**RÉPONSE DE GAZ MÉTRO À UNE DEMANDE DE RENSEIGNEMENTS**

**Origine** : Demande de renseignements n$^{o}$ 1 en date du 7 juin 2007

**Demandeur** : Association des consommateurs industriels de gaz

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**Référence :** Gaz Métro – 7, Document 8

**Questions :**

**1.1** a) Please provide copies of all security analyst reports that discuss Gaz Metro since 2000.

b) Please provide copies of all presentation materials provided to DBRS and S&P that relate to Gaz Metro's bond rating and all credit analyst reports that discuss Gaz Metro's bonds since 2000

c) Please provide copies of all material change reports or other filings that Gaz Metro has filed with the securities regulators indicating that the business risk of Gaz metro has changed since 2000.

d) Please provide copies of all articles referenced by Dr. Chrétien.

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**Réponses :**

**1.1.a)** Les analystes financiers écrivent sur une base régulière sur Gaz Métro. Ces analystes financiers travaillent pour diverses firmes de courtage et les rapports sont destinés aux clients de la firme. Gaz Métro n'est ni auteur ni propriétaire des rapports d'analystes financiers et ceux-ci y émettent leurs propres opinions. Gaz Métro n'a donc pas une liste exhaustive des rapports des analystes qui parlent de Gaz Métro depuis 2000 et encore moins une copie de tous ces rapports.

**1.1.b)** Gaz Métro a eu de nombreuses discussions avec les agences de crédit DBRS et S&P depuis l'année 2000. Les présentations et autres informations envoyées aux agences de crédit sont de nature confidentielle et ne sont pas divulguées publiquement. Les deux agences de crédit ont d'ailleurs signé des ententes de confidentialité. En tant que compagnie publique, Gaz Métro se doit de respecter certaines règles, dont celles portant sur la divulgation de l'information. Vous trouverez ci-joint les présentations annuelles faites aux agences de crédit depuis 2000 dont certaines informations de natures confidentielles ont été enlevées.

Concernant les rapports des agences de crédit, Gaz Métro dépose, dans chacun de ses dossiers tarifaires, les plus récents rapports de S&P et DBRS. Voici les numéros de dossiers et les numéros de pièces pour les consulter depuis 2002 :

R-3596-2006, SCGM–8 document 10 et SCGM-8, document 11;

R-3559-2005, SCGM-7, document 10 et SCGM-7, document 11;

R-3529-2004, SCGM-7, document 11 et SCGM-7, document 12;

R-3510-2003, SCGM-7, document 10 (DBRS seulement);

R-3484-2002, SCGM-8, document 10 et SCGM-8, document 11.

**1.1.c)** Société en commandite Gaz Métro a déposé, auprès des valeurs mobilières, trois « material change reports » depuis 2000. Ces rapports sont disponibles publiquement sur SEDAR (www.sedar.com). Également, tous les autres documents que Société en commandite Gaz Métro doit déposer sur une base régulière (rapports trimestriels, rapport annuel, notice annuelle, etc.) et autres (prospectus d'émission de dette, prospectus d'émission de parts, communiqués de presse, etc.) sont accessibles sur SEDAR. Ces documents, qui sont nombreux depuis 2000, contiennent beaucoup d'information sur la Société et ses activités et parlent, entre autres, du risque d'affaires de Gaz Métro. Par exemple, voici un extrait du communiqué de presse émis le 19 février 2001 :

**Situation concurrentielle et nouvelles ventes**

Au Québec, la hausse marquée du prix du gaz naturel a placé cette forme d'énergie dans une situation concurrentielle défavorable par rapport au mazout, lourd et léger, et par rapport à l'électricité dans le marché résidentiel ainsi que pour la plus grande partie des clients du marché commercial. Évidemment, le prix ponctuel d'une forme d'énergie n'est pas le seul facteur pris en compte dans le choix fait par un client. Aussi, des nouvelles ventes continuent d'être réalisées quoiqu'à un rythme moindre qu'au cours du trimestre correspondant de l'exercice 2000. De plus, la force de vente consacre une plus grande partie de ses efforts à assurer la fidélité des clients existants.

**1.1.d)** Gaz Métro n'a pas lu les articles auxquels fait référence Dr Chrétien dans son témoignage et n'a pas non plus de copie de ces articles.

Gaz Métropolitain

Connecting with the future

# CBRS / S&P ANNUAL REVIEW

## Montreal

## February 9, 2001

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Gaz Métropolitain

# COMPANY OVERVIEW

Gaz Métropolitain

# GAZMET TEAM

| | |
|---|---|
| Luc Sicotte | Vice President & CFO |
| Hélène St-Pierre | Treasurer |
| Steve Pilon | Investor Relations Coordinator |

Gaz Métropolitain

# WHO ARE WE ?

***Are we a limited partnership providing energy services***

**or**

***A utility with a limited partnership structure?***

**With 97% of its 2000 revenues regulated, GazMet is a pure utility play that adopted a limited partnership structure for its fiscal properties.**

Gaz Métropolitain

# GAZMET IN THE CORPORATE COMMUNITY

**Gaz Métropolitain is an important player in the overall corporate community:**

- **It is the third largest gas distributor in Canada;**
- **It delivers approximately 97% of the natural gas consumed in Québec;**
- **It is the sole gas distributor in Vermont, USA.**

**According to the 1999 Financial Post 500 Ranking, GazMet is in the:**

- **top 125 Canadian corporations in terms of revenues;**
- **top 65 Canadian corporations in terms of earnings.**

Gaz Métropolitain

# CORPORATE STRUCTURE

**GMCLP (1)**

**Distribution**

- Quebec (GMCLP) — 100%
- Vermont (VGS) — 100%

**Transportation**

- Quebec (TQM) — 50%
- Quebec (Champion) — 100%
- USA (PNGTS) — 10%

**Non-Regulated Activities**

- Energy Services
- Water Services
- Fibre Optic Services
- Propane Distribution (VGSP)

(1) Refers to Gaz Métropolitain and Company, Limited Partnership.

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# ENERGY SERVICES

Gaz Métropolitain Plus — 100%

- Sells, rents and maintains natural gas equipment;
- Client focus ↑ extended customer service hours + emergency service hours (24 hours/7 days).

SOGENER — 100%

- Provides full range of energy services to building managers.

CCUM — CLIMATISATION ET CHAUFFAGE URBAINS DE MONTRÉAL — 100%

- Produces hot and chilled water used for heating and air conditioning of large downtown buildings.

SOFAME — 25%

- Specialized in direct-contact heating technologies ↑ great economical & environmental benefits.

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# WATER SERVICES

## Why water?

- Municipal infrastructure in poor condition in Quebec
  - ↑ needs = $1 billion/year for 15 years;
- Upcoming Federal & Quebec infrastructure programs;
- Numerous synergies between GazMet and water services.

AQUA DATA CONSULTANT — 50%

- Computerized diagnosis.

AQUA REHAB — 50%

- Rehabilitation.

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# FIBRE OPTIC SERVICES

## Why fibre optics?

- Expertise in underground systems put to good use in the growing fibre optics field;
- Bundling of services: gas + cable TV, Internet, data transmission, remote monitoring and processing.

VDN

12.2%

- Operates a high-capacity fibre optics network in the greater Montréal area;
- 260-km route ↑ 20,000 km of fibre optics;
- 7-10% growth/month.

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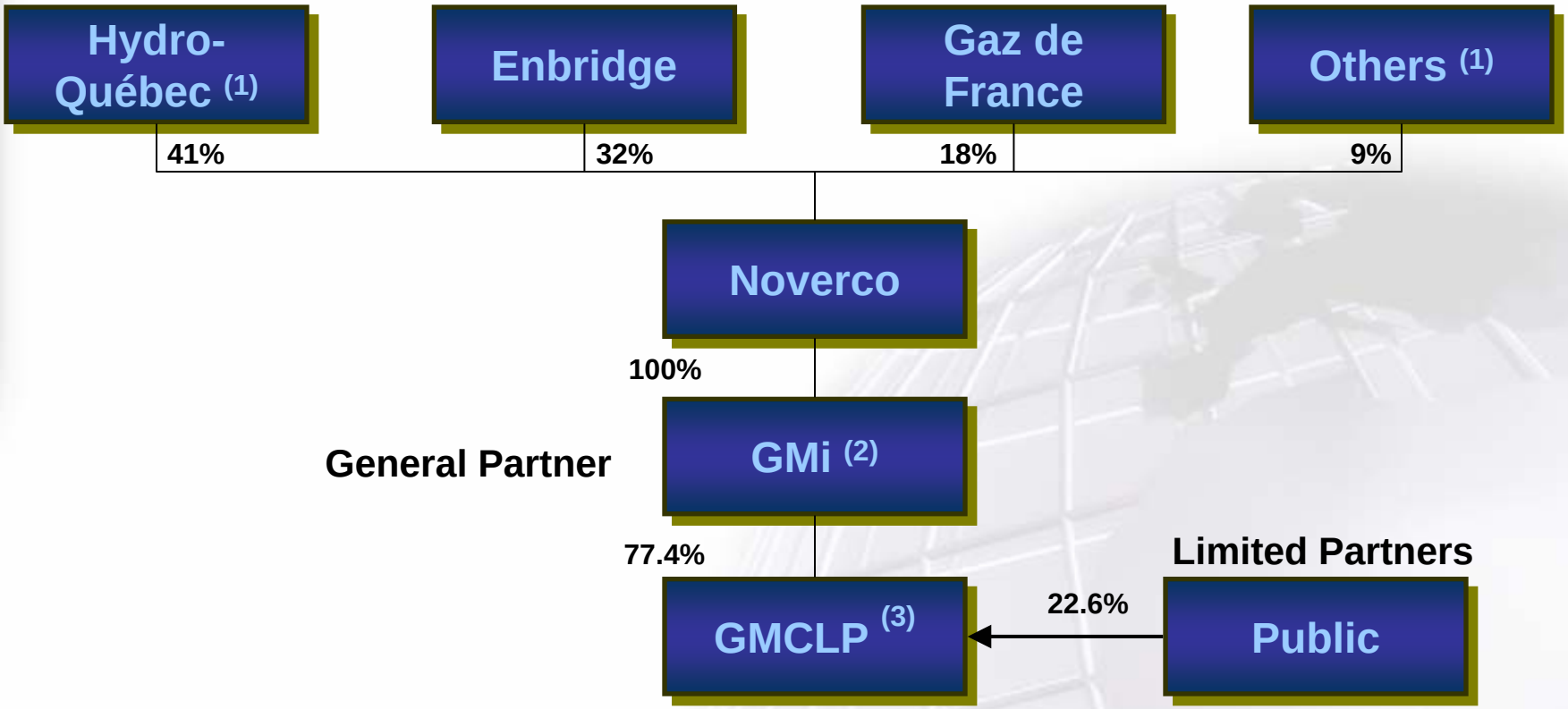
# OWNERSHIP




(1) In addition to its 41% direct interest in Noverco, Hydro-Québec holds options on the 9% block held by third parties.

(2) Refers to Gaz Métropolitain, inc.

(3) Refers to Gaz Métropolitain and Company, Limited Partnership.

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# COMPANY HIGHLIGHTS

FYE September 30, 2000

| | | |
|---|---|---|
| Gas deliveries | 224 Bcf | + 8 Bcf |
| System length | 9,603 Km | + 295 Km |
| Number of customers | 183,462 | + 3,000 |
| Number of employees[1] | 1,447 | Stable |
| Credit ratings (CBRS/DBRS)[2] | A+ / A | Stable |

(1) Including Québec and Vermont.
(2) DBRS rating reconfirmed in January 2001.

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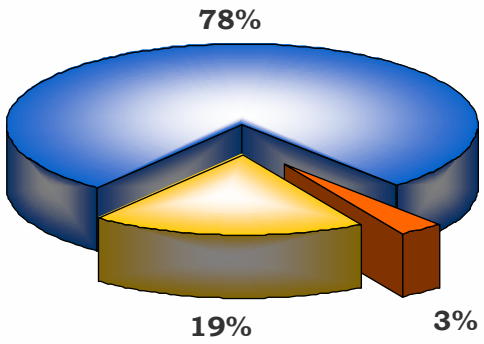
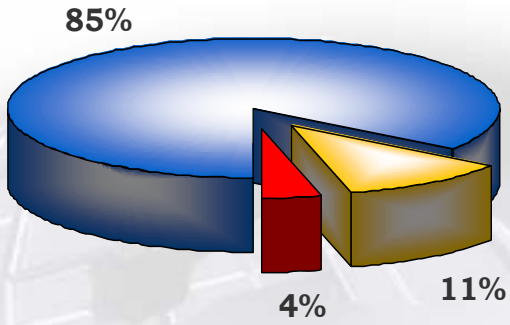
# 2000 BUSINESS SEGMENTS

(in millions)

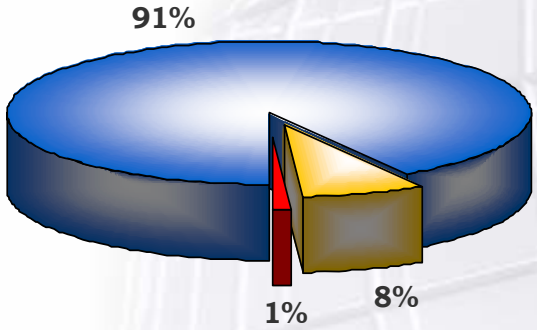
**Assets**
**$2,263**




**Gross Margin**
**$533**




**Partners' Income**
**$144**




Distribution  Transportation  Other

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# 2000 AT A GLANCE

- Record high in deliveries to small and medium load markets = 100 Bcf;
- Creation of Gaz Métropolitain Plus;
- ISO 14001 certification ⇨ GazMet = 1st gas distributor in Canada to obtain it;
- New performance-based regulation effective October 1, 2000;
- Early retirement program put in place ⇨ 150 employees will be leaving in 2001;
- Financing totaling $235 million (including 2 public bond issues);
- Acquisition of an initial 12.2% interest in VDN Cable, a fibre optics company (30-35% on a fully diluted basis).

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# MARKET DATA

As at February 23, 2001

| | |
|---|---|
| ✦ Market price | $16.03 |
| ✦ High-low (52 weeks) | $16.70 - $13.75 |
| ✦ Units outstanding | 110.5 million |
| ✦ Average daily volume | 20,000 units |
| ✦ Market cap | $1.8 billion |
| ✦ Public float | $400.0 million |
| ✦ EPU (1) (2) | $1.31 |
| ✦ P/E (2) | 12.2x |
| ✦ Distributions (3) | $1.28 |
| ✦ Yield | 8.0% |

(1) EPU : Earnings per unit.
(2) Trailing 12 months, source: Bloomberg.
(3) Assuming quarterly distribution of $0.32 per unit remains unchanged throughout 2001.

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# NEW PIPELINE

**NAME: Cartier Pipeline**

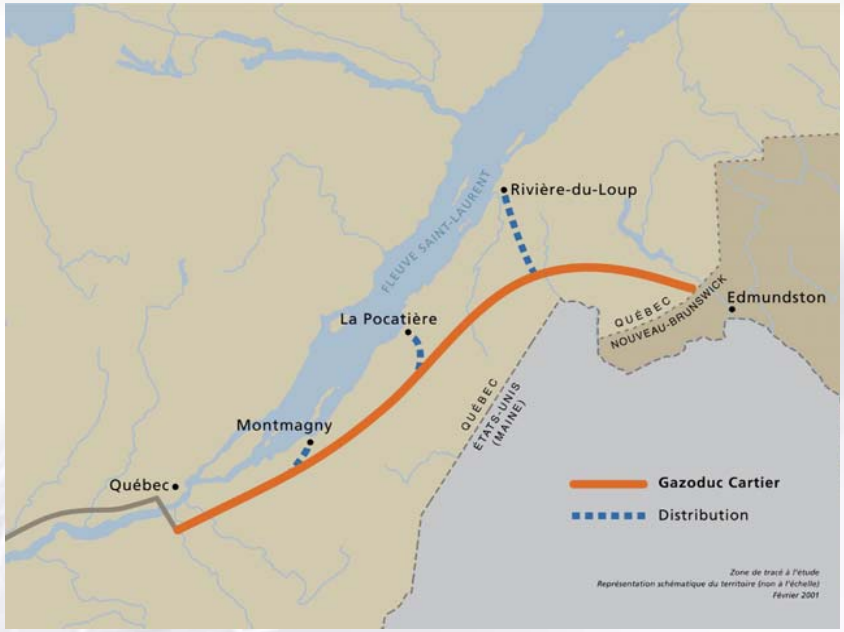
**PURPOSE: Interconnect natural gas supplies on Canadian East Coast with large and established markets in Central Canada**

**STATS: 262 km (164 miles) of 508 mm (20”) pipe**

**CAPITAL COST: $270 million**

**CAPACITY:**

- **Initial ↑ 184 mmcf/day (5.2 $10^6 m^3$/day)**
- **Maximum ↑ 342 mmcf/day (9.7 $10^6 m^3$/day)**




**OWNERSHIP:**

- **Gaz Métropolitain: 50%**
- **Enbridge: 50%**

**INTER-CONNECTING FACILITIES: Requires an extension of the existing M&NE pipeline to the Quebec/New Brunswick border**

**REGULATION: National Energy Board**

**IN-SERVICE DATE: November 1, 2004.**

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# IMPORTANT CONSIDERATIONS

- 97% regulated activities:
  - Low business risk;
  - Stability and sustainability of earnings and distributions.
- Strong and stable capital structure;
- Top quality financial ratios compared to industry peers;
- Cash flows from operations largely sufficient to meet new financing requirements;
- Proven track record in achieving allowed rate of return;
- New incentive mechanism allows GazMet to maintain for 5 years more than 50% of its productivity gains in order to create long-term value.

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# MANAGEMENT PHILOSOPHY

- Prudent management of capital structure;
- Importance of maintaining sound credit ratings;
- Tight management of operations;
- Emphasis on asset management:  GazMet draws on EVA model;
- Actions oriented toward growth in income per unit in a context of tight competition.

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# GAZMET SAFETY NETS

❶ **No commodity exposure ⇨ Gas cost passed on to customers;**

❷ **No weather risk ⇨ Earnings computed on normal weather (30-year average); any variation deferred through a normalization account and collected through rates adjustments over a 5-year period;**

❸ **No interest rate risk ⇨ Any variation in floating interest rates deferred through a normalization account;**

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# GAZMET SAFETY NETS

❹ **Low transportation and storage exposure:**

- ✦ **Transportation and storage costs passed on to customers;**
- ✦ **Transportation commitments with TCPL or others well matched with projected deliveries.**

❺ **Market risk mitigated ⇨ Heavy component of large load dual-energy customers mitigated by committing industrial customers to long-term take-or-pay contracts covering about 80% of their needs;**

❻ **Limited downside risk under new PBR ⇨ Risk limited to the cost of service method.**

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# YEAR-END RESULTS

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# FINANCIAL SUMMARY

| ($ millions, except per unit data) | 2000 | $ Change | 1999 | % Change |
|---|---|---|---|---|
| Revenues | 1,634 | + 295 | 1,339 | + 22.0 |
| Gross Margin | 533 | + 35 | 498 | + 7.0 |
| Partners' Income | 144 | + 8 | 136 | + 5.9 |
| Partners' Income (per unit) | 1.30 | + 0.05 | 1.25 | + 4.0 |
| Average # of Units Outstanding | 110.5 | + 1.8 | 108.7 | + 1.7 |
| Excess Return | 6 | – 5 | 11 | – 45.5 |
| Total Assets | 2,263 | + 125 | 2,138 | + 5.9 |
| Total Debt | 1,193 | + 99 | 1,094 | + 9.1 |
| Partners' Equity | 806 | + 9 | 797 | + 1.1 |
| Cash Flow from Operations[1] (A) | 266 | + 32 | 234 | + 13.7 |
| Total CAPEX[2] (B) | 139 | – 96 | 235 | – 40.9 |
| Maintenance CAPEX (C) | 30 | 0 | 30 | 0 |
| Distributions (D) | 137 | + 2 | 135 | + 1.5 |
| Free CF after maintenance CAPEX (A-C-D) | 99 | + 30 | 69 | + 43.5 |
| Net Free CF (A-B-D) | – 10 | + 126 | - 136 | + 92.7 |
| Authorized Return on Partners' Equity Attributed to Gas Distribution in Québec | 9. 72% [3] | | 9.64% | |

(1) Before change in non-cash working capital. (2) Including deferred charges. (3) Set at 9.60% for 2001.

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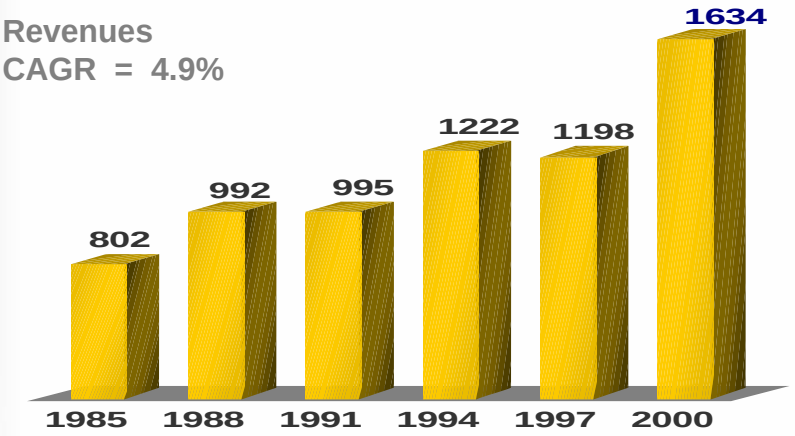
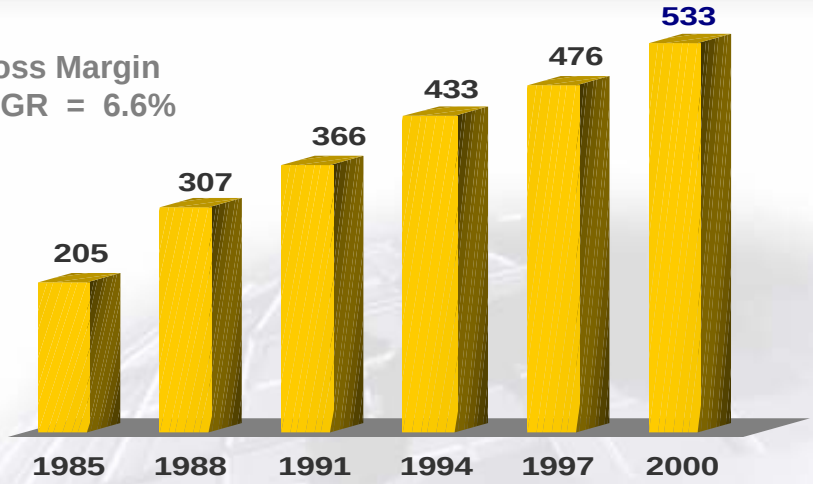
# HISTORICAL FINANCIAL REVIEW

($ millions)

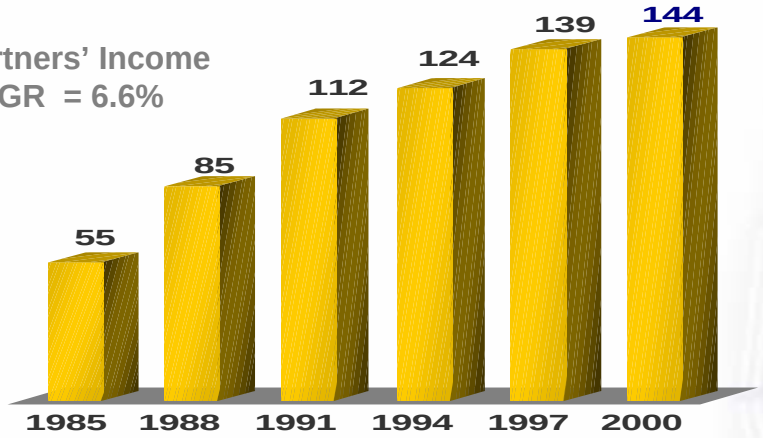
**Revenues**
**CAGR = 4.9%**



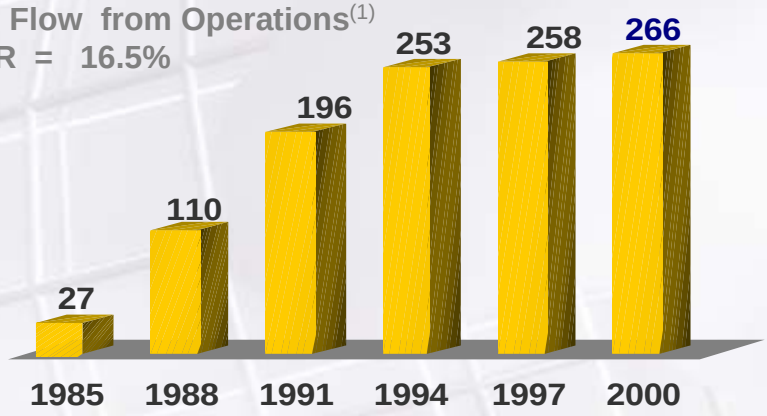

**Gross Margin**
**CAGR = 6.6%**




**Partners' Income**
**CAGR = 6.6%**




**Cash Flow from Operations[1]**
**CAGR = 16.5%**




(1) Before change in non-cash working capital.

