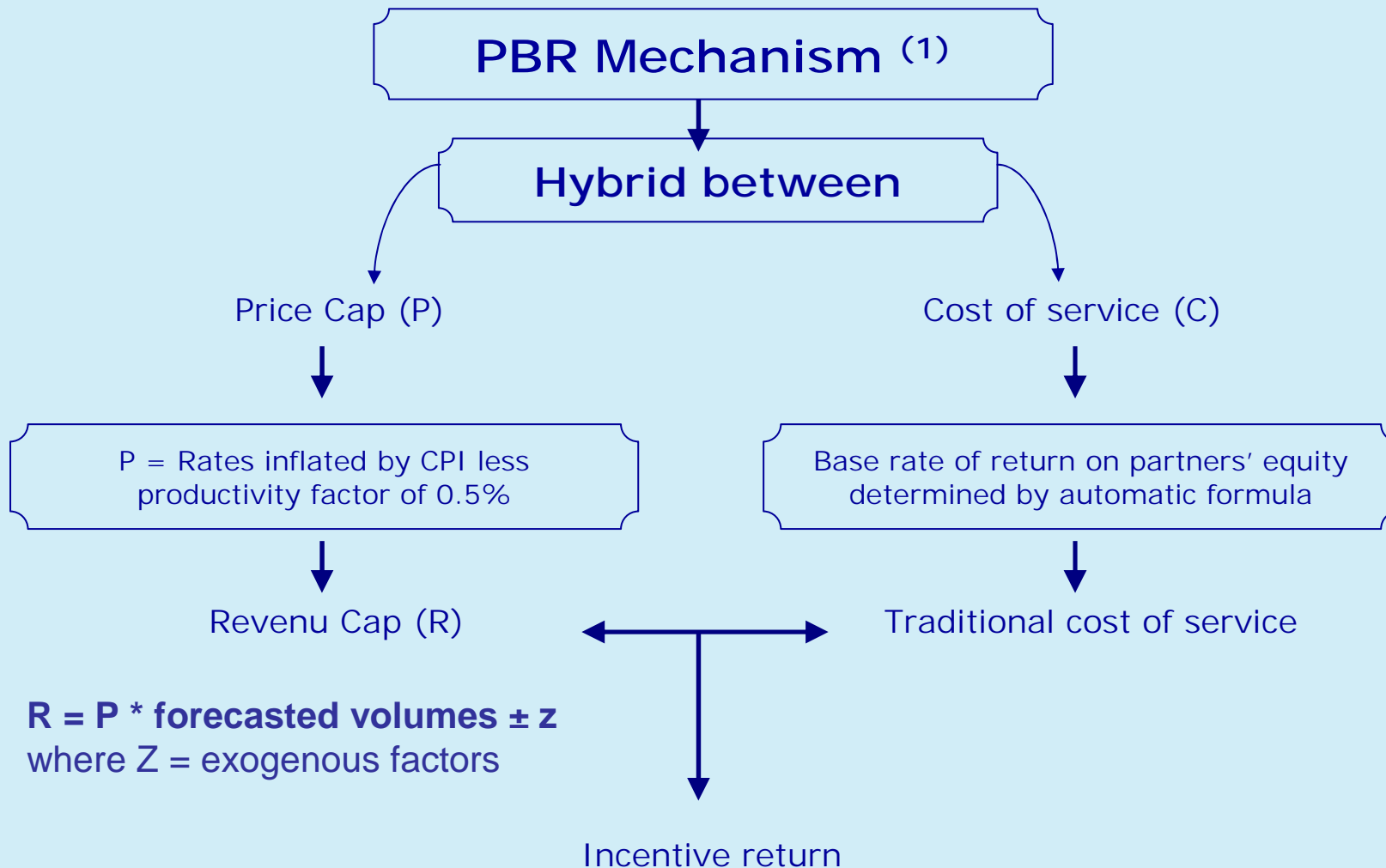
Quebec Distribution
Our *Regulatory* Environment

Quebec Distribution

Existing Regulatory Framework



Current PBR Mechanism



⁽¹⁾ Does not reflect changes recently filed to the Régie under unanimous agreement between Gaz Métro and its stakeholders

PBR: the first five years results

- Regulatory costs are down :
 - \$3.1M in 1999-2000
 - \$2.4M in 2005-2006
- Distribution tariff increases were lower than inflation and probably lower than what a straight cost of service approach would have yield
 - \$64M of productivity gains applied to tariff reductions
- \$14M contributions to the Energy Efficiency Fund

Gaz Métro is performing

- Successful implementation of a \$50M Resource Planning System
 - On time / On budget / On scope
- Customers satisfaction rates between 85% and 90%
- Successful residential market development
- Quite unique partnering arrangements with our unions
 - Employee versatility
- Reduction of construction cost for new gas connections
- Focus on reducing absenteeism and occupational accidents
- Total Quality Initiative: Gaz Métro last year winner in Québec
- Many more progress on various fronts...