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# KEY RATIOS

As at September 30, 2000

| | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|
| Interest coverage | 2.52 | 2.61 | 2.76 | 2.50 | 2.55 |
| | 2.54 | 2.62 | 2.82 | 2.59 | 2.67 |
| Total debt / Debt & equity | 54.3 % | 54.9 % | 59.4 % | 58.8 % | 60.3 % |
| | 54.0 % | 54.6 % | 58.7 % | 57.4 % | 58.6 % |
| Cash flow (1) / Total debt | 0.32 | 0.29 | 0.21 | 0.21 | 0.22 |
| | 0.32 | 0.29 | 0.24 | 0.25 | 0.26 |
| Cash flow (1) / Maintenance CAPEX | 9.19 | 8.55 | 7.72 | 7.80 | 8.86 |
| | 9.13 | 8.54 | 8.56 | 8.97 | 9.75 |
| Cash flow (1) / Total CAPEX | 2.04 | 2.11 | 0.90 | 1.00 | 1.92 |
| | 2.03 | 2.11 | 1.00 | 1.14 | 2.11 |

(1) Before change in non-cash working capital.

Note: Shaded data represent Gaz Métropolitain's results assuming normal temperature.

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# DEBT HIGHLIGHTS

## Short-term:

- **Commercial paper program:**
  - Up to $300 million;
  - Fully backed up by a five-year line of credit;
  - Credit ratings: A-1 CBRS
    R-1(low) DBRS (1)

## Long-term:

- **First mortgage bonds:**
  - $717 million outstanding;
  - Credit ratings: A+ CBRS
    A DBRS (1)
  - Shelf prospectus for issuance of $250 million FMB valid until September 2002 ($125 million remaining after October 26, 2000 issue);
  - Portfolio duration = 7.94 years (as at January 31, 2001).

(1) Rating reconfirmed in January 2001.

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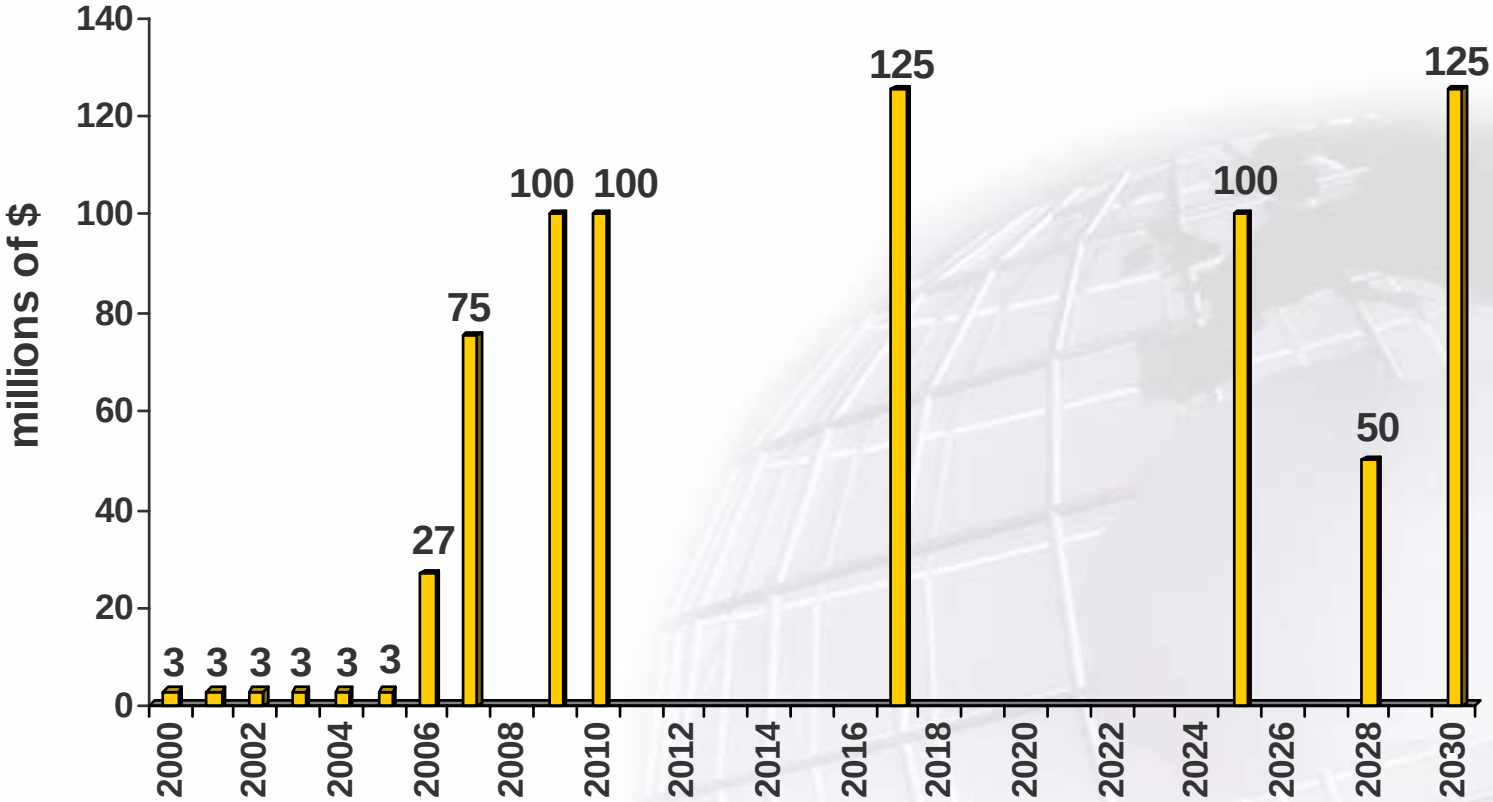
# LONG-TERM DEBT MATURITIES

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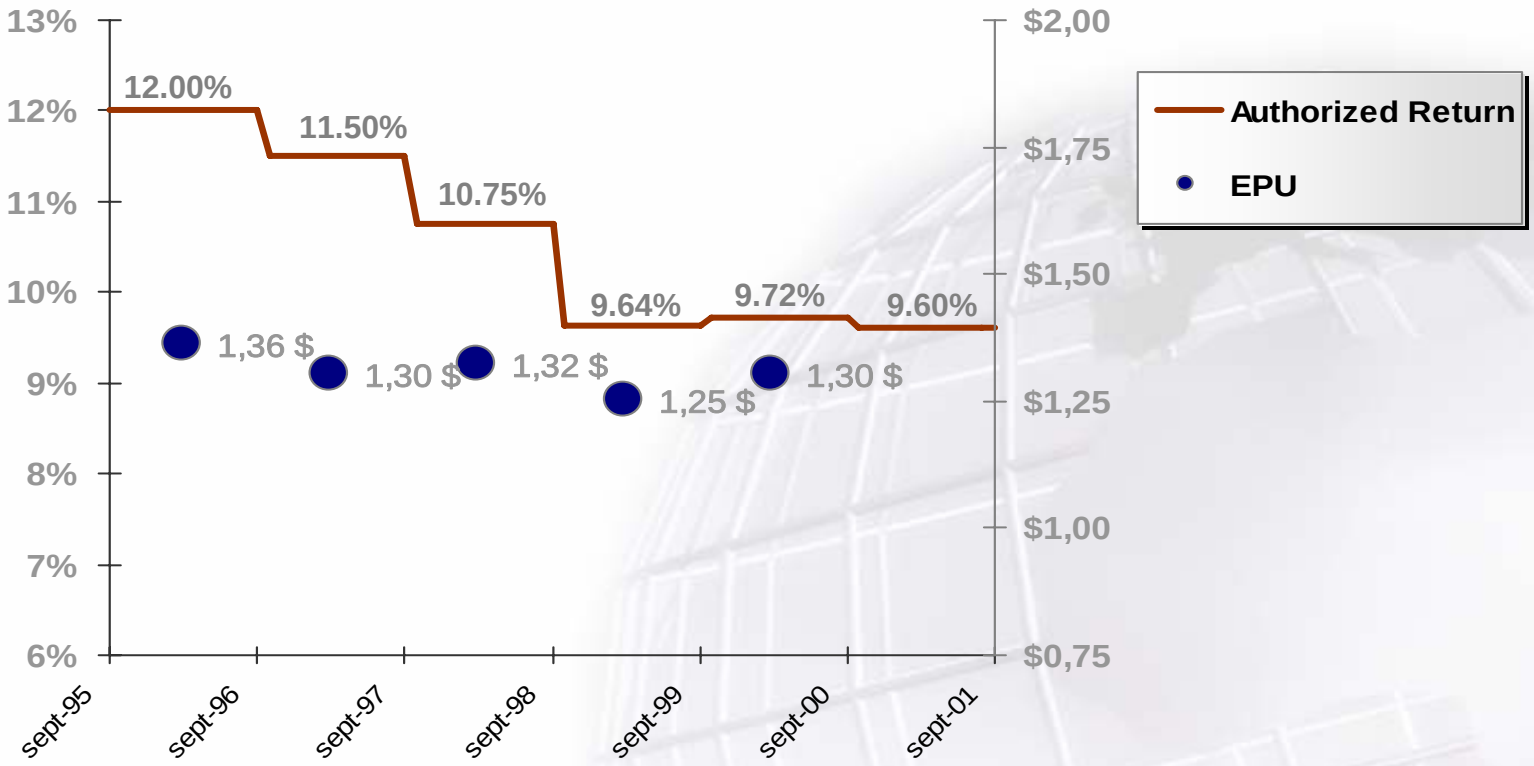
# EPU / AUTHORIZED RETURN

Gaz Métropolitain's earnings per unit remained stable despite decreasing authorized rates of return




**1% decrease in authorized ROE = $0.08 decrease in EPU.**

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# NEW PERFORMANCE-BASED REGULATION

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# THE OLD WAY

**With the cost of service mechanism involving an annual rate re-adjustment, GazMet had no incentive to create value.**

**But it's not the case anymore...**

**"The faster you pedal, the slower you go!"**

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# THE NEW WAY

**GazMet's new PBR is the most modern and innovative of its kind in North America.**

**As a hybrid between a price cap and a cost of service mechanism, it allows GazMet to create long-term value while preserving its safety nets.**

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# KEY FORMULAS

**Revenue Cap: R = ( t * (1 + i - 0.3%)) * volume forecasts ± Z**

**Cost of service: C**

**R** = Revenues generated with rates inflated to CPI minus 0.3%

**t** = Tariffs

**i** = Inflation rate

**Z** = Exogenous factors

**C** = Cost of service

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# HOW IT WORKS

**Before beginning of fiscal year:**

- If R > C then : ⌦ Productivity gain shared as follows:
  - 47.5% to clients
  - 52.5% to GazMet
- If R < C then : ⌦ No productivity gain (deferral account)

**After closing of fiscal year:**

- If excess return : ⌦ Shared as follows:
  - 66 $^{2}/_{3}$% to clients
  - 33 $^{1}/_{3}$ % to GazMet
- If deficiency : ⌦ Shared as follows:
  - 50% from clients
  - 50% from GazMet

NOTE: The first-year productivity gain to be returned to customers in its entirety as of the sixth year and so forth for each consecutive year thereafter.

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# ILLUSTRATIVE EXAMPLE

| | Year 1 | | Year 2 | | Year 3 |
|---|---|---|---|---|---|
| C excl. ROE | 90 | | 91 | | 92 |
| ROE | 10 | | 10 | | 10 |
| C | 100 | | 101 | | 102 |
| Inflated tariffs | 91.53 | ⇨ | 93.086 | ⇨ | 94.6685 |
| ROE | 10 | | 10 | | 10 |
| R | 101.53 | | 103.086 | | 104.6685 |
| **Productivity gain** | | | | | |
| R – C | 1.53 | | 2.0860 | | 2.6685 |
| | x 52.5% | | x 52.5% | | x 52.5% |
| GazMet share | 0.8033 | | 1.0952 | | 1.4010 |
| **Revised Rates** | 100.8033 | | 102.0952 | | 103.4010 |
| **GazMet gain vs old method** | 0.8033 | | 1.0952 | | 1.4010 |
| **Effective ROE** | 10.8% | | 11.1% | | 11.4% |

**Legend**

C = Revenues under cost of service method.

R = Revenues under new PBR.

**Key assumptions**

| | |
|---|---|
| Inflation = | 2% |
| Productivity factor = | 0.3% |
| Exogenous factors (z) = | 0 |
| Equity = | $100 million |
| ROE = | 10% |

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# WHY GAZMET IS BETTER OFF WITH NEW PBR

Gaz Métropolitain will be able to maintain its productivity gains for 5 years without having to sustain any annual rate re-adjustment.

Upside potential:
400 basis points per year
(approx. $40 million/year)

Downside risk limited to
1.5% x rate base x 50%
(approx. $11 million cumulative over the period)

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# CHARACTERISTICS OF THE PBR

- Hybrid;
- Unique:
  - Economic;
  - Social;
  - Environmental.
- Keeps the principle of yearly rate case and year-end case;
- Exogenous factors:
  - Cost of service affected by other board decisions (NEB, OEB);
  - Interest rates;
  - ROE;
  - Weather normalization deferral account;
  - Energy efficiency program.
- Off-Ramps:
  - 400 basis points for two consecutive years;
  - Inflation above 5% for two consecutive years;
  - No ROE bonification for three consecutive years;
  - Amount in deferral account ≥ 1.5% x rate base at the year-end.

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# CHARACTERISTICS OF THE PBR (CONT'D)

- 7 Quality of service indices:
  - Meter reading;
  - Emergency response;
  - Call center waiting time;
  - Preventive maintenance;
  - Credit/collection procedure;
  - ISO 14001;
  - Clientele global satisfaction survey.
- Energy efficiency program;
- Energy efficiency fund:
  - Operations;
  - Funding.
- Incentive to replace more polluting energies.

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# FINANCIAL OBJECTIVES OF PBR

- ✓ ***Significantly increase profitability of the Partnership;***
- ✓ ***Give it greater flexibility in its resource allocation and in its development;***
- ✓ ***Increase its long-term value.***

**With a view to providing its customers with high-quality products and services at competitive prices.**

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# HOW TO CREATE LONG-TERM VALUE

1. Increase high-profit volumes;
2. Reduce operating costs;
3. Improve asset management;
4. Make more productive and profitable investments.

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# CONCLUSION

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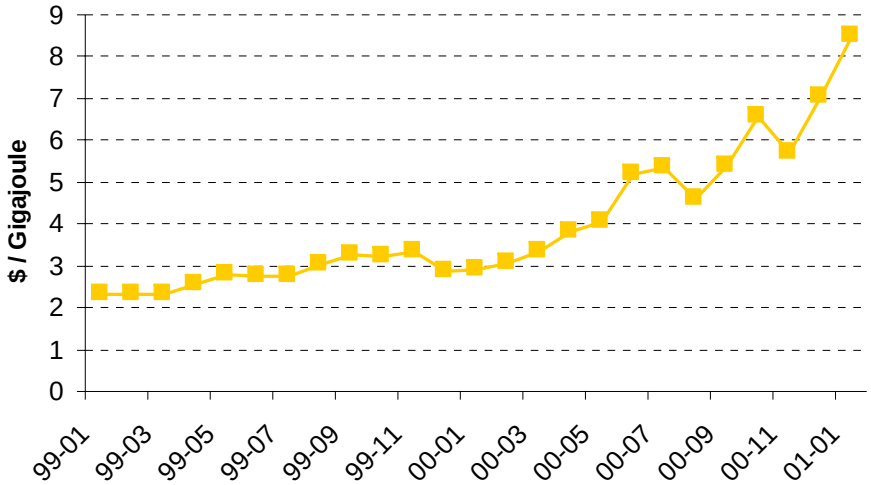
# 2001 OVERVIEW

## Current Challenge:

- Tight competitive situation.

## Key Objectives:

- Deliver superior unitholder value;
- Improve profitability and EPU growth;
- Maintain low risk profile.




## Growth Opportunities:

- Increase earnings and distributions with new PBR;
- Increase market share in Québec's energy balance;
- Generate growth through internal expansion and selective acquisitions;
- Diversify gas supply sources ↑ Cartier pipeline.

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# CONCLUSION

- Pure utility play with little volatility and proven sustainability in earnings, cash flows and distributions;
- Unique regulatory framework providing great potential for long-term value creation while limiting downside risks;
- Net income well protected through different safety nets;
- Long-term debt maturities well distributed over the next 30 years;

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# CONCLUSION
## (CONT'D)

- Long-life quality assets and excellent credit ratings with stable trend for many years;
- Domestic gas distribution operations generate excess cash flows available for debt service and/or investment in other income generating opportunities;
- Investments in pipelines and non-domestic gas distribution operations enhance and diversify earnings base.

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Connecting with the future

# CBRS / S&P ANNUAL REVIEW

Montréal

February 9, 2001

# DBRS
# Annual Review

**Toronto**

**November 27, 2001**

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Connecting with the future

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# Introduction

# 2001

## ❶ A tough year for our customers

- High natural gas prices

## ❷ A good year for our partners

- Satisfying results despite lower deliveries
- 21.4% total return

## ❸ A challenging year for our employees

- Customer service
- Sales
- Gas supply
- ERP System

# Company Overview

# Mission and Objectives

## Mission

- Transport and distribute natural gas in Quebec and the northeastern portion of North America
- Sell goods and services ancillary to its main activity
- Pursue related activities

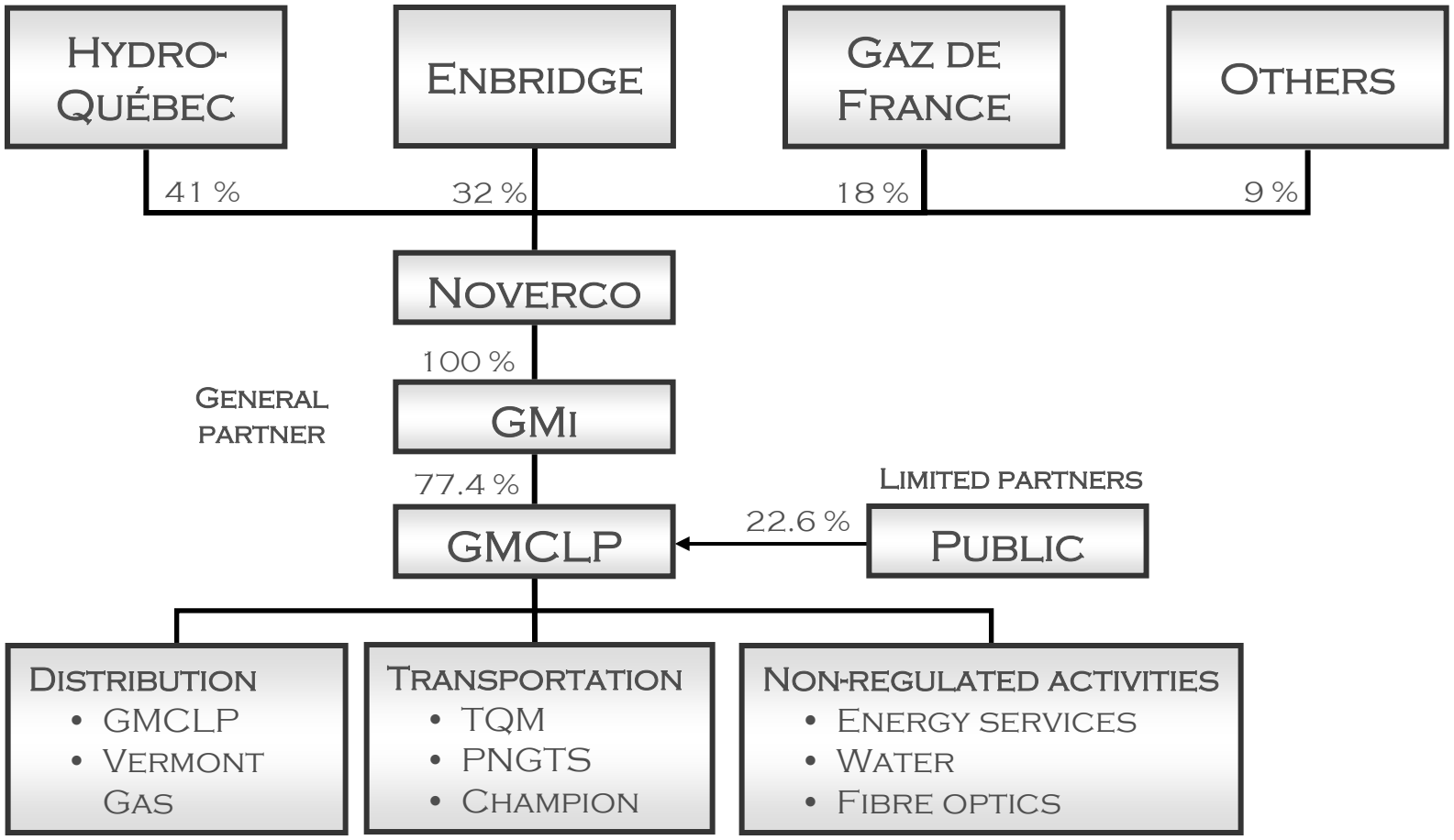
## Objectives

- Financial — Provide stable and predictable return accompanied by growth in value over time
- Commercial — Provide high-quality energy services at the lowest possible cost

# Positioning

- 3rd largest natural gas distributor in Canada
- 97% of Quebec natural gas distribution market
- Sole natural gas distributor in Vermont, USA