Gaz Métro has a better understanding of its customers - and vice versa

- Even though Gaz Métro has no financial incentive on the actual performance of its gas purchases, we proposed (back in 2001) an innovative derivative program that reduced considerably the volatility of the price of system gas for our customers.
- We commend the Régie de l'Énergie for approving this “insurance” policy that has yielded excellent results
 - Net cost reduction of \$142M entirely to the benefit of our customers
 - Volatility reductions between 15% and 80%

All in delivered cost to residential customers (november - 12 month average)

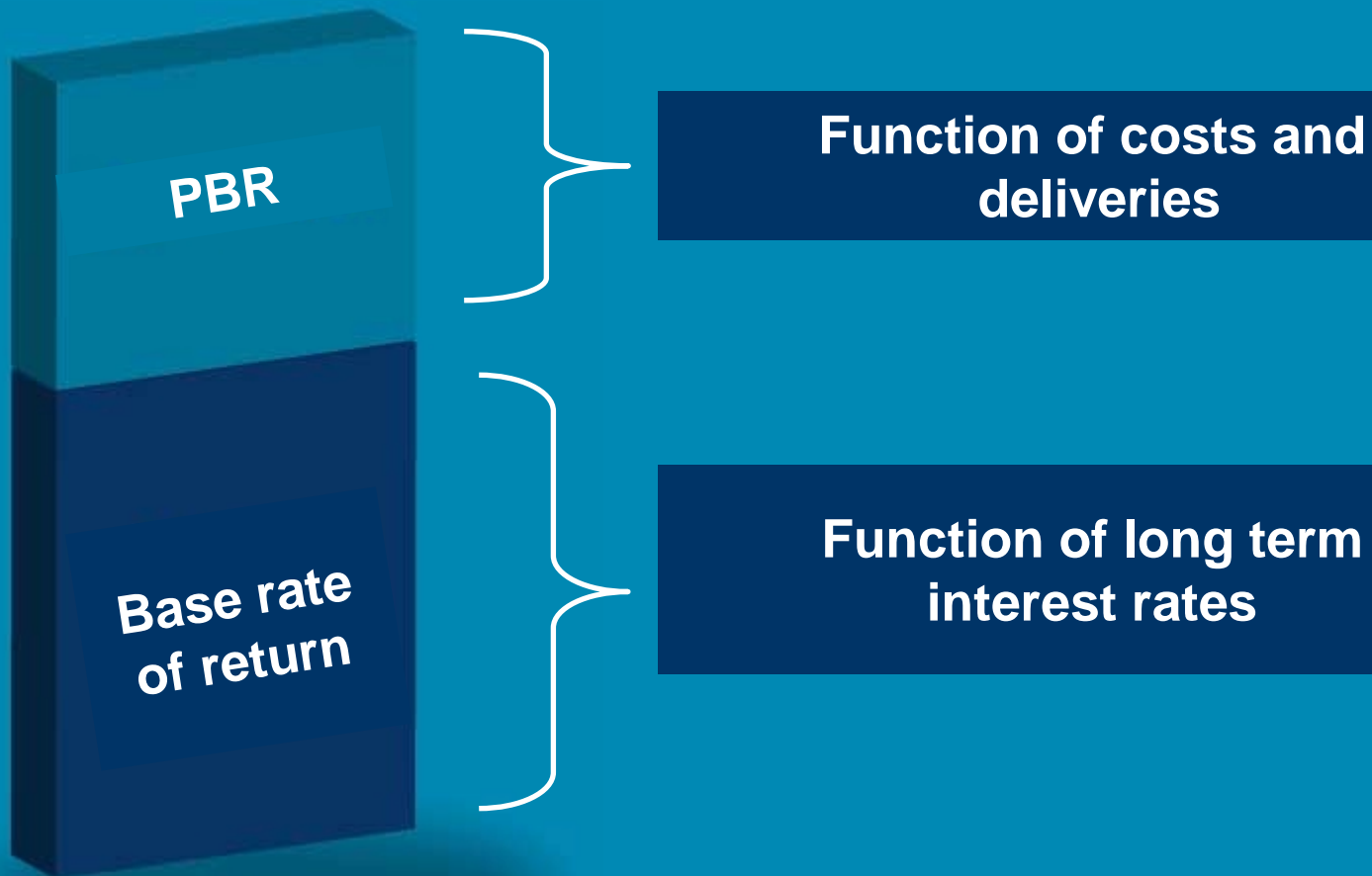
	MONTREAL	TORONTO	% difference
1997	\$934	\$579	61%
2004	\$1,466	\$1,121	31%
2007	\$1,597	\$1,417	13%