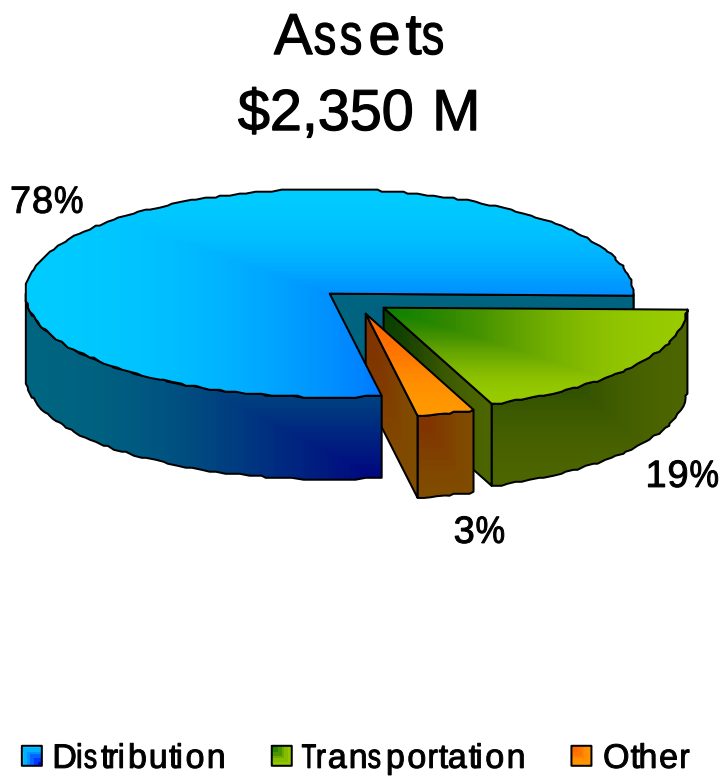
# Corporate Structure

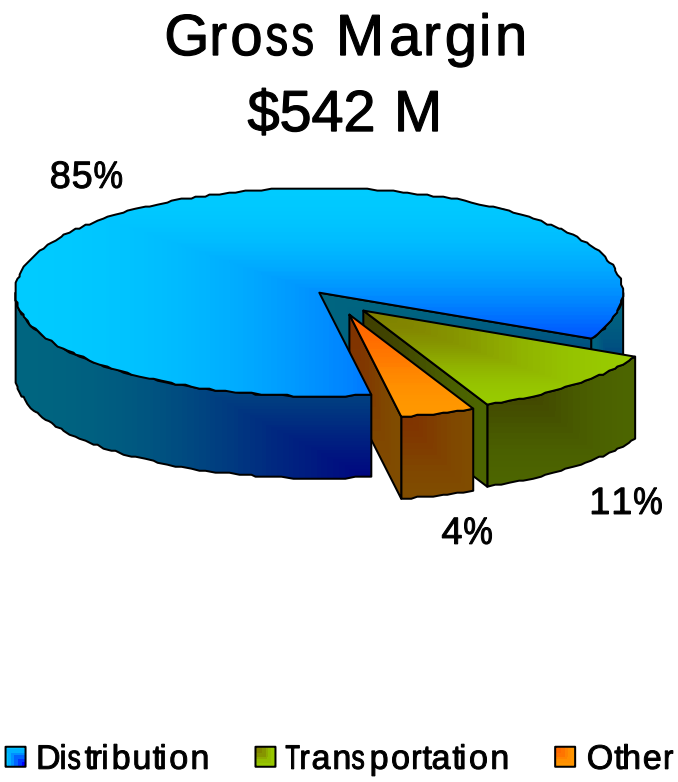



GMi: Gaz Métropolitain, inc.
GMCLP: Gaz Métropolitain and Company, Limited Partnership

# Business Segments

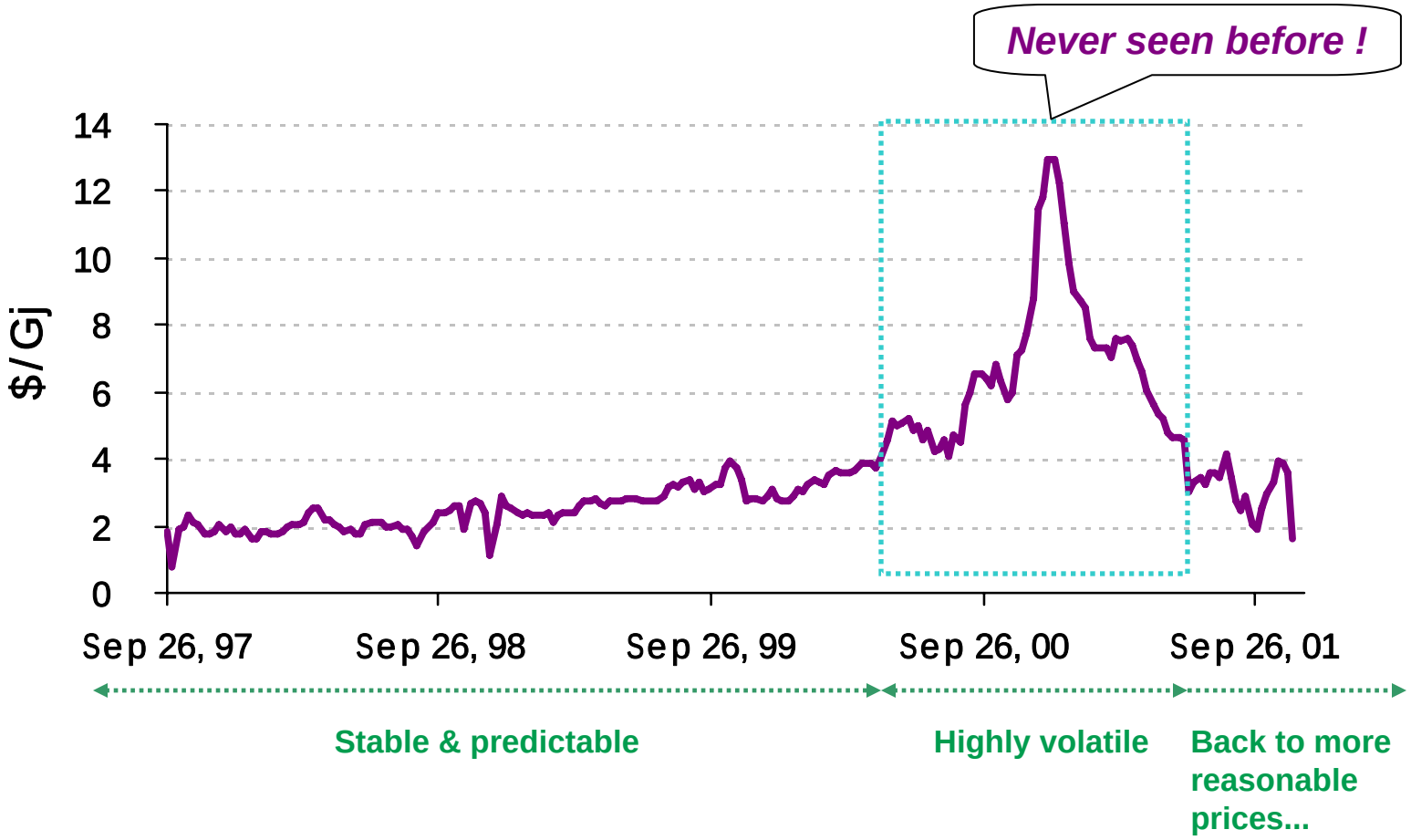
## 2001



# 2001 at a Glance

# Competitive Situation



# Highlights

| | | |
|---|---|---|
| Gas Deliveries[1] (Normalized) | 200 Bcf | – 31 |
| System length[1] | 9,852 Km | + 249 |
| Number of customers[1] | 184,489 | + 1,027 |
| Number of employees | 1,647 | – 161 |
| Credit Rating (S&P/DBRS) | A / A | |

(1) Distribution only

# Gas Deliveries

| | FYE September 30 | | Change | |
|---|---|---|---|---|
| | 2001 | 2000 | Bcf | % |
| ***(in billions of cubic feet )*** | | | | |
| ***Markets*** | | | | |
| Industrial | 106.7 | 133.8 | (27.1) | -20.3 |
| Commercial | 66.5 | 64.7 | 1.8 | 2.7 |
| Residential | 25.9 | 25.6 | 0.3 | 1.3 |
| **TOTAL** | **199.1** | **224.1** | **(25.0)** | **-11.2** |

| | FYE September 30 | | Change | |
|---|---|---|---|---|
| | 2001 | 2000 | $10^6m^3$ | % |
| ***(in millions of cubic meters)*** | | | | |
| ***Markets*** | | | | |
| Industrial | 3,023.2 | 3,791.1 | (767.9) | -20.3 |
| Commercial | 1,882.3 | 1,832.5 | 49.8 | 2.7 |
| Residential | 733.6 | 724.1 | 9.5 | 1.3 |
| **TOTAL** | **5,639.1** | **6,347.7** | **(708.6)** | **-11.2** |

Note : 1 million cubic metres = 35.31 million cubic feet

# Normalized Volumes

| | FYE September 30 | | Change | |
|---|---|---|---|---|
| | 2001 | 2000 | Bcf | % |
| ***(in billions of cubic feet )*** | | | | |
| ***Markets*** | | | | |
| Industrial | 106.9 | 135.0 | (28.1) | -20.8 |
| Commercial | 67.2 | 68.9 | (1.7) | -2.5 |
| Residential | 26.2 | 27.6 | (1.4) | -5.0 |
| **TOTAL** | **200.4** | **231.5** | **(31.2)** | **-13.5** |

| | FYE September 30 | | Change | |
|---|---|---|---|---|
| | 2001 | 2000 | $10^6m^3$ | % |
| ***(in millions of cubic meters)*** | | | | |
| ***Markets*** | | | | |
| Industrial | 3,029.4 | 3,824.9 | (795.5) | -20.8 |
| Commercial | 1,903.1 | 1,951.6 | (48.5) | -2.5 |
| Residential | 743.4 | 782.2 | (38.8) | -5.0 |
| **TOTAL** | **5,675.9** | **6,558.7** | **(882.8)** | **-13.5** |

Note : 1 million cubic metres = 35.31 million cubic feet

# Accomplishments

- Very efficient gas supply management
- SAP Phase I completed
- 100 positions eliminated in Quebec distribution activity
- Energy efficiency programs
- Creation of a Customer Service vice-presidency
- Integration of all entities related to Gaz Metropolitain Plus Group
- Sectorization of distribution system on Montreal Island

# New Sales

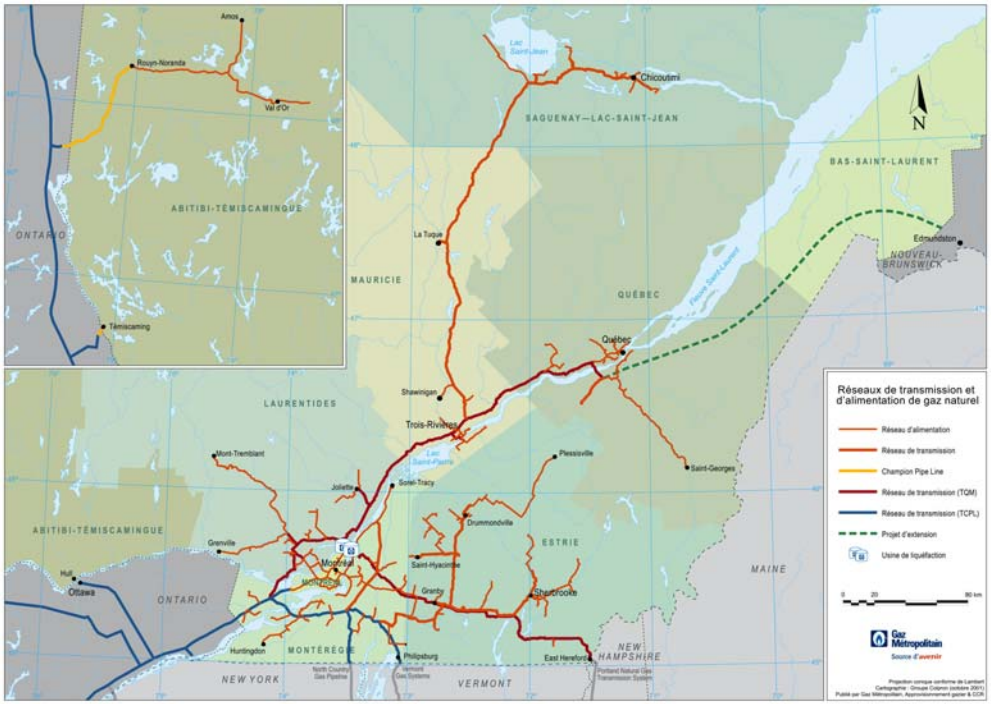
**To be converted into additionnal volumes in the years to come**

| Market | 2001 | 2000 |
|---|---|---|
| **Residential** | | |
| ⊙ Quebec | 2,200 customers | 2,300 customers |
| ⊙ Vermont | 1,000 customers | 1,264 customers |
| **Commercial** | 98 $10^6 m^3$ | 138 $10^6 m^3$ |
| **Industrial** | 41 $10^6 m^3$ | 32 $10^6 m^3$ |

# Review of Operations

# GMCLP

- Normalized volumes: 192 Bcf
- System length: 8,999 km
- # of customers: 150,918
- 2002 base rate of return: 9.67%
- Capital structure:
  - 54% debt
  - 7.5% deemed prefered equity
  - 38.5% common equity
- Regulated by the Régie de l'énergie



# GMCLP - Market Breakdown

| Markets | Normalized volumes (Bcf) 2001 | 2000 | # of customers 2001 |
|---|---|---|---|
| Residential | 23 | 25 | 107,336 |
| Commercial | 65 | 66 | 41,512 |
| Industrial | 104 | 131 | 2,070 |
| | 192 | 222 | 150,918 |

# GMCLP - Competitive Situation

## How competitive is natural gas in Quebec ?

| Markets | Alternative energy source | How competitive |
|---|---|---|
| Commercial | Electricity | 25% to 30% cheaper |
| Residential | Electricity | 5% cheaper to 5% more expensive |
| | Fuel oil #2 | 10% to 15% more expensive |
| Industrial | Fuel oil #6 | 10% to 15% more expensive |

# GMCLP - Low Business Risk

**No exposure to**

- Commodity price (except for impact on competitive situation)
- Temperature
- Interest rates
- Transportation and storage costs

**Market risk mitigated by**

- Natural gas attributes
- High conversion costs
- Need for natural gas in certain industrial processes
- Large customers under take-or-pay contracts with minimal consumption obligations

# GMCLP - Attractive Regulatory Framework

**New PBR Mechanism**

**Revenue Cap (R)**

Rates inflated by CPI less 0.3%

**Cost of service (C)**

Base rate of return on partners' equity determined by automatic formula

❶ Hybrid between Revenue Cap and Cost of Service

❷ Revenue Cap formula:

**R = (r * (1+i - 0.3%)) * volumes ± z**

r = rates

i = inflation rate

z = exogenous factors

# GMCLP - Attractive Regulatory Framework (cont'd)

❸ How it works

Before beginning of fiscal year

- ⊙ If R > C: productivity gains shared
  - ⇨ 52.5% GazMet kept for 5 years without any annual rate adjustment
  - ⇨ 47.5% Customers Automatic reduction in rates of new fiscal year
- ⊙ If R < C: no productivity gains
  - ⇨ Rates set to meet cost of service
  - ⇨ GazMet owes "C-R" to customers (this debt will have to be reimbursed before any future sharing of productivity gains)

# GMCLP - Attractive Regulatory Framework (cont'd)

After closing of fiscal year

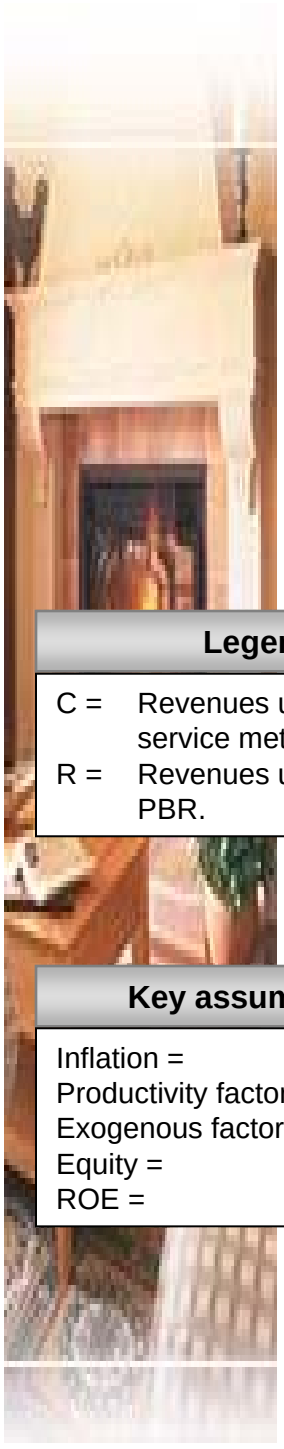
- If productivity gains are > than expected: excess return shared
  - ⇨ 1/3 GazMet
  - ⇨ 2/3 Customers (reduction in rates of next fiscal year)
- If productivity gains are < than expected but > 0: GazMet keeps 100% (since customers got their share before beginning of fiscal year)
- If productivity gains are < 0: deficiency shared
  - ⇨ 50% GazMet
  - ⇨ 50% Customers (increase in rates of next fiscal year)

❹ Upside potential of up to 400 basis points above base rate of return (approx. $40M / year)

❺ Downside risk limited to cost of service method

# GMCLP - Attractive Regulatory Framework (cont'd)

- Exogenous factors:
  - Interest rates
  - ROE
  - Weather normalization deferral account
  - Energy efficiency programs
- Off-ramps:
  - Productivity gains of 400 basis points or more for 2 consecutive years
  - Inflation above 5% for 2 consecutive years
  - No productivity gains for 3 consecutive years
  - Amount in deferral account (debt owed to customers when there are no productivity gains) ≥ 1.5% rate base at year-end



# GMCLP - Attractive Regulatory Framework (cont'd)

Illustrative example

| | Year 1 | | Year 2 | | Year 3 |
|---|---|---|---|---|---|
| **C excl. ROE** | **90** | | **91** | | **96** |
| **ROE** | **10** | | **10** | | **10** |
| **C** | **100** | | **101** | | **106** |
| **Inflated tariffs** | **91.53** | ⇨ | **93.086** | ⇨ | **94.6685** |
| **ROE** | **10** | | **10** | | **10** |
| **R** | **101.53** | | **103.086** | | **104.6685** |
| **Productivity gain** | | | | | |
| **R – C** | **1.53** | | **2.0860** | | **(1.3315)** |
| | **x 52.5%** | | **x 52.5%** | | **No gain** |
| **GazMet share** | **0.8033** | | **1.0952** | | **(Cost of service + deferral account)** |
| **Revised rates** | **100.8033** | | **102.0952** | | **106.0000** |
| **GazMet gain vs previous method** | **0.8033** | | **1.0952** | | **0** |
| **Effective ROE** | **10.8%** | | **11.1%** | | **10.0%** |

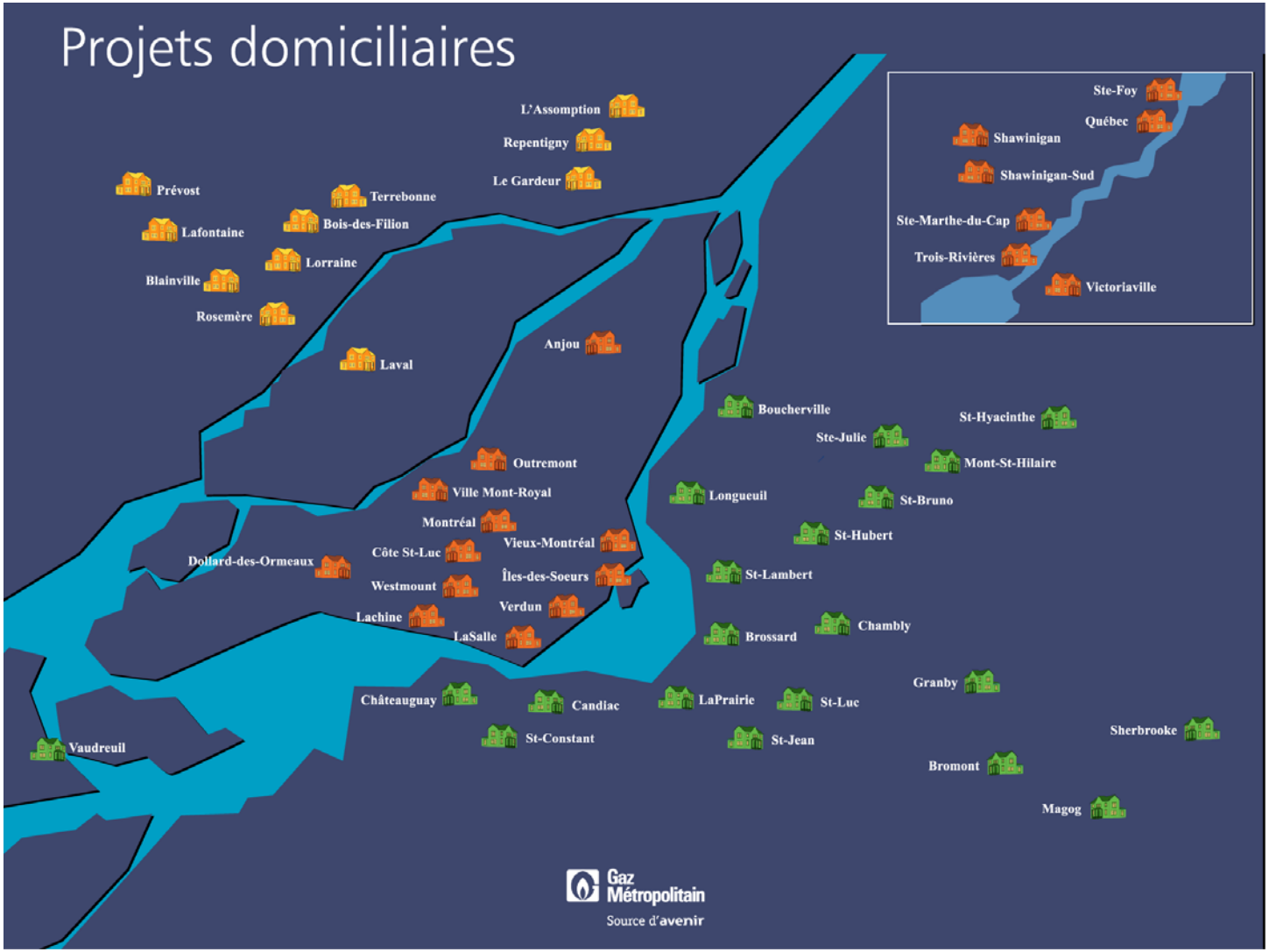
**Legend**

C = Revenues under cost of service method.
R = Revenues under new PBR.

**Key assumptions**

| | |
|---|---|
| Inflation = | 2% |
| Productivity factor = | 0.3% |
| Exogenous factors (z) = | 0 |
| Equity = | $100 M |
| ROE = | 10% |

# GMCLP - Market Penetration

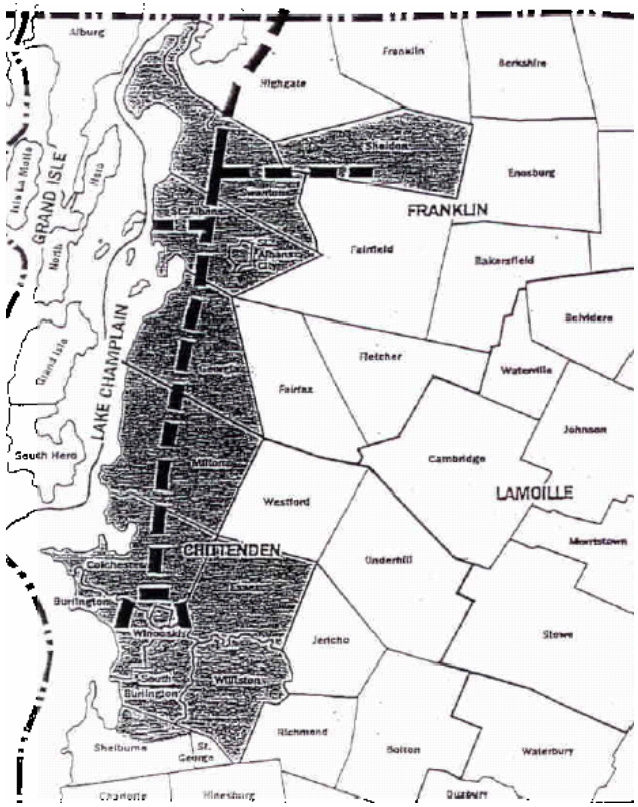


# GMCLP - Going Forward

1. Increase volumes
2. Increase volumes
3. Pursue implementation of ERP System - Phase II
4. Pursue quality initiative (customer-oriented culture)
5. Pursue cost control efforts
6. Renew collective agreements
7. Increase volumes

# Vermont Gas

- Normalized volumes: 8.4 Bcf
- System length: 853 km
- # of customers: 33,571
- Capital structure: 37% debt
  63% equity
- 2002 base rate of return: 11.25%
- Regulated by the Vermont Public Service Board
- Significant competitive advantage over electricity in the residential market




**Going forward**

1. Increase volumes
2. Pursue and complete system sectorization

# TQM

- System length: 572 km
- Capital structure: 70% debt
  30% equity
- Return on investment: 17%/year
- 2001 authorized base rate of return: 9.61%
- Regulated by the National Energy Board
- Regulatory framework: cost of service & performance incentive mechanism


## Going forward

❶ Review rate of return calculation
❷ Renew incentive mechanism in 2002
❸ Arbitration decision - contractor's claim for cost overruns

# PNGTS

- System length: 489 km
- Capacity: 500 million cubic feet per day (presently operating at 60% of capacity)
- Regulated by the Federal Energy Regulatory Commission
- Partners:
  - TCPL 33.29%
  - El Paso Energy Corp. 29.64%
  - Gaz Metropolitain 20.66%
  - MCN East Coast Pipeline Corp. 16.41%

**100.00%**

# PNGTS (cont'd)

- Initial rates of US$0.63 per Mcf effective until 2002 generate return in the order of 2% due to construction cost overruns and current volumes
  - However, with TQM extension, total PNGTS/TQM return is 9.5%/year (> than cost of capital)
- Following arbitration decision: PNGTS will pay US$30.6 M to Bechtel on claim of US$56 M (reasons of force majeure used in rate case filed with FERC)

**Going forward**

1. Obtain new rates in 2002
2. Increase volumes
3. Obtain permanent financing in 2003

# GMPLP

**Gaz Métropolitain Plus**

| | | | |
|---|---|---|---|
| Markets | Residential | Commercial and industrial | |
| Entities | ◆ Gaz Métropolitain Plus<br>◆ Option Gaz | ◆ Sogener<br>◆ Consulgaz | ◆ CCUM |
| Main products and services | ◆ Distribution, sale, rental and maintenance of heating and air-conditioning equipment<br>◆ Service contracts for heating and air-conditioning appliances<br>◆ Energy management | ◆ Boiler room management contracts<br>◆ Service contracts for heating and air-conditioning equipment<br>◆ Turnkey projects (design, construction, energy management) | ◆ Production of steam, hot water and air-conditioning in downtown Montréal<br>◆ Electronic surveillance and management of industrial heating |

# GMPLP (cont'd)

- Operations began in September 2000
  - Implementation of organizational structure and processes
  - Consolidation of financial and administrative operations of main entities

**Going forward**

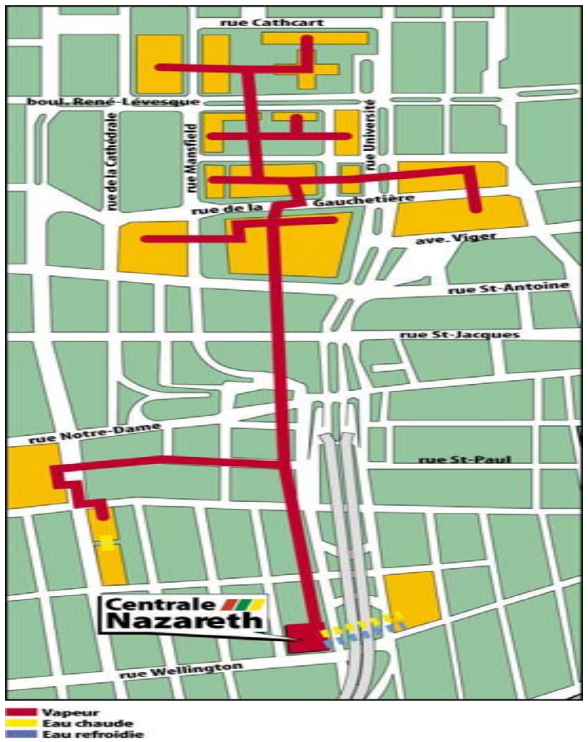
1. Integrate all entities and generate synergies and savings
2. Increase profit margins in residential market
3. Respond to commercial and industrial customer demands with respect to energy efficiency and savings

# CCUM

- Capacity: 475,000 pounds of steam/hour
- Captive clientele: Long-term indexed contracts
- $5.8M investment in distribution systems since 1999
- Return on equity: 14.7% in 2001

## Going forward

1. Replace boiler #3 ($2.5M)
2. Densify to meet growing demand for steam and chilled water around plant



# Cable VDN

| Markets | Residential apartments and condos | Municipalities | CLEC telecom companies | Commercial | Real estate owners |
|---|---|---|---|---|---|
| **Products and services** | <u>For residents</u><br>◆ Cable access<br>◆ High-speed Internet access<br><br><u>For owners</u><br>◆ Electronic surveillance of common areas<br>◆ Remote control of boiler rooms<br>◆ Possibility of combining buildings | ◆ Municipal building network<br>◆ Electronic surveillance of public areas<br>◆ Data transfers<br>◆ Interconnections with neighbouring municipalities | ◆ Bandwith leasing<br>◆ System maintenance<br>◆ Expansion options<br>◆ Condo options<br>◆ Sharing of common costs and right-of-ways<br>◆ Access open to everyone | ◆ Leasing<br>◆ Bandwidth<br>◆ Data transfers<br>◆ Electronic surveillance<br>◆ Remote control heating<br>◆ Externet optics networks<br>◆ “Riser Management” for office buildings | |

# Cable VDN (cont'd)

**In 2000, GMCLP acquired a 12% interest in Cable VDN**

- VDN Network: 250 km route of fibre optics (20,000 km fibre) in the greater Montreal area

**Key advantages:**

- More channels (63 compared to 49 for Videotron) at a price that is 17% cheaper
- Internet service 4 times faster than Videotron
- Flexible financing with no leverage upon debt conversion

## Going forward

1. Manage growth of more than 60%/year
2. Maintain technological advance over competition while retaining favorable cost structure
3. Starting in 2002:
   - Finance expansion on project by project basis
   - Promote business synergy with GMCLP (offer bundled services)

# Water Sector

| | Aqua-Rehab (50%) | Aqua Data (50%) | Stelem (50%) |
|---|---|---|---|
| **Markets** | Municipal, commercial, contractors, engineering consultants | Municipal, commercial, engineering consultants | Municipal, industrial |
| **Territories** | Québec, Ontario, Maritimes, Southeastern USA | Québec, Ontario, Maritimes, USA | Québec |
| **Products and services** | ◆ Rehabilitation of aqueducts<br>◆ Pneumatic excavation<br>◆ Temporary supply of systems<br>◆ Cathodic protection<br>◆ Sewer rehabilitation | ◆ Diagnosis of aqueducts and sewers<br>◆ Data processing and analysis<br>◆ Software licences<br>◆ Water and sewage master plans | ◆ Parts and maintenance-hydrants and valves<br>◆ Leak-detection and pipeline equipment<br>◆ Management of water meters and parts inventories |

# Water Sector (cont'd)

- Water sector has attractive potential and is compatible with GazMet activities
  - Infrastructure needs in Quebec = $9 billion ($500 M/year)
- GazMet long-term objectives: perform major multi-year aqueduct and sewer restoration projects on turnkey basis
- Aqua-Rehab and Aqua Data
  - Small but dominant in their respective markets
  - Fill a real need for municipalities
  - Good profitability on products and services rendered

# Water Sector (cont'd)

**Going forward**

1. Encourage as much municipal autonomy as possible in water magement
2. Compete with general contractors who prefer replacement with new
   - Semi-structural casing (Aqua-Rehab)
3. Pursue strategic alliances with engineering firms
   - Malcom Pirnie and others
4. Exploit US Market to mitigate seasonality

# Development activities

- ❶ Cogeneration facilities
  - Develop, own and manage gas-fired electricity and steam cogeneration facilities
    - Partnership agreement with Boralex (Nov. 2001)
- ❷ Atlantic Coast Basin (Cartier Pipeline)
  - Submit applications to NEB for approval of the installations
    - NEB decision confirms that required M&NP installations properly constitute an extension of the existing mainline rather then a lateral... installations to be included in M&NP rate base using rolled-in methodology (Nov. 2001)

# Financial Data

# Financial Summary

| (In millions of $, except per unit data) | FY September 30 2001 | 2000 | Change $ | % |
|---|---|---|---|---|
| **Revenues** | 2,068 | 1,634 | 435 | 26.6 |
| **Gross Margin** | 542 | 533 | 8 | 1.6 |
| **Partners' Income** | 141 | 144 | -2 | -1.7 |
| **Partners' Income per Unit** | 1.28 | 1.30 | -0.02 | -1.5 |
| **Millions of Units Outstanding** | 110.5 | 110.5 | | 0.0 |
| **Total Assets** | 2,350 | 2,263 | 87 | 3.8 |
| **Total Debt** | 1,309 | 1,227 | 82 | 6.7 |
| **Partners' Equity** | 812 | 806 | 6 | 0.7 |
| **Cash Flow from Operations** [1] | 297 | 266 | 32 | 11.9 |
| **Capital Expenditures** | | | | |
| • **Expansion & Development** | 51 | 56 | -5 | -8.9 |
| • **Maintenance** | 30 | 30 | | 0.0 |
| • **Deferred Charges** [2] | 53 | 28 | 25 | 89.3 |
| | 134 | 114 | 20 | 17.5 |
| **Distributions** | 140 | 137 | 3 | 2.4 |
| **Free CF after Maintenance CAPEX** | 127 | 99 | 28 | 28.6 |
| **Net Free CF** | 23 | 15 | 8 | 55.8 |

**GazMet initiatives compensated for lower deliveries**

(1) Excluding change in non-cash working capital items.
(2) Excluding items related to gas cost ($119 million in 2001 and $25 million in 2000).

# Segmented Data

(Partners' Income in millions of $)

| | Distribution | Transportation | Energy Services and other | Non-allocated expenses and eliminations | Total |
|---|---|---|---|---|---|
| **FYE Sept. 30, 2001** | 134.6 | 10.3 | (1.4) | (2.3) | 141.2 |
| **FYE Sept. 30, 2000** | 135.2 | 12.0 | 0.5 | (4.0) | 143.7 |
| **$ Change** | (0.6) | (1.7) | (1.9) | 1.7 | (2.5) |
| **% Change** | -0.4% | -14.2% | -3.8% | +42.5% | -1.7% |
| **WHY** | Lower deliveries compensated by efficient gas supply management, cost reductions and higher rates | Higher depreciation charges | Reorganization costs re: Gaz Métropolitain Plus | | |

# Key Ratios

As of September 30, 2001

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| **Total Debt / Capital** | 59% | 60% | 62% |
| **FFO(1) Interest Coverage** | 2.4 | 3.0 | 3.4 |
| **FFO(1)/Avg. Total Debt(2)** | 21% | 22% | 23% |
| **NCF(3)/Capex(4)** | 0.5 | 1.1 | 1.2 |

(1) Funds from operations before change in working capital items.

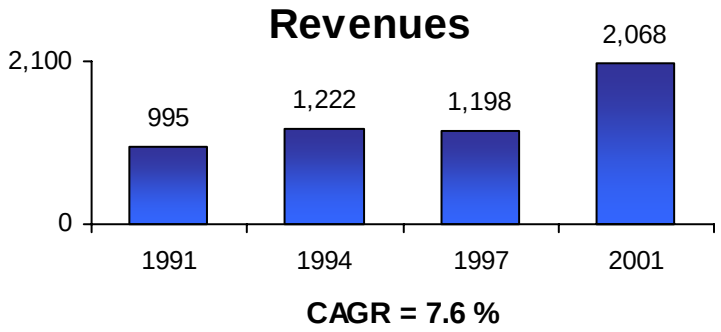
(2) Average for 2 years.

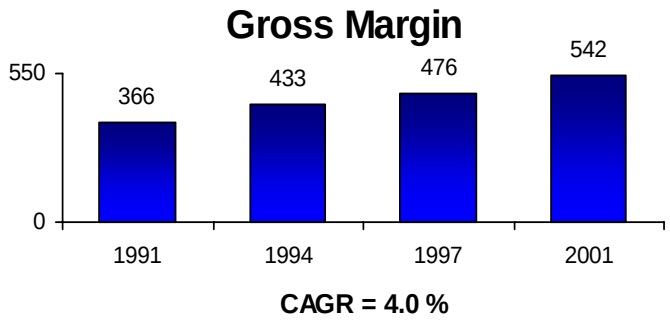
(3) FFO less distributions.

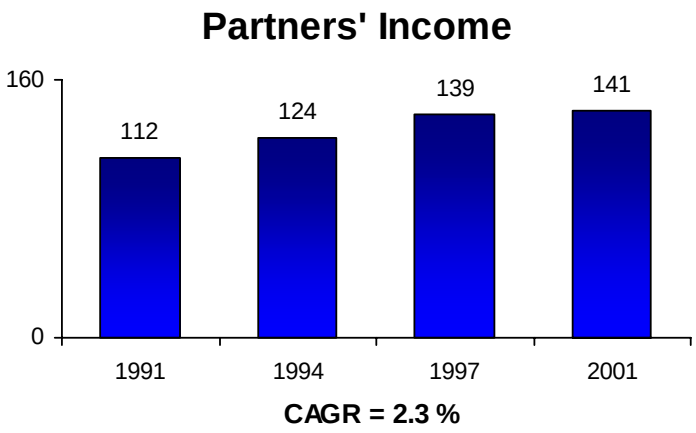
(4) Includes expansion and maintenance expenses plus deferred charges not related to gas cost.

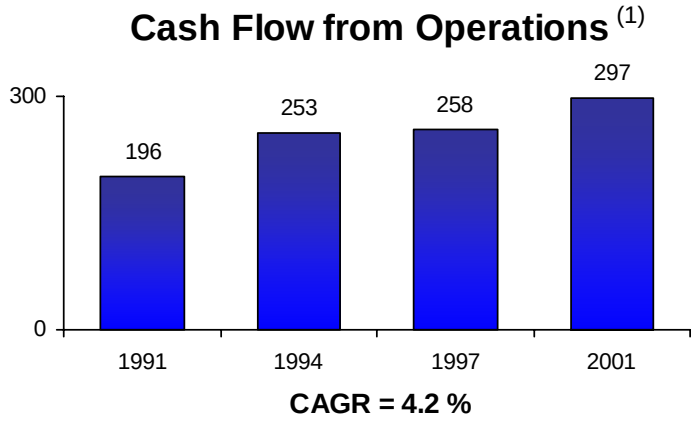
# Historical Financial Review

In millions of $, CAGR = compounded annual growth rate



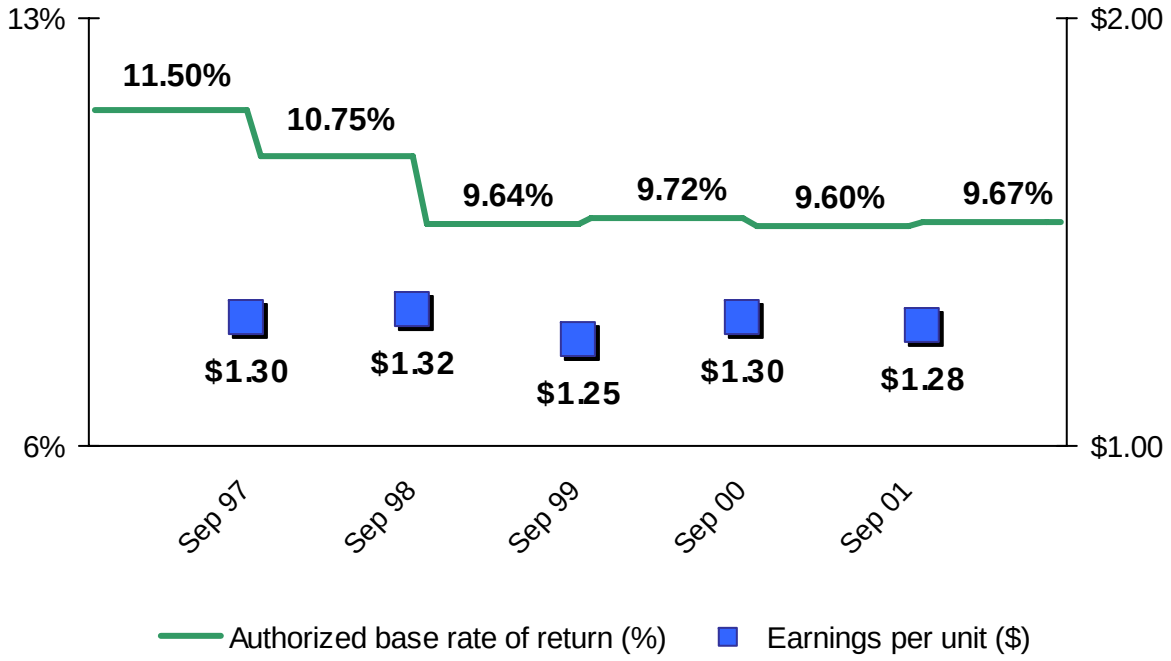




(1) Excluding change in non-cash working capital items

# Income / Authorized return

**Everything being equal, the decline of 190 basis points in the base rate of return between 1997 and 2001 should have resulted in a $0.15 drop in earnings per unit.**

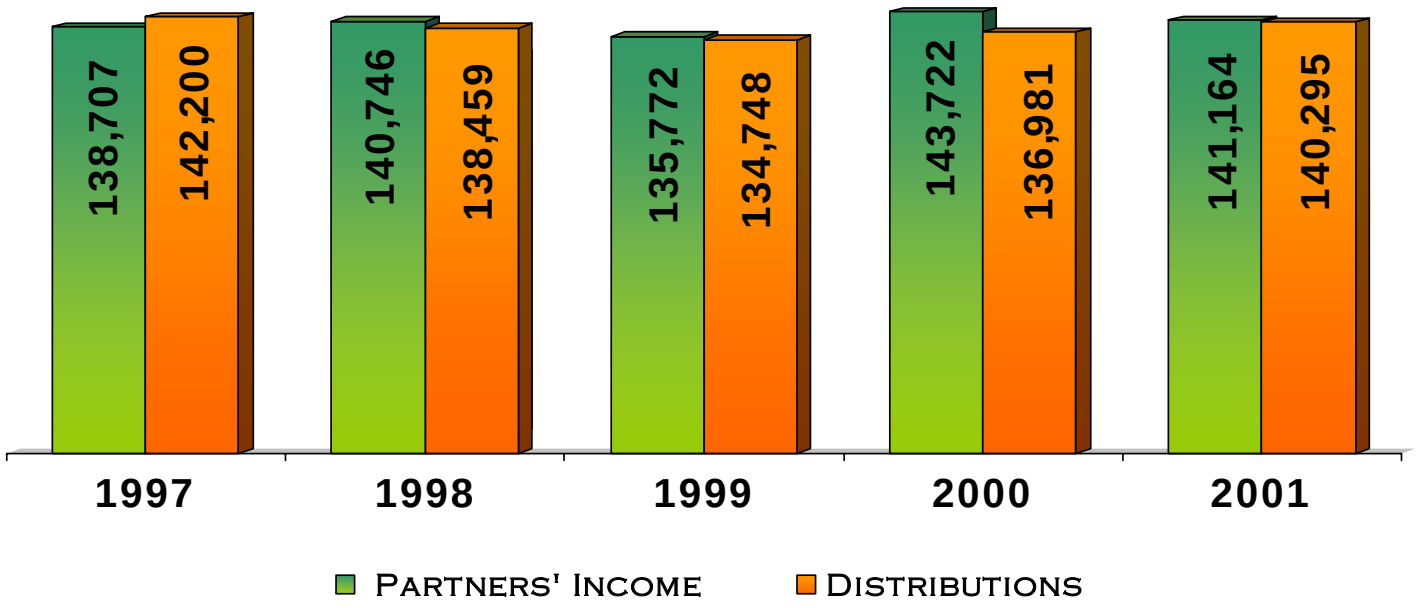
**However, GazMet initiatives succeeded in stabilizing earnings...**



# Distributions

In thousands of $

**Policy is to distribute virtually all of the income in each fiscal year**



# Debt Highlights

## Short-term:

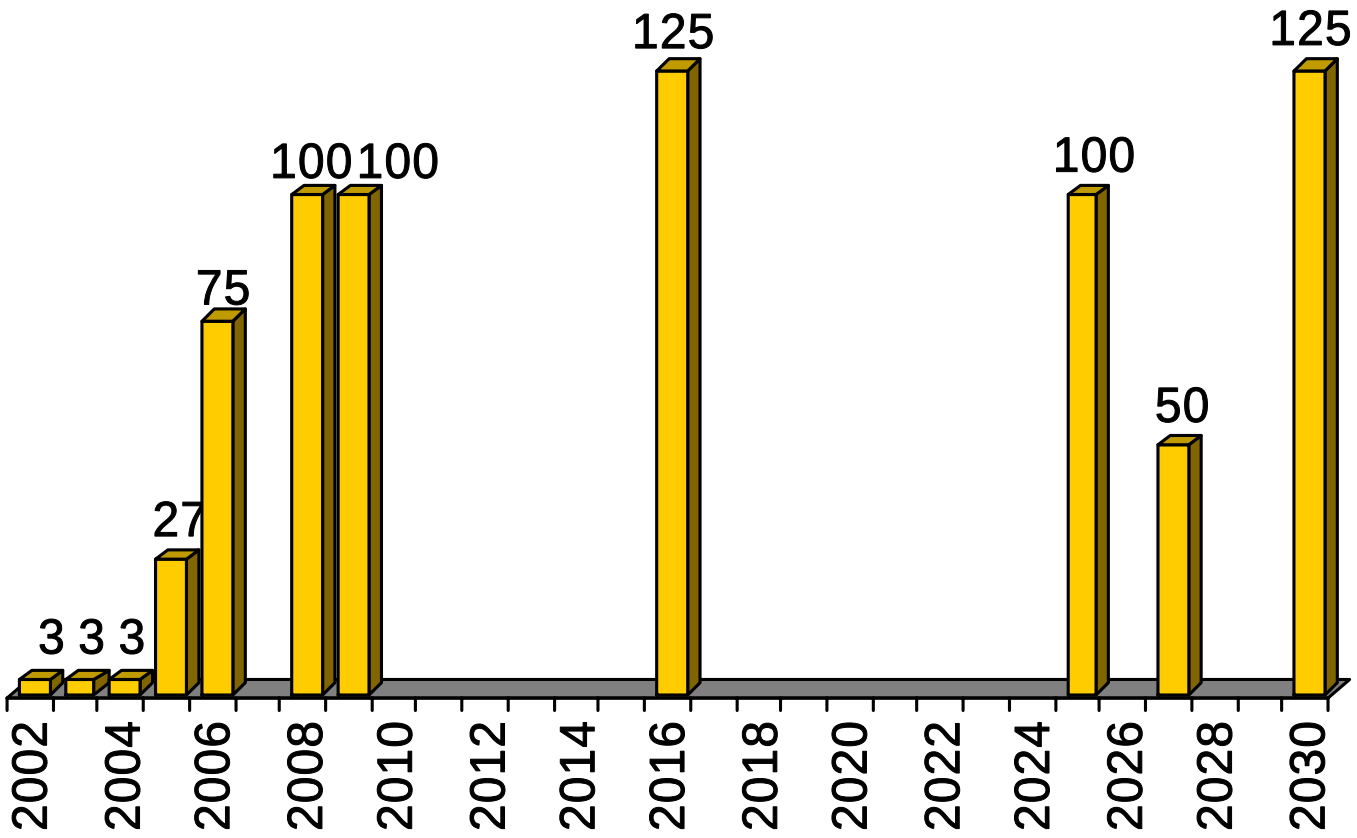
- Commercial paper program:
  - **Up to $300 million;**
  - **Fully backed up by an eight-year line of credit;**
  - **Credit ratings:** **A-1 (low)** **S&P**
    **R-1(low)** **DBRS**