Regulatory framework

The challenges

Quebec Distribution

Existing Regulatory Framework



Quebec Distribution

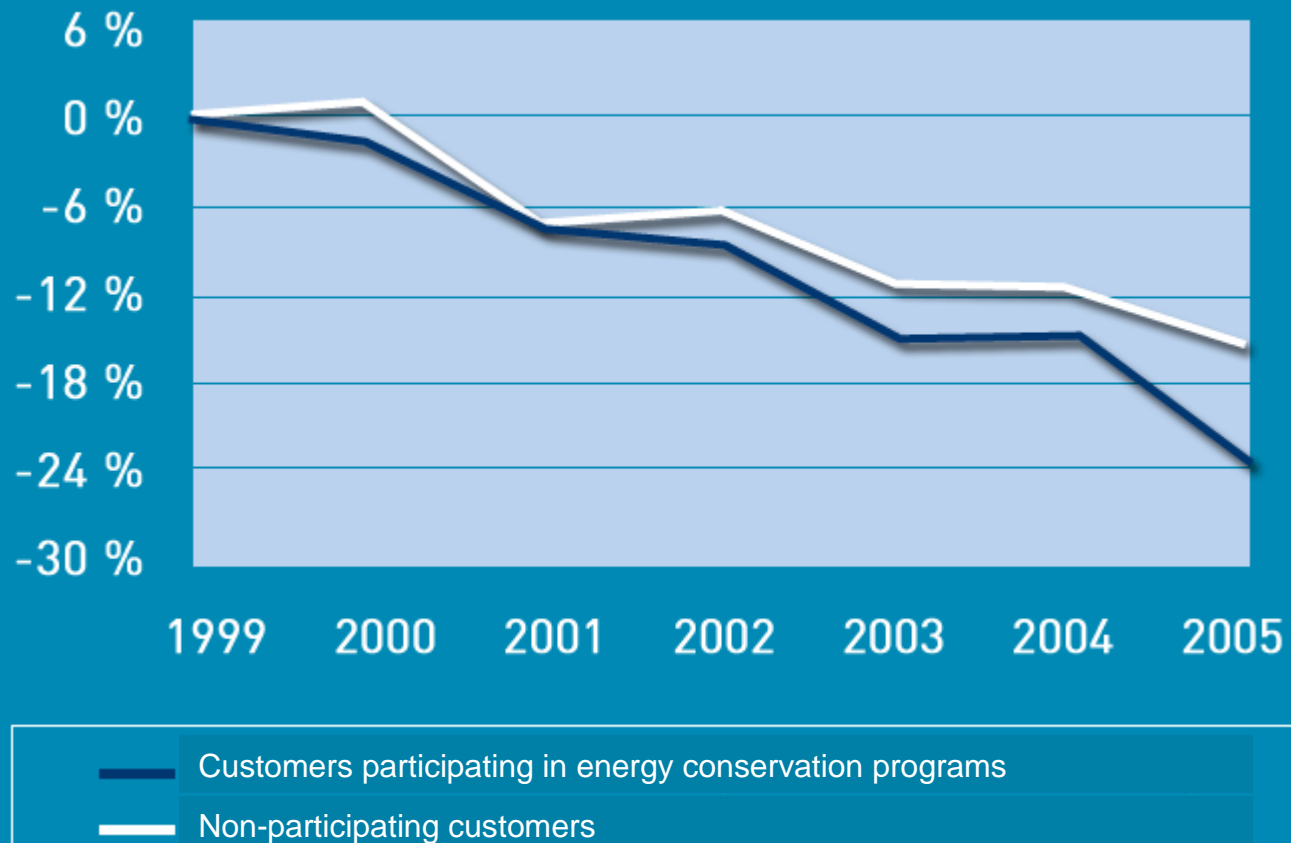
Evolution of 30-year Canada Bonds



Quebec Distribution

Energy Consumption per Customer (Residential and Commercial)