## Long-term:

- First mortgage bonds:
  - **$711 million outstanding;**
  - **Credit ratings:** **A** **S&P**
    **A** **DBRS**
  - **Shelf prospectus for issuance of $250 million FMB MTN valid until September 2002 ($125 million remaining after October 26, 2000 issue);**
  - **Portfolio duration = 8.11 years (as at November 16, 2001).**

# Long-Term Debt Maturities

In millions of $



# Market Data

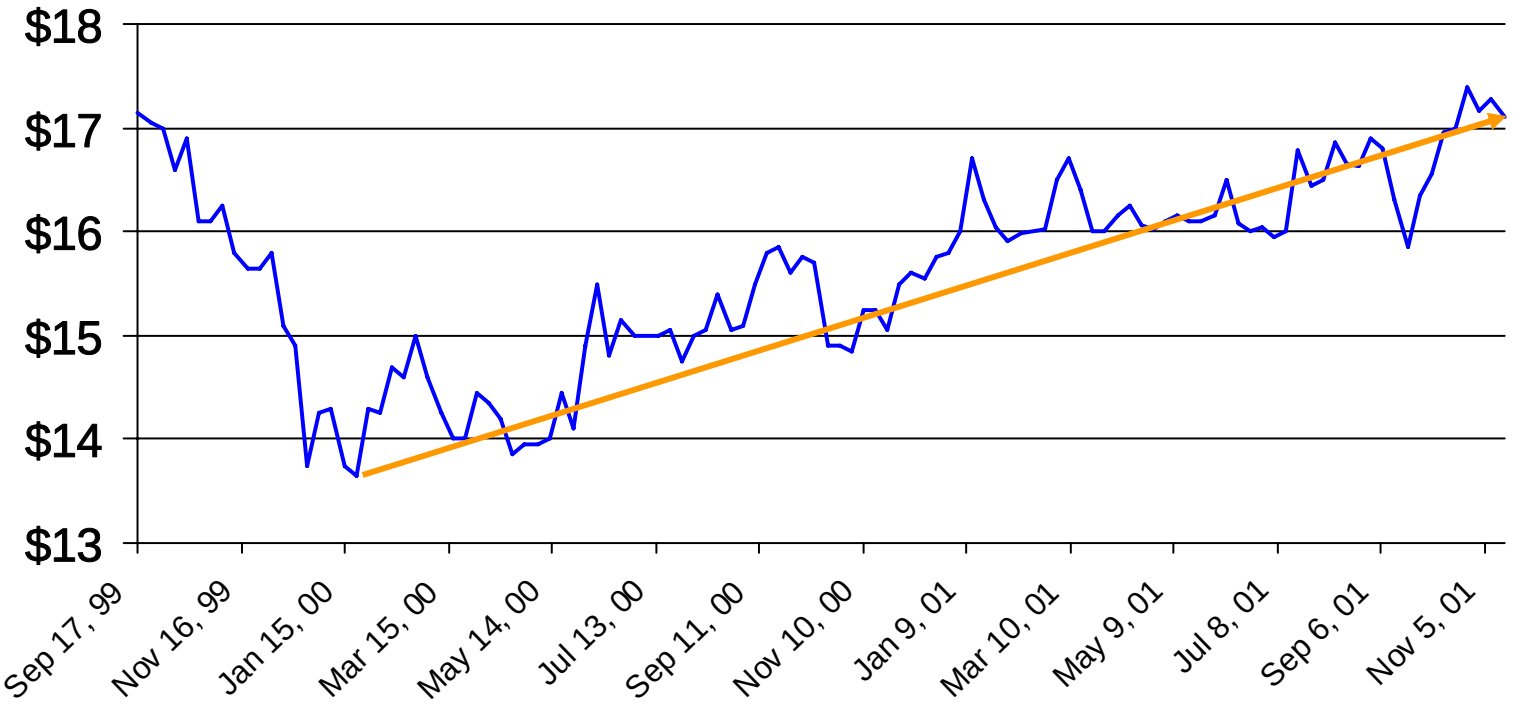
## As of November 16, 2001

| | |
|---|---|
| Market price | $17.10 |
| High/low (52 weeks) | $17.43 - $15.05 |
| Units outstanding | 110.5M |
| Number of partners (estimate) | 27,000 |
| Market capitalization | $1,889.0M |
| Public float | $426.8M |
| Earnings per unit [(1)] | $1.28 |
| Price/earnings | 13.4x |
| Distributions | $1.28 |
| Yield | 7.5% |

[(1)] Last 12 months, Source: Bloomberg.

# Evolution of Unit Price

**After reaching a low of $13.65 in January 2000, GazMet units recovered lost ground**



# Under-Valued Unit

## As of November 16, 2001

| | GazMet | 5-Year Canada Bonds |
|---|---|---|
| Market price | $17.10 | |
| Annual distributions | $1.28 | |
| Actual yield | 7.49% | 4.68% |
| | Actual spread = 281 basis pts | |
| Risk premium used by financial analysts | 250 basis pts | |
| Expected theoretical yield | 7.18% | |
| Theoretical price | $17.83 | |

In theory, GazMet units are currently under-valued by $0.73

# Financial Projections

# Net Income

In millions of $, except per unit data

| | 2002 | 2003 | 2004 | 2005 | % CAGR |
|---|---|---|---|---|---|
| Quebec Distribution | 130 | 134 | 136 | 147 | 4.2 |
| Other | 14 | 17 | 19 | 21 | 14.5 |
| | **144** | **151** | **155** | **168** | 5.3 |
| **Income per unit ($)** | | | | | |
| Quebec Distribution | 1.18 | 1.21 | 1.23 | 1.33 | |
| Other | 0.13 | 0.15 | 0.17 | 0.19 | |
| | **1.31** | **1.36** | **1.40** | **1.52** | |
| Number of units (millions) | 110.5 | 110.5 | 110.5 | 110.5 | |

CAGR = Compounded Annual Growth Rate

# Income Statement

In millions of $, except per unit data

| | 2002 | 2003 | 2004 | 2005 | % CAGR |
|---|---|---|---|---|---|
| Revenues | 2,195 | 1,777 | 1,754 | 1,762 | -7.1 |
| Gross margin | 555 | 573 | 587 | 596 | 2.4 |
| Income before interest, taxes, depreciation and amortization (EBITDA) | 372 | 379 | 387 | 391 | 1.7 |
| Partners' income | 144 | 151 | 155 | 168 | 5.3 |
| Income per unit ($) | 1.31 | 1.36 | 1.40 | 1.52 | |

CAGR = Compounded Annual Growth Rate

# Balance Sheet

In millions of $

| | 2002 | 2003 | 2004 | 2005 | % CAGR |
|---|---|---|---|---|---|
| Total assets | 2,095 | 2,067 | 2,054 | 2,044 | -0.8 |
| Total debt | 1,282 | 1,253 | 1,236 | 1,211 | -1.9 |
| Partners' equity | 813 | 814 | 818 | 832 | 0.8 |
| Total Debt / Capital | 61% | 61% | 60% | 59% | |

CAGR = Compounded Annual Growth Rate

# Financing Surplus (Requirements)

In millions of $

| | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|
| Partners' income | 144.0 | 150.6 | 155.3 | 168.0 |
| Depreciation and amortization | 130.4 | 134.1 | 137.4 | 130.8 |
| Cash flow before non-cash working capital items [1] | 274.4 | 284.7 | 292.7 | 298.8 |
| Change in non-cash working capital items | -16.2 | -11.8 | -8.1 | -9.4 |
| Cash flow from operations | 258.2 | 272.9 | 284.6 | 289.4 |
| Capital expenditures, deferred charges and other | 113.8 | 101.6 | 102.7 | 101.7 |
| Available cash flow before distribution to Partners | 144.4 | 171.3 | 181.9 | 187.7 |
| Distribution to Partners | 141.4 | 145.8 | 152.4 | 154.7 |
| Financing surplus (requirements) | 3.0 | 25.5 | 29.5 | 33.0 |

(1) Excluding reduction in deferred charges related to natural gas transmission and storage (approx. $30 M).

# Per unit data

In dollars

| | 2002 | 2003 | 2004 | 2005 | % CAGR |
|---|---|---|---|---|---|
| Partners' income | 1.31 | 1.36 | 1.40 | 1.52 | 5.1 |
| Distribution to Partners | 1.28 | 1.32 | 1.38 | 1.40 | 3.0 |
| Book value | 7.36 | 7.37 | 7.40 | 7.53 | 0.8 |
| Number of units outstanding (millions) | 110.5 | 110.5 | 110.5 | 110.5 | |

CAGR = Compounded Annual Growth Rate

# Conclusion

# Conclusion

## 2001

- Satisfying results despite 31 Bcf decrease in volumes
- GazMet was well protected with its PBR

**Going forward**

1. Competitive situation looks more favorable
2. Main objective: increase profitability and volumes
3. Productivity gains starting in fiscal year 2003

# DBRS
# Annual Review

**Toronto**

**November 27, 2002**

Gaz Métropolitain

Connecting with the future

# Table of Contents

# Introduction

# Introduction

## 2002: a remarkable year for GazMet

- Volumes up 5.2%
- Gross margin up 3.5%
- Partners' income up 9.5%

Best results in the history of GazMet

Increase in quarterly distributions from $0.32 to $0.34 starting January 1st, 2003

# 2002 at a Glance

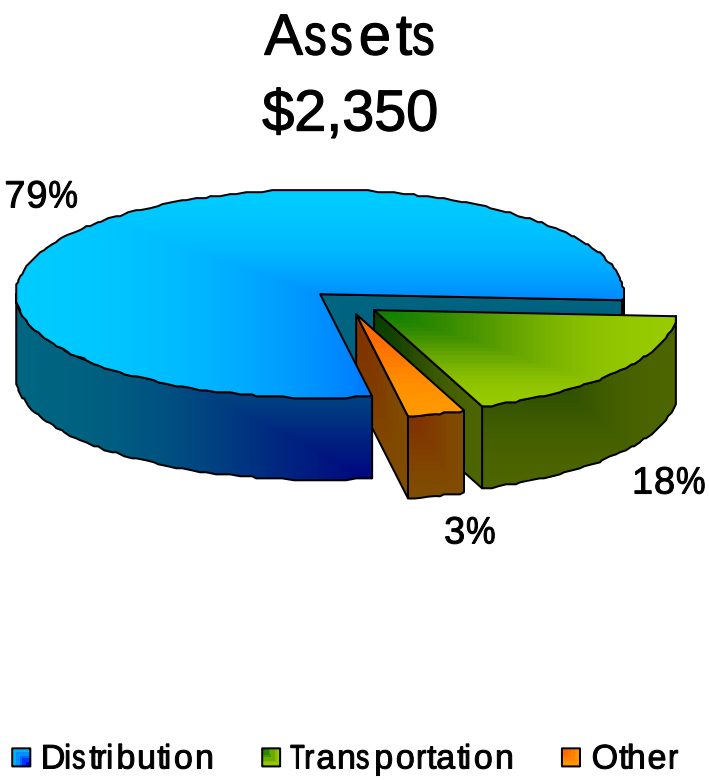
# Highlights

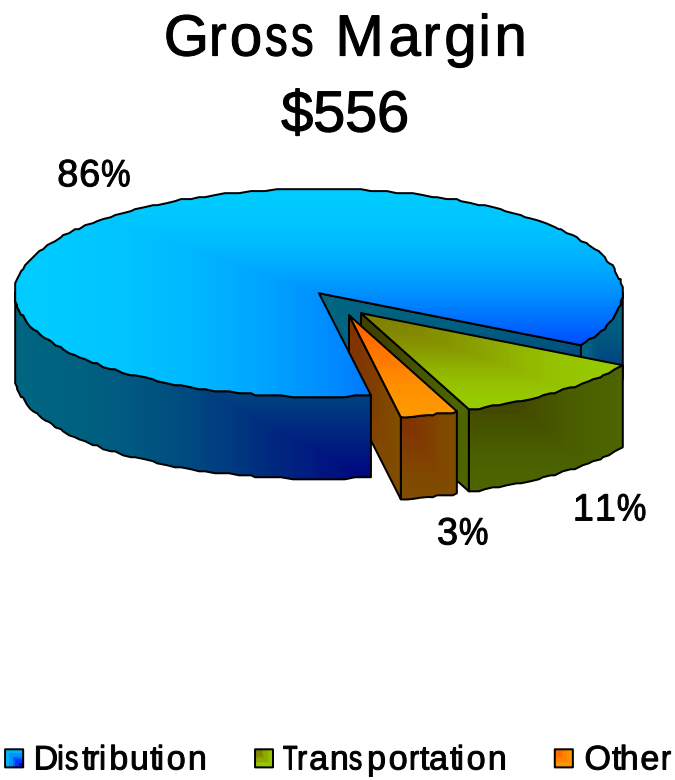
| | | |
|---|---|---|
| Gas Deliveries[1] (Normalized) | 210.9 Bcf | +10.5 |
| System length[1] | 10,061 Km | + 209 |
| Number of customers[1] | 186,800 | + 2,311 |
| Number of employees[1] | 1,306 | |
| Credit Ratings[2] (S&P/DBRS) | A / A | |

(1) Natural gas distribution only.
(2) Long-term debt.

# 2002 Business Segments

In millions of $



# Accomplishments

- Record high partners' income of $154.6 M, up 9.5% - significant progress in all our sectors of activities
- Warmer temperatures compared to normal and 2001 ($50.5 M or 10.4 Bcf increase in rate stabilization account vs $5.3 M or 1.3 Bcf in 2001)
- Acquisition of Servitech Combustion and Option Gaz
- Successful post implementation of SAP (back office portion)
- New rates for PNGTS: agreement with clients - waiting for FERC approval
- Cogeneration of electricity: GazMet to be the unique gas distributor for any project selected by Hydro-Québec
- Partnership agreements with unions: agreement finalized with blue collar employees, negociation in progress with white collar employees

# Normalized Volumes

| (in billions of cubic feet ) | Fiscal years ended Sept. 30 | | Change | Cumulative change % | | | |
|---|---|---|---|---|---|---|---|
| | 2002 | 2001 | Bcf | Q4 (12 months) | Q3 (9 months) | Q2 (6 months) | Q1 (3 months) |
| ***Markets*** | | | | | | | |
| Industrial firm | 75.5 | 77.1 | -1.6 | -2.0% | -3.2% | -6.5% | -11.2% |
| Industrial interruptible | 39.7 | 29.7 | 10.0 | 33.7% | 36.2% | 31.3% | -2.7% |
| Commercial | 69.6 | 67.4 | 2.2 | 3.3% | 4.3% | 4.0% | -0.8% |
| Residential | 26.1 | 26.2 | -0.1 | -0.6% | -2.5% | -5.2% | -18.3% |
| **TOTAL** | **210.9** | **200.4** | **10.5** | **5.2%** | **4.8%** | **2.5%** | **-7.3%** |

| (in millions of cubic metres) | Fiscal years ended Sept. 30 | | Change | |
|---|---|---|---|---|
| | 2002 | 2001 | $10^6m^3$ | % |
| ***Markets*** | | | | |
| Industrial firm | 2,138 | 2,182 | -44 | -2.0% |
| Industrial interruptible | 1,124 | 841 | 283 | 33.7% |
| Commercial | 1,972 | 1,909 | 63 | 3.3% |
| Residential | 739 | 744 | -5 | -0.6% |
| **TOTAL** | **5,973** | **5,676** | **297** | **5.2%** |

Note: differences are due to rounding.
Conversion factor: 1 billion cubic feet = 28.328 million cubic metres

- Favorable competitive situation
- Favorable economic conditions
- Impact of high gas prices on clients' purchasing behavior not yet reflected in Q1/2001

# Competitive Situation in Québec

Last 12 months

| Market | Main Competitor | How competitive |
|---|---|---|
| Commercial & Institutional | Electricity | 25% cheaper |
| Residential | Electricity | Even footing to10% more expensive |
| Industrial | Fuel oil #6 | 10% more expensive but more flexible |

# New Sales

In billions of cubic feet; to be converted into additionnal volumes in the years to come

| Market | 2000 | 2001 | 2002 | Estimated Additional Gross Margin ($ millions/Bcf) |
|---|---|---|---|---|
| **Residential** | 0.26 | 0.19 | 0.24 | 8.0 |
| **Commercial** | 4.88 | 3.48 | 3.81 | 3.6 |
| **Industrial** | 1.14 | 1.46 | 3.58 | 0.7 |
| | 6.28 | 5.13 | 7.63 | |

# Incentive Mechanism Update

# Theory

**New PBR Mechanism**

**Revenue Cap (R)**

Rates inflated by CPI less productivity factor of 0.3%

**Cost of service (C)**

Base rate of return on partners' equity determined by automatic formula

❶ Hybrid between Revenue Cap and Cost of Service

❷ Revenue Cap formula:

**R = (r * (1+i - 0.3%)) * forecasted volumes ± z**

r = gas distribution rates

i = inflation rate

z = exogenous factors

# Theory (cont'd)

❸ How it works

Before beginning of fiscal year

- If R > C: productivity gains shared
  - ⇨ 52.5% GazMet
    ($ kept for 5 years without any annual rate adjustment)
  - ⇨ 47.5% Customers
    ($ distributed in the form of a reduction in rates of upcoming fiscal year)
- If R < C: no productivity gains
  - ⇨ Rates set to meet cost of service
  - ⇨ GazMet owes "C-R" plus related interests to customers (this debt will have to be reimbursed before any future sharing of productivity gains or overearnings)

# Theory (cont'd)

After closing of fiscal year

- If productivity gains are > than expected: overearnings shared
  - ⇨ 1/3 GazMet (Share of overearnings recorded in the year earned)
  - ⇨ 2/3 Customers ($ distributed in the form of a reduction in rates of second subsequent fiscal year)
- If productivity gains are < than expected but > 0: GazMet keeps 100% of what is realized (since the customers got their share before the beginning of the fiscal year and there is no resharing)
- If productivity gains are < 0: deficiency shared
  - ⇨ 50% GazMet (share of deficiency recorded in the year realized)
  - ⇨ 50% Customers (share of deficiency paid by customers through an increase in rates of second subsequent fiscal year; this debt, plus interests, will have to be reimbursed before any future sharing of productivity gains or overearnings)

# Theory (cont'd)

❹ Upside potential of up to 400 basis points (after-tax) per year above base rate of return (approx. $40 M / year)

❺ Overall downside risk limited to 1.5% *rate base* 50% (approximately $12 M cumulative over the initial 5-year period

❻ Exogenous factors:
- ⊙ Interest rates
- ⊙ ROE
- ⊙ Weather normalization deferral account
- ⊙ Energy efficiency programs

❼ Off-ramps:
- ⊙ Productivity gains of 400 basis points or more for 2 consecutive years
- ⊙ Inflation above 5% for 2 consecutive years
- ⊙ No productivity gains for 3 consecutive years
- ⊙ Amount in deferral account (debt owed to customers when there are no productivity gains) ≥ 1.5% of rate base at year-end

# 2-Year Retrospective

| | 2001 | 2002 | 2003 |
|---|---|---|---|
| Base rate of return | 9.60% | 9.67% | 9.89% |
| Anticipated productivity gains | 0.78% | 0.02% | 0.45% |
| Realized rate of return | 9.60% | 9.69% | -- |
| Overearnings | None | $27.1 M(1) | -- |
| Deficiency | None | None | -- |

(1) GazMet share ($9.0 M) included in 2002 results; clients share ($18.1 M) to be distributed in the form of a $12.8 M reduction in the 2004 rates and a $5.3 M contribution to the Energy Efficiency Fund in 2004.

Note: Since the introduction of new performance inventive mechanism on October 1st, 2000, GazMet share of overearnings has to be recorded in the year earned and the clients' share of overearnings are kept in a special account bearing interests and distributed in the second subsequent fiscal year.

# 2003 Anticipated Productivity Gain

In thousands of $

| | |
|---|---|
| **Revenue CAP** | **429,873** |
| **Cost of service** | **(422,157)** |
| **Productivity gain** | **7,716** |

- Clients' share (47.5%) $3,665
- GazMet share (52.5%) $4,051

**GazMet share expressed in the form of a rate of return**

| | |
|---|---|
| **GazMet share** | **4,051** |
| **Income tax (32.4%)** | **(1,313)** |
| | **2,738** |
| **Equity - Québec Distribution** | **÷ 613,179** |
| | **0.45%** |

# Financial Data

# Financial Results

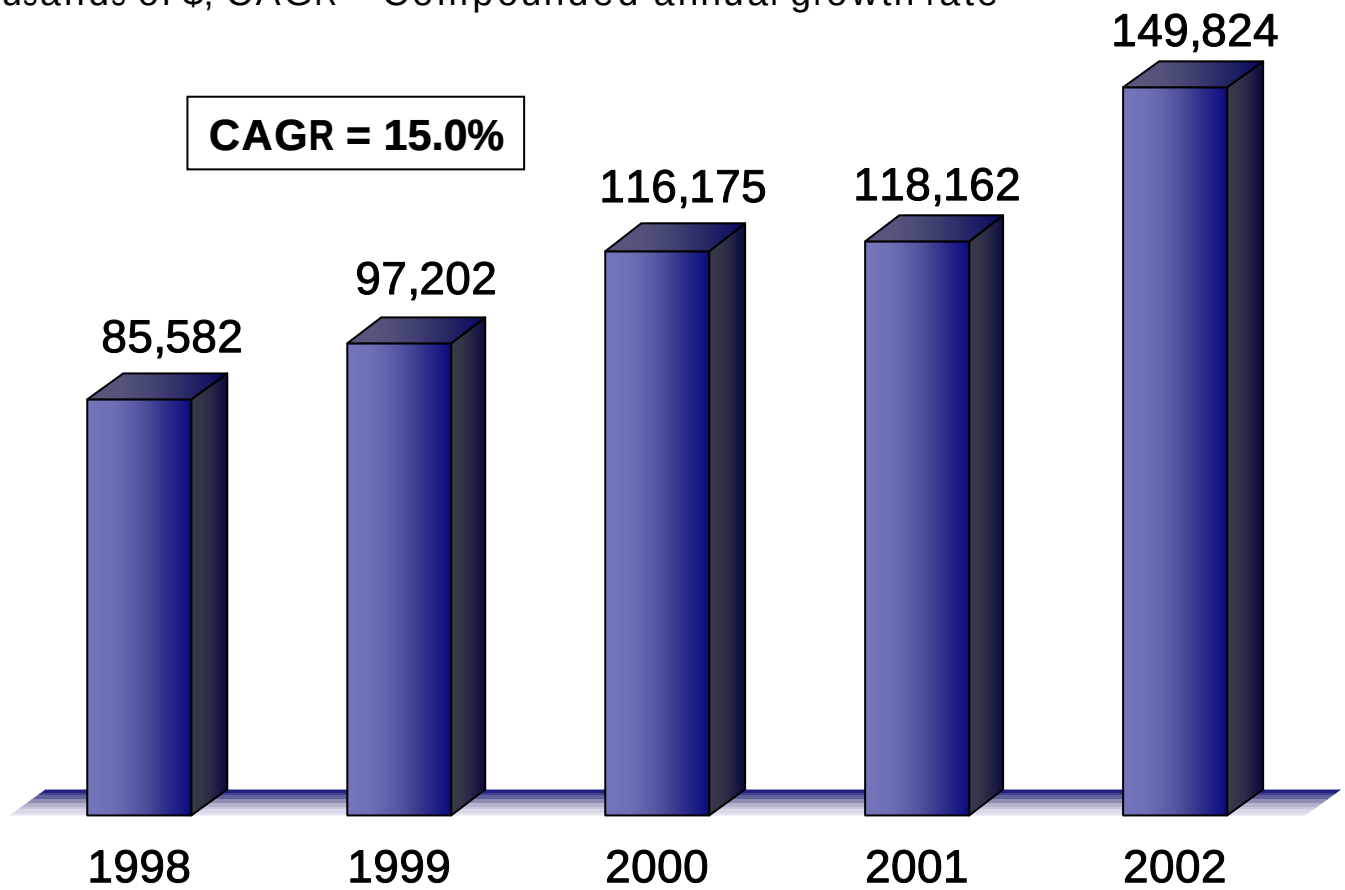
In millions of $, except per unit data, in $

| | Fiscal years ended Sept. 30 | | Change | |
|---|---|---|---|---|
| | **2002** | **2001** | **$** | **%** |
| **Revenues** | 1,607.7 | 2,070.0 | -462.3 | -22.3% |
| **Gross Margin** | 555.9 | 537.1 | 18.8 | 3.5% |
| **Partners' Income** | 154.6 | 141.2 | 13.4 | 9.5% |
| **Partners' Income per Unit** | 1.40 | 1.28 | 0.12 | |
| **Average # of units Outstanding** | 110.5 | 110.5 | | |
| **Cash Flow from Operations [1] [A]** | 286.2 | 297.5 | -11.3 | -3.8% |
| **Capital Expenditures** | | | | |
| • Expansion & Development **[B]** | 65.0 | 50.8 | 14.2 | 27.9% |
| • Maintenance [**C**] | 30.0 | 30.0 | | |
| • Deferred Charges [2] **[D]** | 33.8 | 48.0 | -14.2 | -29.5% |
| | 128.8 | 128.8 | 0.0 | |
| **Distributions [E]** | 141.4 | 140.3 | 1.1 | 0.8% |
| **Free CF after Maint. Capex [A-C-E]** | 114.8 | 127.2 | -12.4 | -9.7% |
| **Net Free CF [A-B-C-D-E]** | 16.0 | 28.4 | -12.4 | -43.7% |
| **Total Assets** | 2,349.9 | 2,349.7 | 0.2 | 0.0% |
| **Total Debt** | 1,271.0 | 1,308.8 | -37.8 | -2.9% |
| **Partners' Equity** | 822.7 | 811.8 | 10.9 | 1.3% |

(1) Excluding change in non-cash working capital.
(2) Excluding deferred charges related to gas cost of -$9.1 million in 2002 and +$124.1 million in 2001.
Note 1: Differences are due to rounding.