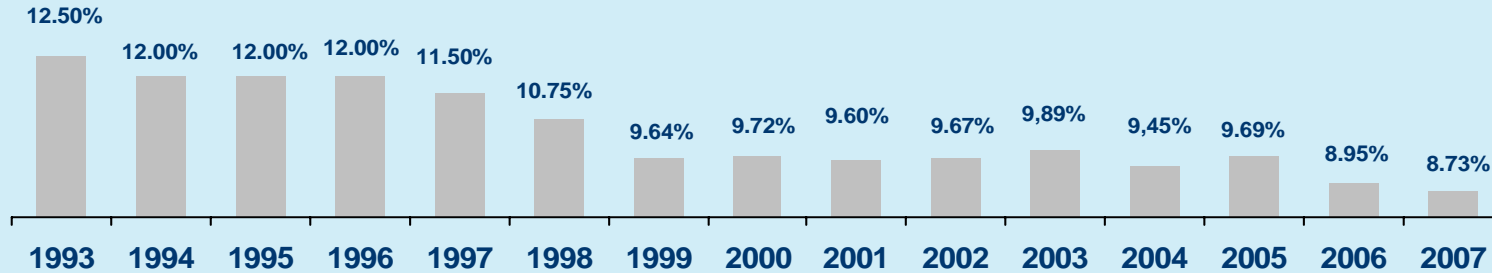
Volume consumed



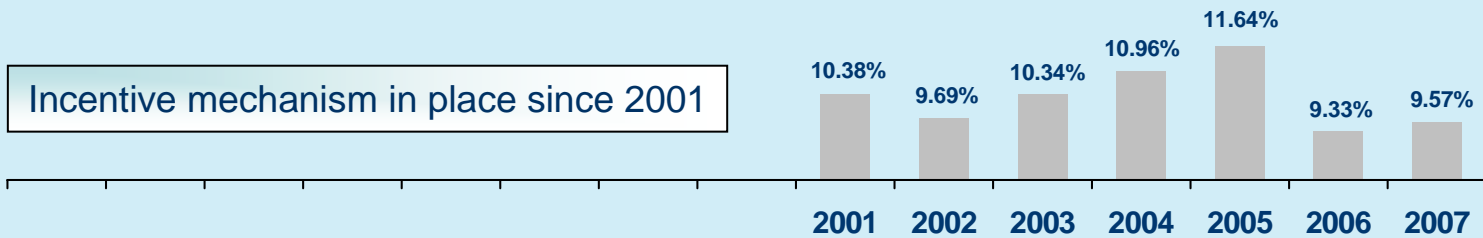
Quebec Distribution

Historical Returns

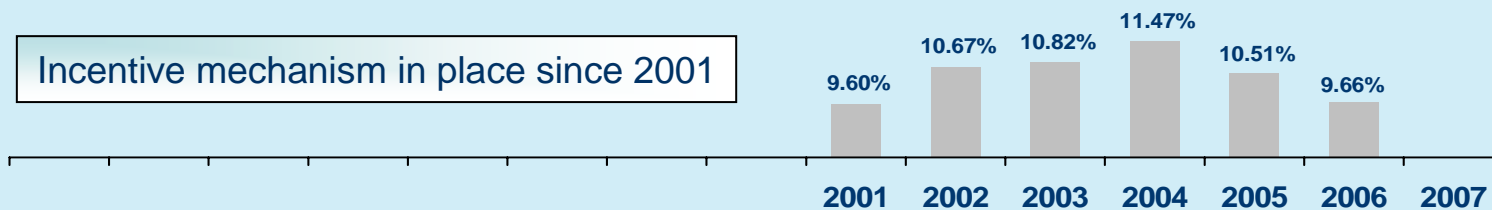
Authorized Base ROE



Authorized Rate of Return Including Productivity Gains



Achieved ROE



Guessing the future

Market and regulatory **observations**

When conventional markets are under stress,
so is conventional regulation.

We ain't seen nothing yet

- Energy conservation: it is only the beginning
- Our customers are becoming “citizens”
- They want to make “right choice”, adopt the right behavior
- Utilities are called upon to help – and expected to deliver
 - By their customers
 - By the policy makers
- Importance of DSM initiatives will increase

Squaring the Circle

- The number of customers drives the costs
- Volumes drive the revenues
- When volumes per customer go down, revenues must be “decoupled” from the volumes

Decoupling revenues from volumes

- By allowing revenue adjustments
 - As we did in our recently filed revised incentive agreement
- One more step goes to rate design fundamentals
 - Major shift of business model
 - Away from capital intensive infrastructures to a growing focus on services (e.g. DSM)
 - Getting closer and closer to the telecom industry ?

About the so-called « fundamentals » of utility returns...

2001 vs 2006

Something is wrong here

- Gaz Métro has invested \$800M since 2001
- Our productivity is better now than in 2001
- We have 15,000 more customers than in 2001
- Our customers are very satisfied with our services
- Our operations costs are almost flat with 2001 on real term basis
- Yet, under the current formula used to establish the ROE, our intrinsic value has eroded by \$80M despite an increase of 12% of our rate base.

Overhaul needed on the “formula”

- An issue for every utility in Canada
- While utilities and regulatory boards should continue to discuss specific business risk, we need to address the fact that the current formula does not do the job.
- That is another big challenge in front of us.
- So is the problem we have to move away from...