# Evolution of Normalized Free Cash Flow (1)

In thousands of $; CAGR = Compounded annual growth rate




(1) Funds from operations before change in non-cash working capital items and rate stabilization account (weather only) minus maintenance capex and distributions.

# Segmented Data — 2002

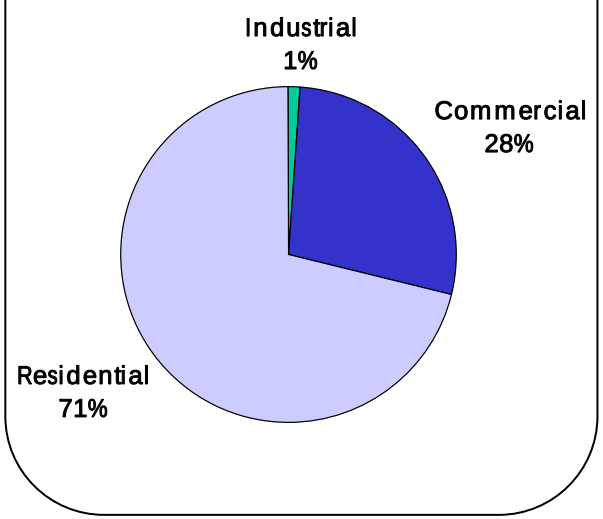
Partners' income in thousands of $

| | Distribution | Transportation | Energy Services and other | Non-allocated expenses and eliminations | Total |
|---|---|---|---|---|---|
| **Fiscal year ended Sept. 30, 2002** | 142,070 | 12,842 | -57 | -275 | 154,580 |
| **Fiscal year ended Sept. 30, 2001** | 134,554 | 10,303 | -1,359 | -2,334 | 141,164 |
| **$ Change** | + 7,516 | +2,539 | +1,302 | +2,059 | 13,416 |
| **% Change** | +5.6% | +24.6% | +95.8% | +88.2% | 9.5% |

# Québec Distribution Clientèle

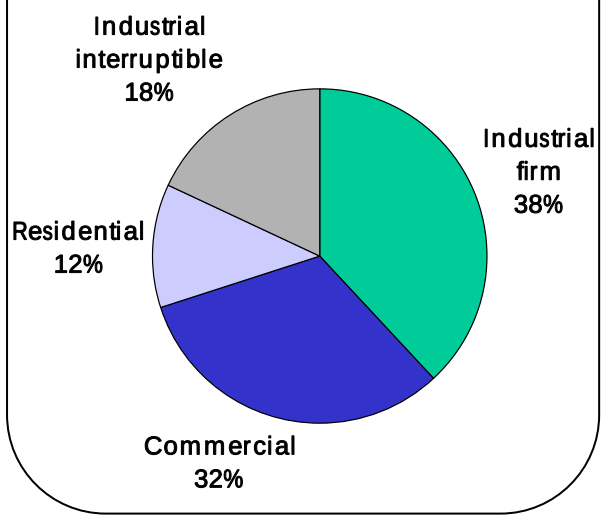
2002 Fiscal Year

**Number of clients**



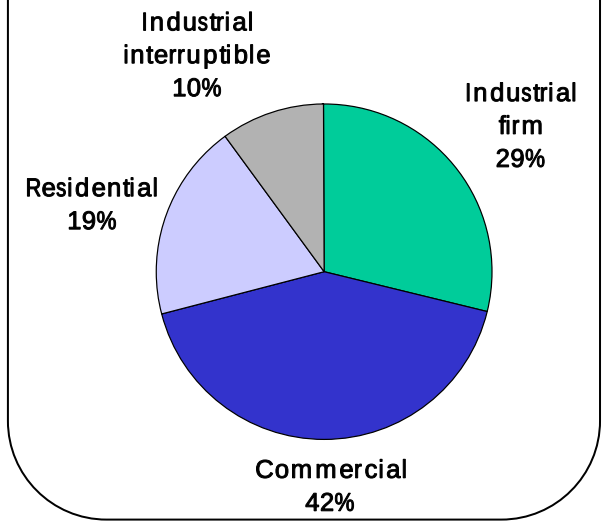

Total number of clients: 152,565

**Normalized volumes**




Total normalized volumes: 202.9 Bcf

**Revenues**




Total revenues: $1,379 M

# Impact of the Reduction in the Federal Tax Rate

## Context

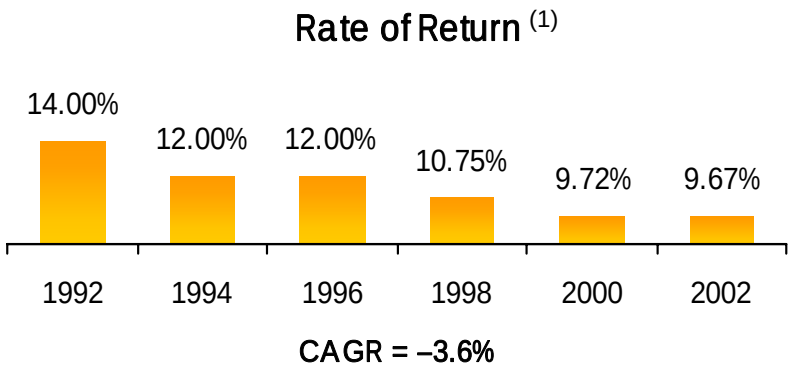
Gaz Métropolitain LP and TQM LP do not pay taxes, but they include a deemed current tax cost in the rates for their regulated activities

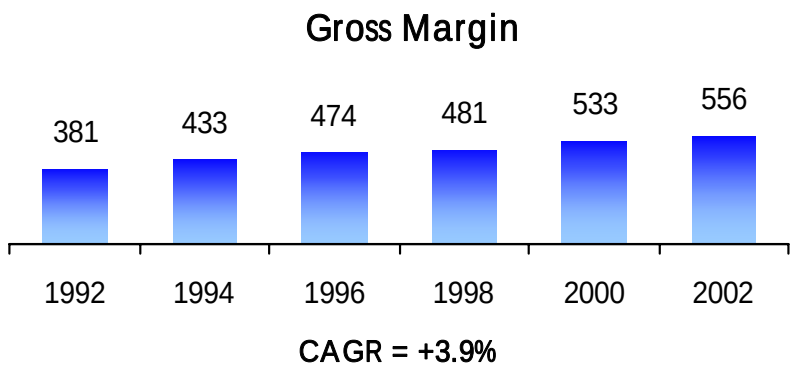
## Impact

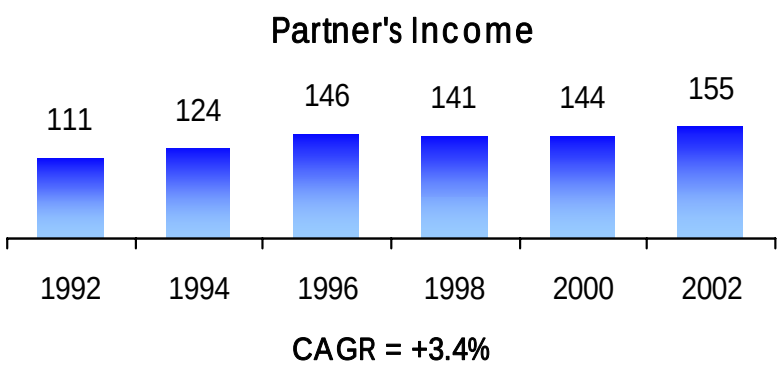
| | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| Corporate federal tax rate (calendar year basis) | 28% | 27% | 25% | 23% | 21% |
| | | -1% | -2% | -2% | -2% |
| Negative impact on GazMet revenues and income | | $1.6M | $3.9M | | |

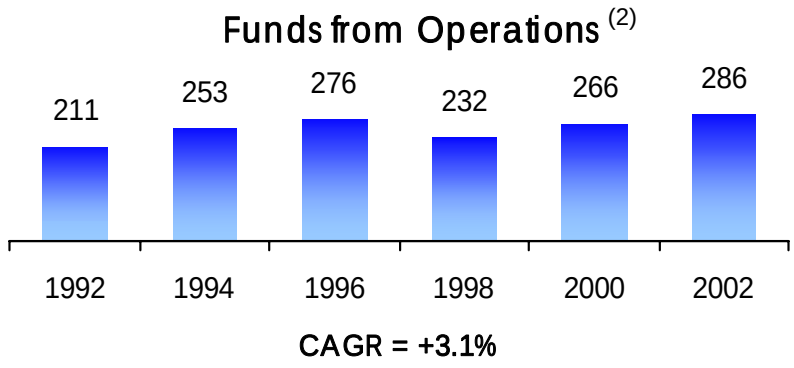
# Historical Financial Review

In millions of $, CAGR = compounded annual growth rate




(1) Base rate of return on partner's equity allocated to the Québec natural gas distribution activity authorized by the Régie de l'Énergie.
(2) Before change in non-cash working capital.

# Key Ratios

| | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|
| EBIT Interest Coverage | 2.5x | 2.6x | 2.4x | 2.7x |
| | 2.6x | 2.8x | 2.6x | 3.0x |
| FFO[1] Interest Coverage | 2.6x | 2.9x | 2.9x | 3.2x |
| | 3.1x | 3.4x | 3.1x | 4.0x |
| Total Debt / Total Capital | 58.8% | 60.3% | 61.7% | 60.7% |
| | 57.5% | 58.7% | 60.3% | 58.5% |
| FFO[1]/Avg. Total Debt[2] | 21.0% | 22.5% | 23.5% | 22.2% |
| | 25.1% | 26.3% | 25.0% | 27.5% |
| NCF[3]/Capex[4] | 46.9% | 113.8% | 122.0% | 120.9% |
| | 63.0% | 136.6% | 121.7% | 156.4% |

(1) Funds from operations before change in non-cash working capital items.

(2) 2-year average.

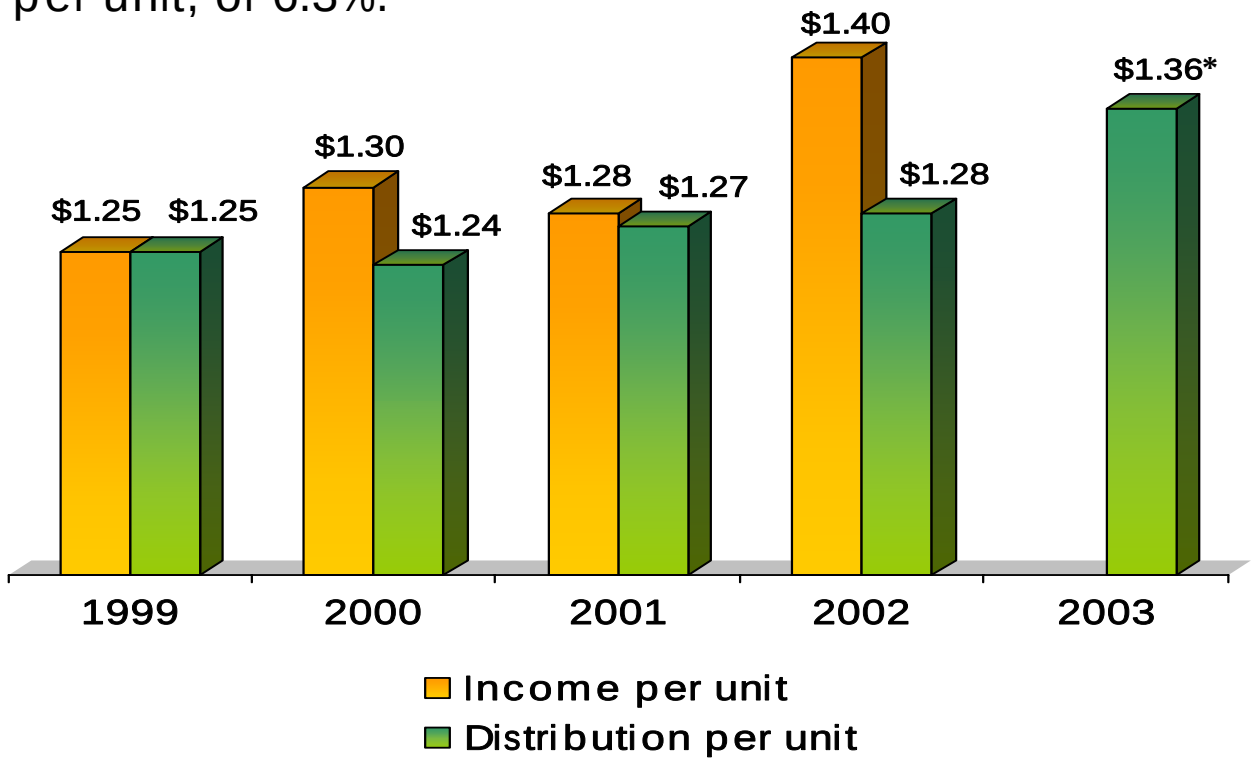
(3) FFO less distributions.

(4) Property, plant and equipment plus deferred charges (excluding those related to gas cost).

Note: Shaded data represent approximated GazMet results under normal temperatures.

# Income Distributions

Increase in quarterly income distributions from $0.32 to $0.34 per unit starting January 1st, 2003. On an annual basis, the income distributions should reach $1.36, which represents an increase of $0.08 per unit, or 6.3%.




* Anticipated annual distribution.

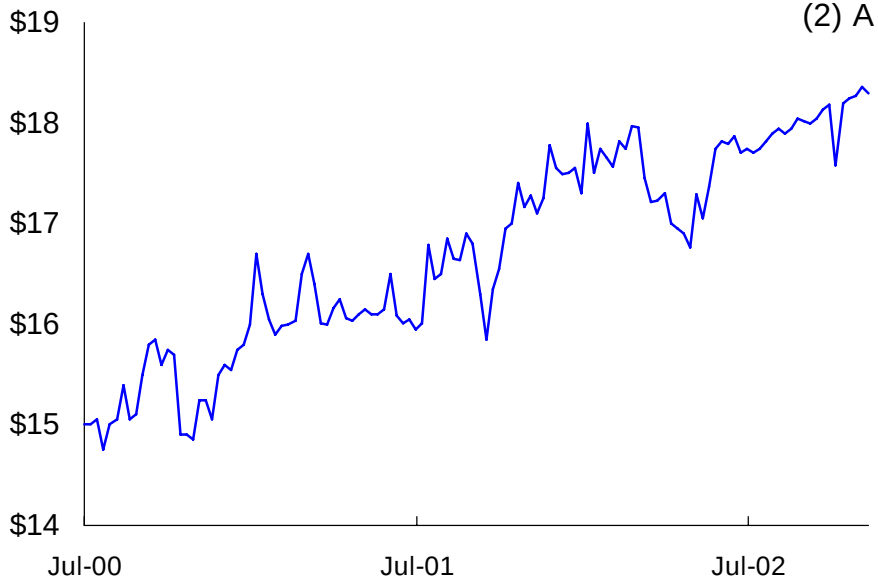
# Evolution of Unit Price

As of November 22, 2002

| | | | |
|---|---|---|---|
| Market price | $18.43 | Earnings per unit (1) | $1.40 |
| Units outstanding | 110.5 M | Price/Earnings | 13.2x |
| Market capitalization | $2,035.9 M | Annual cash distribution (2) | $1.36 |
| Public float | $459.8 M | Actual distribution yield | 7.4% |

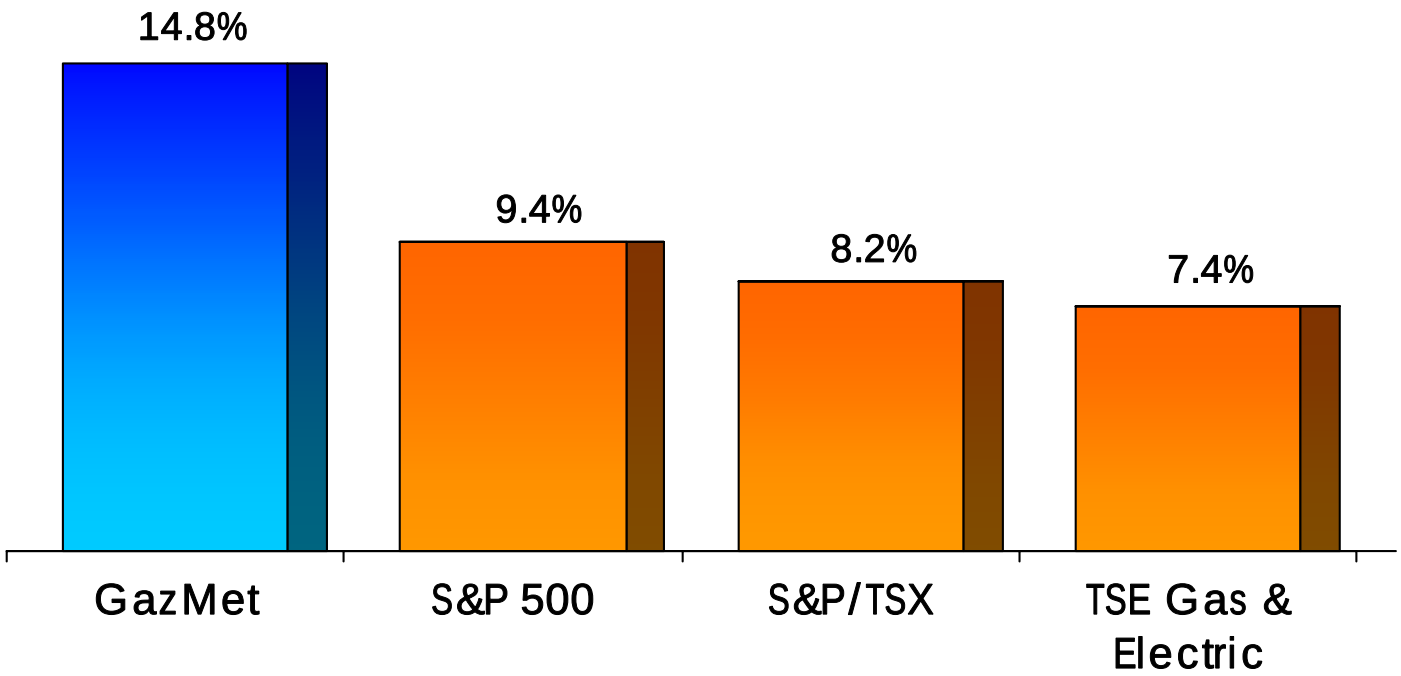
(1) As of September 30, 2002.

(2) Anticipated annual distribution.



# Annualized Total Return

In a bull or bear market, GazMet units create value




Note: Annualized total return from February 1993 to October 2002.
Source: Bloomberg.

# Debt Highlights

## Short-term:

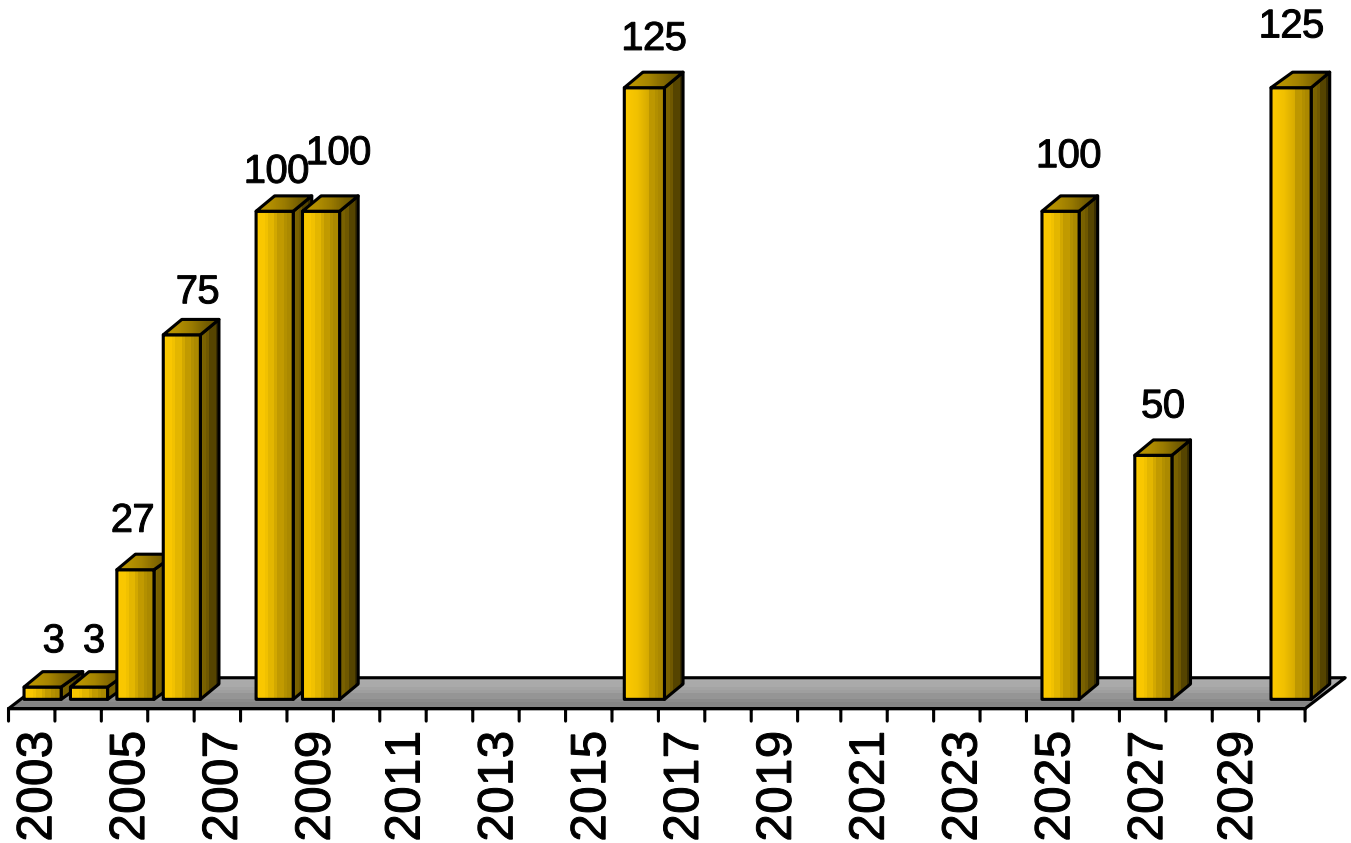
- Commercial paper program:
  - **Up to $300 million;**
  - **Fully backed up by a committed line of credit maturing in April 2005;**
  - **Credit ratings:** **A-1 (low) ⇨ S&P**
    **R-1 (low) ⇨ DBRS**

## Long-term:

- First mortgage bonds:
  - **$711 million outstanding;**
  - **Credit ratings:** **A ⇨ S&P**
    **A ⇨ DBRS**
  - **Shelf prospectus for issuance of $125 million FMB MTN will be filed shortly and valid for 2 years;**
  - **Portfolio duration = 8.0 years (as at November 21, 2002).**

# Long-Term Debt Maturities

In millions of $



# Development and Value Creation Strategies

# Development and Value Creation Strategies

❶ **Natural gas distribution**

- Increase volumes in residential market
  - new construction and densification
- Increase volumes in commercial & institutional markets
  - new construction, volume increase and dual energy
- Increase volumes in industrial market
  - Kyoto ⇨ switch from heavy oil to natural gas = 40% less $CO_2$ emissions

❷ **Transportation of natural gas**

- Fully benefit from the investment in PNGTS in 2003

❸ **Cogeneration**

- Take advantage of the development of electricity and steam generation plants using natural gas
  - large plants to secure supply of electricity in peak periods
  - small plants to supply electricity and steam to industrial users

# Development and Value Creation Strategies (cont'd)

❹ **Biogas**

- Take part of the development of biogas in Québec

❺ **Non-regulated activities**

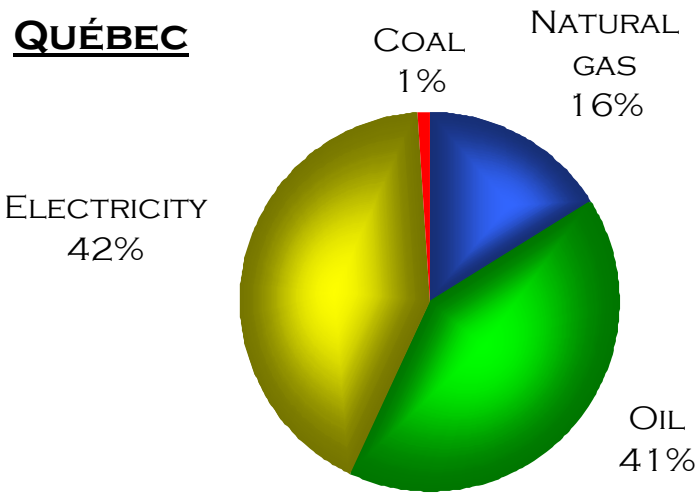
- Benefit from the investments made in energy services, water and cable companies

# Natural Gas Market Penetration

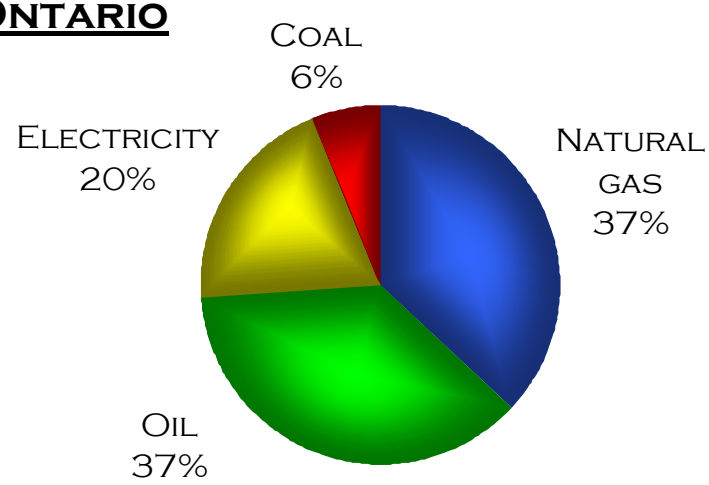
| | Residential market | Overall |
|---|---|---|
| Québec | 11% | 16% |
| Ontario | 62% | 37% |
| Canada | 50% | 32% |

Source: Statistics Canada.

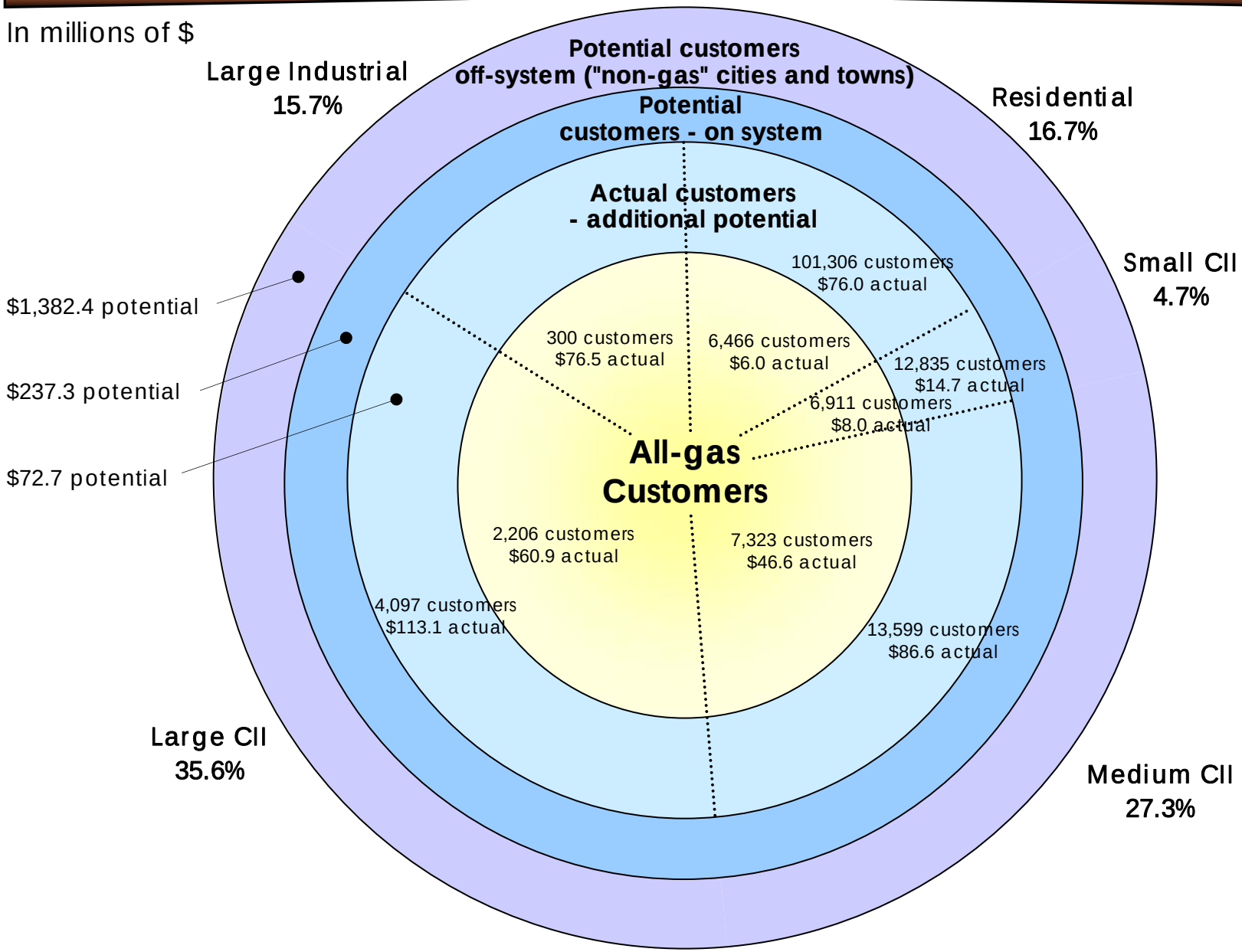
**Québec**




**Ontario**



# Market Potential - Québec Distribution



# Biogas

- Upcoming legislation (2003)
  - Obligation to capture and burn biogas
- 65 domestic waste disposal sites in Québec
  - 25 have a biogas development potential
    - they generate enough methane to produce 12-15 Bcf of natural gas per year
- GasMet has exclusive natural gas distribution rights in Québec
- Biogas: unique development opportunity
  - Solution to environmental problem: anticipated reductions in $CO_2$ emissions = 406,000 tons per year
  - Better contribution of a traditionally spoiled energy source
  - Good opportunity for the domestic waste disposal sites' managers (private, municipal and others)

# Water Sector

## InfraMetrix

- New company created on October 2002 by Aqua Data and Malcom Pirnie (U.S. engineering firm)
- Head office in Boston with 45 offices throughout the U.S. (via Malcom Pirnie)
- Significant potential for diagnosis and rehabilitation of infrastructures
  - New U.S. legislation for the assessment of municipal infrastructures' conditions

# Fibre Optics Sector

- Sector in development
- Investment in Cable VDN at cost (12.2% as of September 30, 2002)
- State of the art network
- Specialized in the "last mile connection" in the greater Montreal area
- 2002 revenues up by 81% to $4 M
- EBITDA positive in 2002
- Debt free in 2003 (after debt conversion into equity, GazMet will hold approximately 45% of VDN)

# Conclusion

# Conclusion

❶ Pure utility play
❷ Modern and reliable system
❸ Low business risk
❹ Attractive regulatory framework
❺ Strong cash flow
❻ Strong capital structure
❼ Customer oriented culture

+

Strong market potential

=

Selective and profitable growth

# Appendix

# Mission and Objectives

## Mission:

- Transport and distribute natural gas in Québec and the northeastern portion of the United States
- Pursue non-regulated activities in the energy, water and fibre optics fields





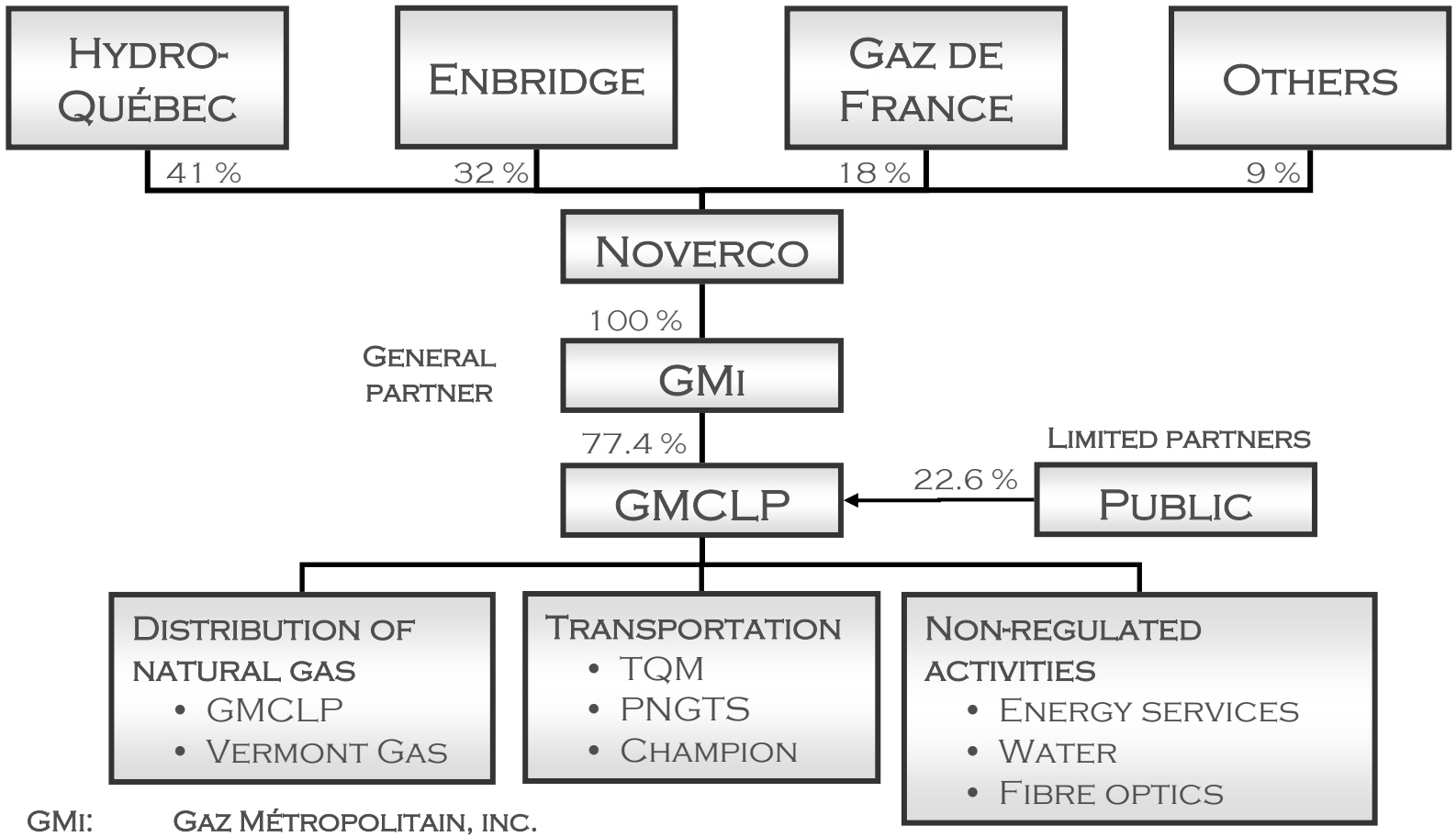
## Objectives:

- Financial: Provide stable and predictable return accompanied by growth in value over time
- Commercial: Provide high-quality energy services at the lowest possible cost

# Positioning

- 3rd largest natural gas distributor in Canada
- #1 natural gas distributor in Québec (97% market share)
- Sole natural gas distributor in Vermont, United States

# Corporate Structure




GMi: Gaz Métropolitain, inc.
GMCLP: Gaz Métropolitain and Company, Limited Partnership
TQM: TQM Pipeline and Company, Limited Partnership
PNGTS: Portland Natural Gas Transmission System

# GazMet vs the Income Trust Family

| GazMet LP | Income Trust |
| --- | --- |
| ⊙ Distributes business income and keeps its cash flow to grow the business | ⊙ Distributes its cash flow and must issue new units to grow the business |
| ⊙ Units not treated as foreign property | ⊙ Units treated as foreign property |
| ⊙ Pure regulated utility play with a limited partnership structure | ⊙ Unregulated businesses |
| ⊙ General partner management fees limited to $50,000/year | ⊙ Management fees tied to production, revenues or cash distributed |
| ⊙ Limited responsibility for unitholders | ⊙ Sharing of responsibility among unitholders |

# Incentive Mechanism

7-year illustrative example
Scenario: no overearnings or deficiency at end of year

| | Beginning of fiscal year | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Year 1** | **Year 2** | **Year 3** | **Year 4** | **Year 5** | **Year 6** | **Year 7** |
| Volumes ($10^6 m^3$) | 6,000 | 6,120 | 6,242 | 6,367 | 6,495 | 6,624 | 6,757 |
| Inflated Rates (¢/$m^3$) | 7.00 | 7.12 | 7.24 | 7.36 | 7.49 | 7.62 | 7.75 |
| Revenue Cap ($ M) | **420.00** | **435.68** | **451.95** | **468.83** | **486.33** | **504.49** | **523.33** |
| Cost of Service ($ M) | 400.00 | 408.00 | 416.16 | 424.48 | 432.97 | 441.63 | 450.46 |
| Productivity Gain ($ M) | 20.00 | 27.68 | 35.79 | 44.34 | 53.36 | 62.86 | 72.87 |
| Adjusted Revenues ($ M) | 410.50 | 422.53 | 434.95 | 447.76 | 460.99 | 464.13 | 474.19 |
| Adjusted Rates ($) | 6.84 | 6.90 | 6.97 | 7.03 | 7.10 | 7.01 | 7.02 |

| | | | |
|---|---|---|---|
| Inflation = | 2.0% | GazMet Share of Productivity Gains = | 52.5% |
| Productivity Factor = | 0.3% | Clients Share of Productivity Gains = | 47.5% |
| Exogenous Factors = | - $ | | |
| Volumes Growth Rate = | 2.0% | | |

# Rate Base Data

In millions of $

| | 2002 Rate Case | | 2002 Effective | | 2003 Rate Case | |
|---|---|---|---|---|---|---|
| | PP&E | Total | PP&E | Total | PP&E | Total |
| Beginning of year | 1,240 | 1,747 | 1,232 | 1,622 | 1,238 | 1,649 |
| End of year | 1,229 | 1,814 | 1,249 | 1,606 | 1,237 | 1,629 |
| Average | 1,232 | 1,657 | 1,237 | 1,546 | 1,236 | 1,563 |

# DBRS
# Annual Review

**Toronto**

**November 27, 2002**

Gaz Métropolitain

Connecting with the future

# DBRS
# Annual Review

Toronto

December 3, 2003

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# Table of Contents





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# Introduction

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# Introduction

## 2003: A good year for Gaz Métro

| | |
|---|---|
| ✓ Revenues up | 9.3% |
| ✓ Gross margin up | 3.5% |
| ✓ Partners Income per unit | $1.39 |
| ✓ Distributions up 4.7% to | $1.34 |
| Total return | 20.2% |



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# 2003 at a Glance

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# Highlights

| | |
|---|---|
| Gas deliveries [1] (Normalized) | 201.8 Bcf |
| System length [1] | 10,219 Km |
| Number of customers [1] | 188,716 |
| Number of employees [1] | 1,250 |
| Credit ratings [2] (S&P/DBRS) | A / A |
| Stability ratings (S&P/DBRS) | SR-1/STA-1 (low) |

(1) Québec and Vermont natural gas distribution.
(2) Long-term debt.



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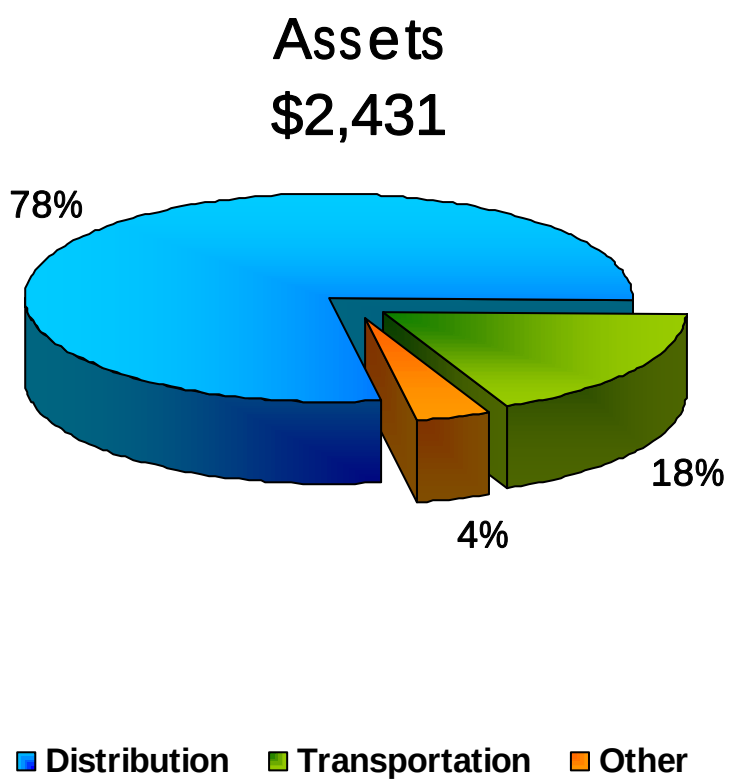
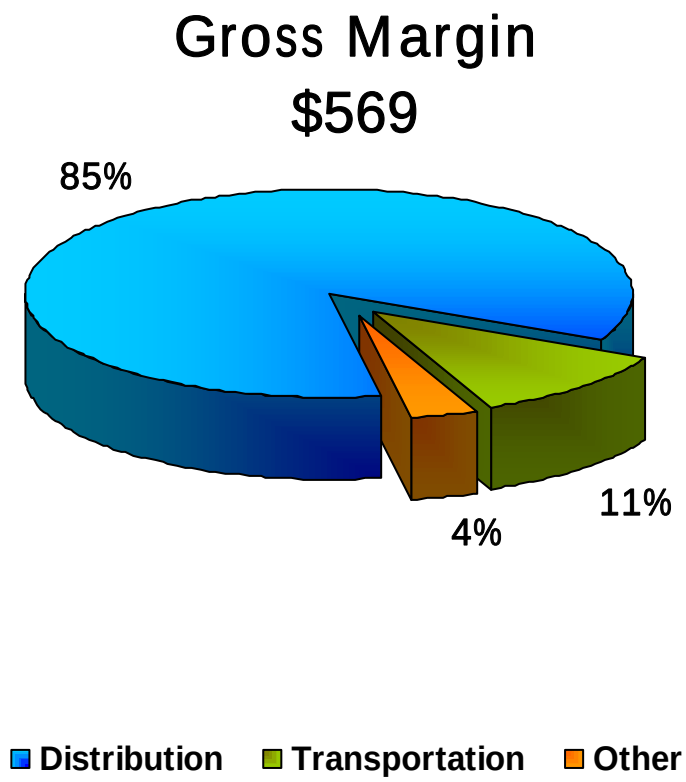
# 2003 Business Segments

**In millions**



# Accomplishments

- Distributions up from $1.28 in 2002 to $1.34 in 2003, an increase of 4.7%
- Colder temperatures compared to normal and 2002 ($11.7 M decrease in rate stabilization account vs $50.5 M increase in 2002)
- FERC approved new rates for PNGTS, recognition of PNGTS revenues in 2003
- Issue of 4 million units for a gross proceed of $80.5 million (including over-allotment) (Sept.03)
- $125 million bond issue (30-year term, 6.3% coupon) (Oct.03)
- Acquisitions of PNGTS participations: 6.1% (Sept. 03) and 11.3% (Nov.03). After closing of the last transaction (scheduled for early Dec. 03), Gaz Métro will own 38.3% of PNGTS
- Launch of a new image and name change to Gaz Métro Limited Partnership and Gaz Métro inc.
- Increase of the participation in Aqua-Rehab from 50% to 100% (Nov. 03)



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# Normalized Volumes

| *(in billions of cubic feet )* | Fiscal years ended Sept. 30 | | Change | |
|---|---|---|---|---|
| | **2003** | **2002** | **Bcf** | **%** |
| **Markets** | | | | |
| Industrial firm | 78.5 | 77.5 | 1.0 | 1.4% |
| Industrial interruptible | 29.9 | 37.8 | -7.9 | -21.0% |
| Commercial | 67.2 | 67.6 | -0.4 | -0.6% |
| Residential | 26.2 | 26.1 | 0.1 | 0.3% |
| **TOTAL** | **201.8** | **209.0** | **-7.2** | **-3.4%** |

| *(in millions of cubic metres)* | Fiscal years ended Sept. 30 | | Change | |
|---|---|---|---|---|
| | **2003** | **2002** | **$10^6 m^3$** | **%** |
| **Markets** | | | | |
| Industrial firm | 2,224 | 2,194 | 30 | 1.4% |
| Industrial interruptible | 847 | 1,072 | -225 | -21.0% |
| Commercial | 1,905 | 1,916 | -11 | -0.6% |
| Residential | 741 | 739 | 2 | 0.3% |
| **TOTAL** | **5,717** | **5,921** | **-204** | **-3.4%** |

Note: Differences are due to rounding

Conversion factor: 1 billion cubic feet = 28.328 million cubic metres



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# Competitive Situation

## How competitive is natural gas in Québec ?

| Market | Main Competitor | How competitive* |
|---|---|---|
| Industrial | Fuel oil #6 | More expensive but more flexible and less polluting |
| Commercial & Institutional | Electricity | 7% cheaper |
| Residential | Electricity | 16% to 23% more expensive |

*** Based on last 12 month historical prices.**



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# New Sales

**In billions of cubic feet; to be converted into additional volumes in coming years**

| Market | 2000 | 2001 | 2002 | 2003 | Estimated revenue for distribution ($ millions/Bcf) |
|---|---|---|---|---|---|
| **Industrial** | 1.14 | 1.46 | 3.58 | 6.09 | 0.4 |
| **Commercial** | 4.88 | 3.48 | 3.81 | 4.60 | 3.3 |
| **Residential** | 0.26 | 0.19 | 0.24 | 0.34 | 7.8 |
| | **6.28** | **5.13** | **7.63** | **11.03** | |



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# Incentive Mechanism

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# Incentive Mechanism - New Proposition

- The current incentive mechanism was put in place on October 1st, 2000 and expected to run until September 30, 2005, with the right to reevaluate the terms in 2003

- The negotiations began in May 2003 and further to an agreement with the intervenors, a proposition was recently filed with the Régie de l'énergie

- The proposition, that needs the approval of the Régie, includes some changes to the actual incentive mechanism. These changes are summarized in the following pages



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# Incentive Mechanism - Actual vs. New Agreement

| | Actual Mechanism | New Agreement |
|---|---|---|
| **Term** | October 1, 2000 to September 30, 2005 | October 1, 2004 to September 30, 2009 |
| **« X » Factor** | 0.3% | 0.5% |
| **Productivity Gain (beginning)** | GMLP: 52.5%<br>Customers: 47.5% | GMLP: 50%<br>Customers: 50% |
| **Productivity Gain (end)** | GMLP: 33 1/3%<br>Customers: 66 2/3% | GMLP: 25%<br>Customers: 75% |



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# Incentive Mechanism - Actual vs. New Agreement (cont'd)

| | Actual Mechanism | New Agreement |
|---|---|---|
| **Right to reevaluate** | In 2003 | In 2007 |
| **Maximum bonification for Gaz Métro** | Off-ramp if bonification >400 basis points for two consecutive years | No off-ramp for bonification. Limit of 375 basis points (the surplus goes 100% to customers) |
| **Bonification for F2004** | 1.51% | 1.35%* |

* Bonification that Gaz Métro would have had for F2004 if the new agreement had been approved at the beginning of the current year



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# 3-Year Retrospective

| | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|
| **Base rate of return** | **9.60%** | **9.67%** | **9.89%** | **9.45%** |
| **Anticipated productivity gains** | **0.78%** | **0.02%** | **0.45%** | **1.51%** |
| **Realized rate of return** | **9.60%** | **10.67%** | **10.91%** | **--** |
| **Overearnings** | **None** | **$27.1 M(1)** | **$13.2 M(2)** | **--** |
| **Deficiency** | **None** | **None** | **None** | **--** |

(1) Gaz Métro share ($9.0 M) included in 2002 results; customers' share ($18.1 M) to be distributed in the form of a $12.8 M reduction in the 2004 rates and a $5.3 M contribution to the Energy Efficiency Fund.

(2) Gaz Métro share ($4.4 M) included in 2003 results; customers' share ($8.8 M) to be distributed in the form of a $6.2 M reduction in the 2005 rates and a $2.6 M contribution to the Energy Efficiency Fund.

**Note: Since the introduction of the new performance incentive mechanism on October 1, 2000, Gaz Métro share of overearnings has to be recorded in the year earned and the customers' share of overearnings is kept in a special account bearing interest and distributed in the second subsequent fiscal year.**



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# 2004 Anticipated Productivity Gains

**In thousands of $**

| | |
|---|---|
| Revenue CAP | 445,233 |
| Cost of service | (418,715) |
| Productivity gains | 26,518 |

- **Customers' share (47.5%)** **$12,596**
- **Gaz Métro share (52.5%)** **$13,922**

Gaz Métro share expressed in the form of a rate of return

| | |
|---|---|
| Gaz Métro share | 13,922 |
| Income tax (30.4%) | (4,232) |
| | 9,690 |
| Equity - Québec Distribution | ÷ 639,729 |
| | 1.51% |



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# Financial Data

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# Financial Results
## (in millions of $, except per unit data, in $)

| | Fiscal years ended Sept. 30 | | Change | |
|---|---|---|---|---|
| | **2003** | **2002** | **$** | **%** |
| **Revenues** | 1,756.5 | 1,607.7 | 148.8 | 9.3% |
| **Gross Margin** | 568.8 | 555.9 | 12.9 | 2.3% |
| **Partners' Income** | 153.3 | 154.6 | -1.3 | -0.8% |
| **Partners' Income per unit** | 1.39 | 1.40 | -0.01 | |
| **Weighted average # of units O/S** | 110.5 | 110.5 | | |
| **Number of units O/S**[1] | 113.9 | 110.5 | | |
| **Cash Flow from operations**[2] | 349.1 | 286.2 | 62.9 | 22.0% |
| Distributions | 148.0 | 141.4 | 6.6 | 4.7% |
| Maintenance CAPEX | 35.0 | 30.0 | 5.0 | 16.7% |
| **Free CF** | **166.1** | **114.8** | **51.3** | **44.7%** |
| Expansion & Developement | 70.7 | 65.0 | 5.7 | 8.8% |
| Deferred Charges[3] | 35.6 | 21.1 | 14.5 | 68.7% |
| **Net Free CF before W/C** | **59.8** | **28.7** | **31.1** | **108.4%** |
| **Total Assets** | 2,431.2 | 2,337.2 | 94.0 | 4.0% |
| **Total Debt** | 1,319.4 | 1,271.0 | 48.4 | 3.8% |
| **Partners' Equity** | 876.0 | 822.7 | 53.3 | 6.5% |

[1] Further to the exercise of the over-allotment option on October 21,2003, the number of units outstanding currently stand at 114.4 million

[2] Excluding changes in non-cash working capital items

[3] Excluding deferred charges related to gas cost of + $94.1 M and - $9.1 M for 2003 and 2002 respectively, but including commercial programs and information system development.

Note: Differences are due to rounding



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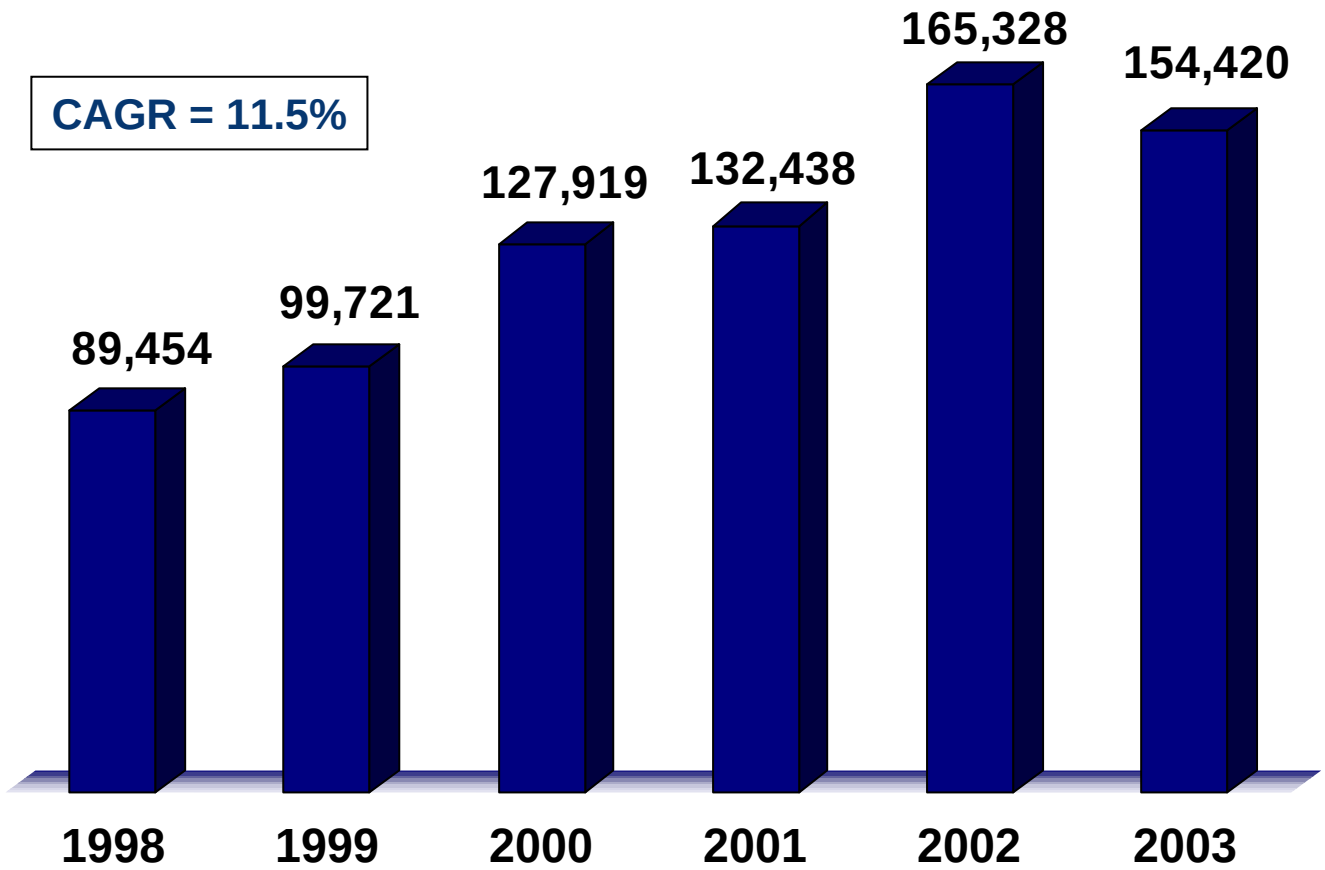
# Evolution of Normalized Free Cash Flow (1)

In thousands of $; CAGR = Compounded annual growth rate




(1) Funds from operations before changes in non-cash working capital items and rate stabilization account minus maintenance capex and distributions.



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# Segmented Data

(Partners' Income in thousands of $)

| | Distribution | Transport | Energy services And other | Non-allocated expenses and eliminations | Total |
|---|---|---|---|---|---|
| **Fiscal year ended Sept. 30, 2003** | 137,975 | 16,618 | -171 | -1,095 | 153,327 |
| **Fiscal year ended Sept. 30, 2002** | 142,070 | 12,842 | -57 | -275 | 154,580 |
| **$ Change** | -4,095 | +3,776 | -114 | -820 | -1,253 |
| **% Change** | -2.9 | +29.4 | NA | NA | -0.8 |



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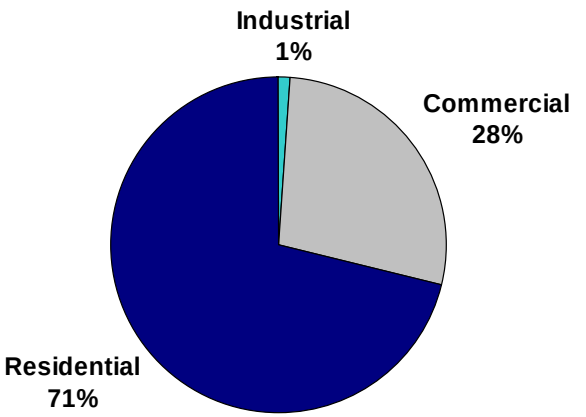
# Québec Distribution Clientèle

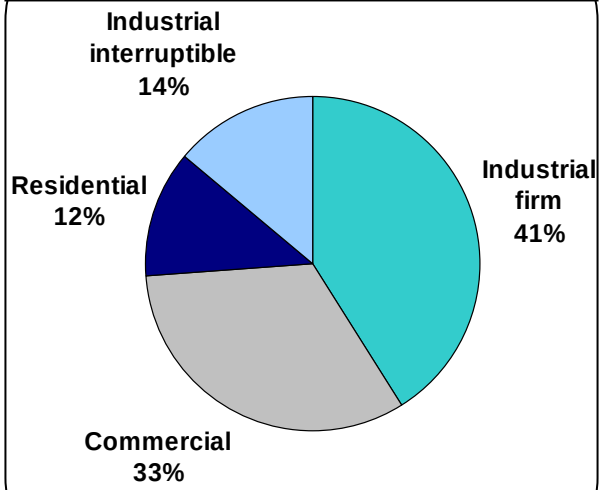
## 2003 Fiscal Year

### Number of customers



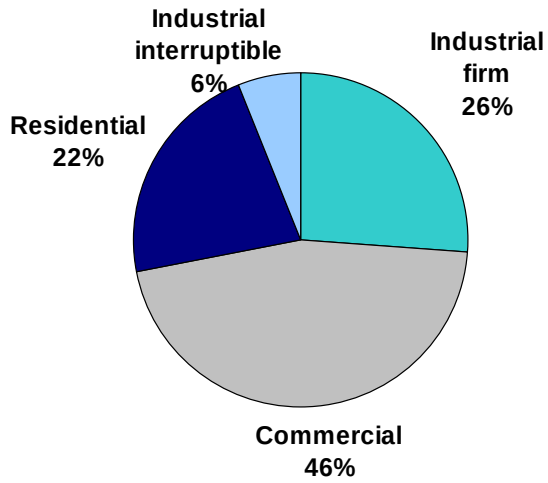

Total number of customers: 153,684

### Normalized volumes




Total normalized volumes: 193.4 Bcf

### Revenues




Total revenues: $1,534 M



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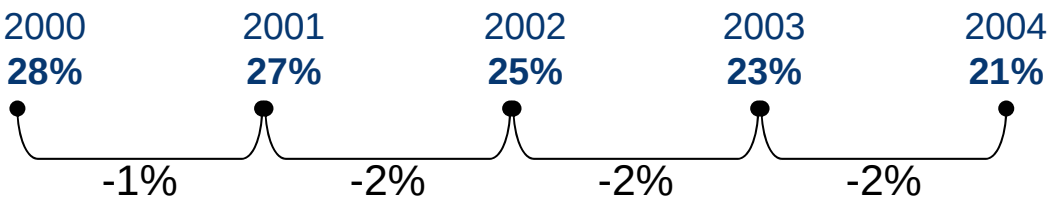
# Impact of Reduction in Federal Tax Rate

## Context

**Gaz Métro LP and TQM LP do not pay taxes, but they include a deemed current tax cost in the rates for their regulated activities**

## Impact

**Corporate federal tax rate (calendar year basis)**




**Negative impact on Gaz Métro revenues and income**

**$1.6M** **$4.0M** **$4.6M**



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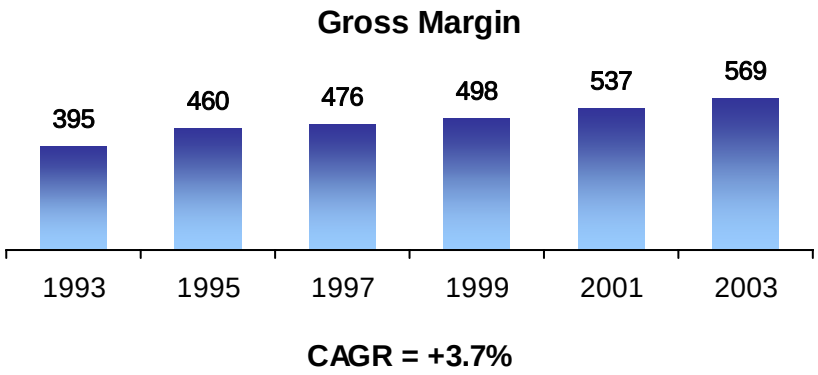
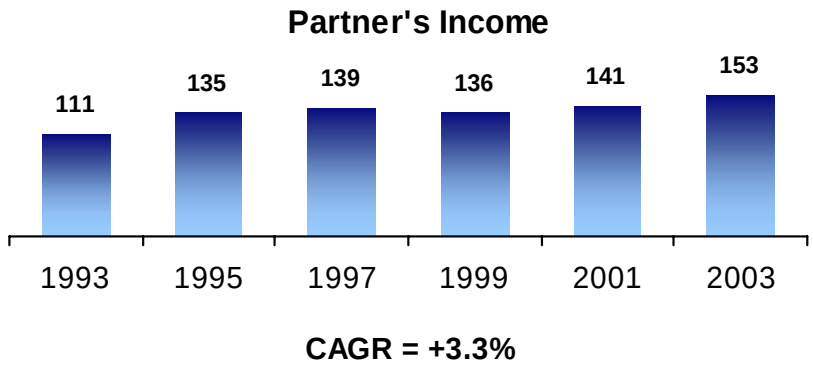
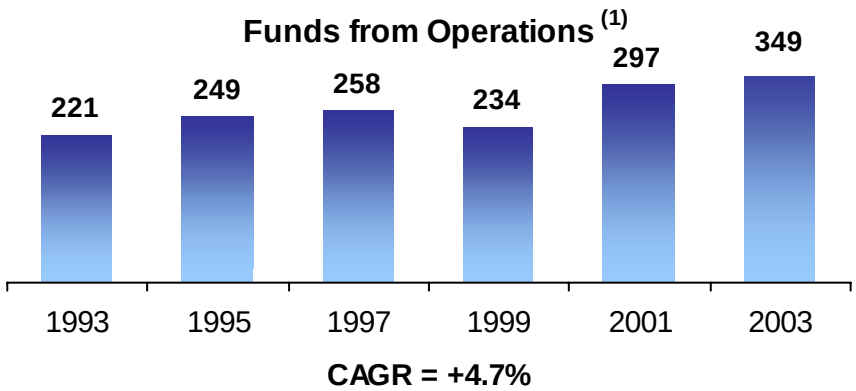
# Historical Financial Review

In millions of $, CAGR = compounded annual growth rate




(1) Before changes in non-cash working capital items



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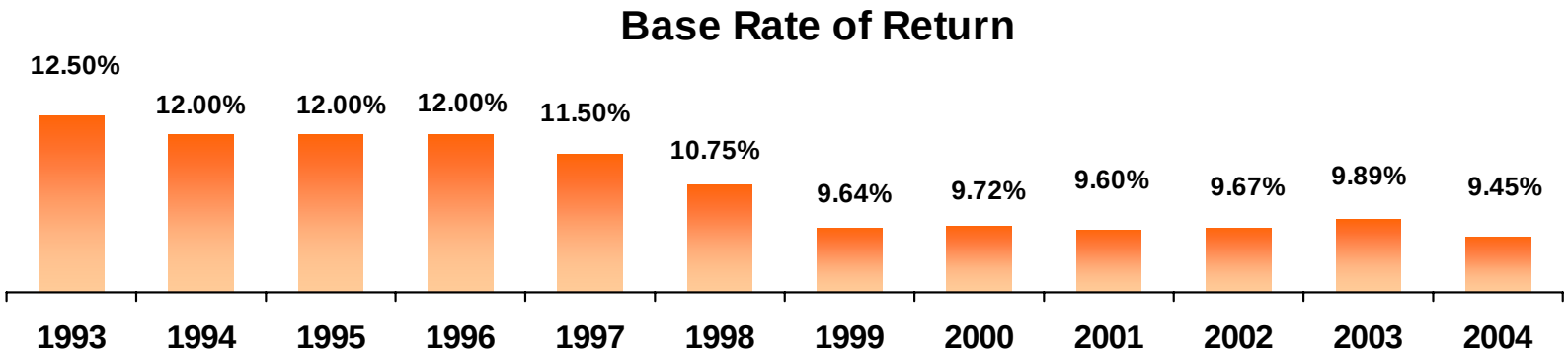
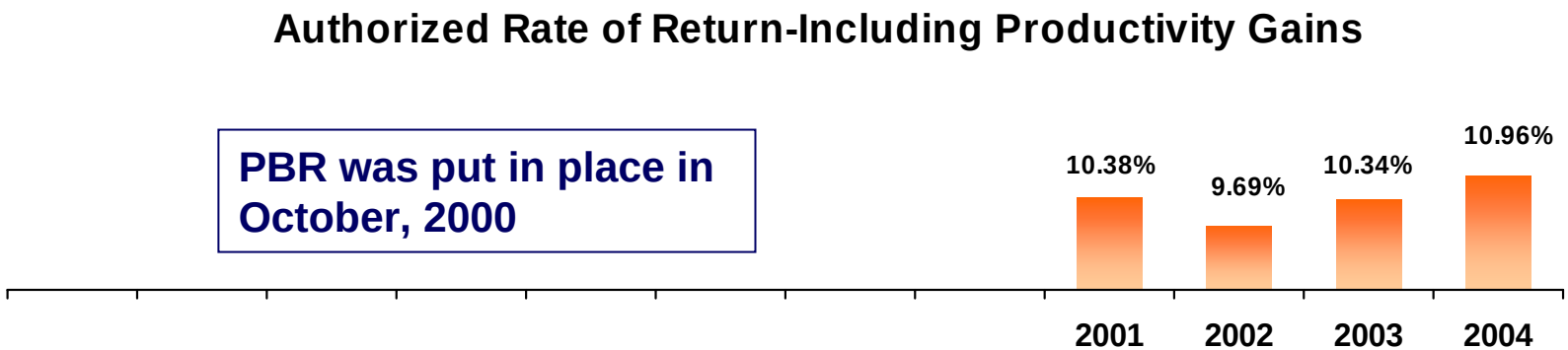
# Historical Financial Review



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# Key Ratios

| | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|
| **EBIT Interest Coverage** | **2.7x** | **2.5x** | **2.8x** | **2.9x** |
| | 2.9x | 2.7x | 3.1x | 3.0x |
| **FFO[(1)] Interest Coverage** | **3.0x** | **3.1x** | **3.4x** | **4.0x** |
| | 3.6x | 3.3x | 4.3x | 4.1x |
| **Total Debt / Total Capital** | **60.3%** | **61.7%** | **60.7%** | **60.1%** |
| | 58.7% | 60.3% | 58.5% | 58.6% |
| **FFO[(1)]/Avg. Total Debt[(2)]** | **22.5%** | **23.5%** | **22.2%** | **27.0%** |
| | 26.3% | 25.0% | 27.5% | 27.3% |
| **NCF[(3)]/Capex[(4)]** | **93.0%** | **62.1%** | **135.4%** | **85.4%** |
| | 111.6% | 62.0% | 175.2% | 76.1% |

(1) Funds from operations before change in non-cash working capital items.
(2) 2-year average.
(3) FFO less distributions.
(4) Property, plant and equipment plus deferred charges.

Note: Shaded data represent approximated Gaz Métro results under normal temperatures.



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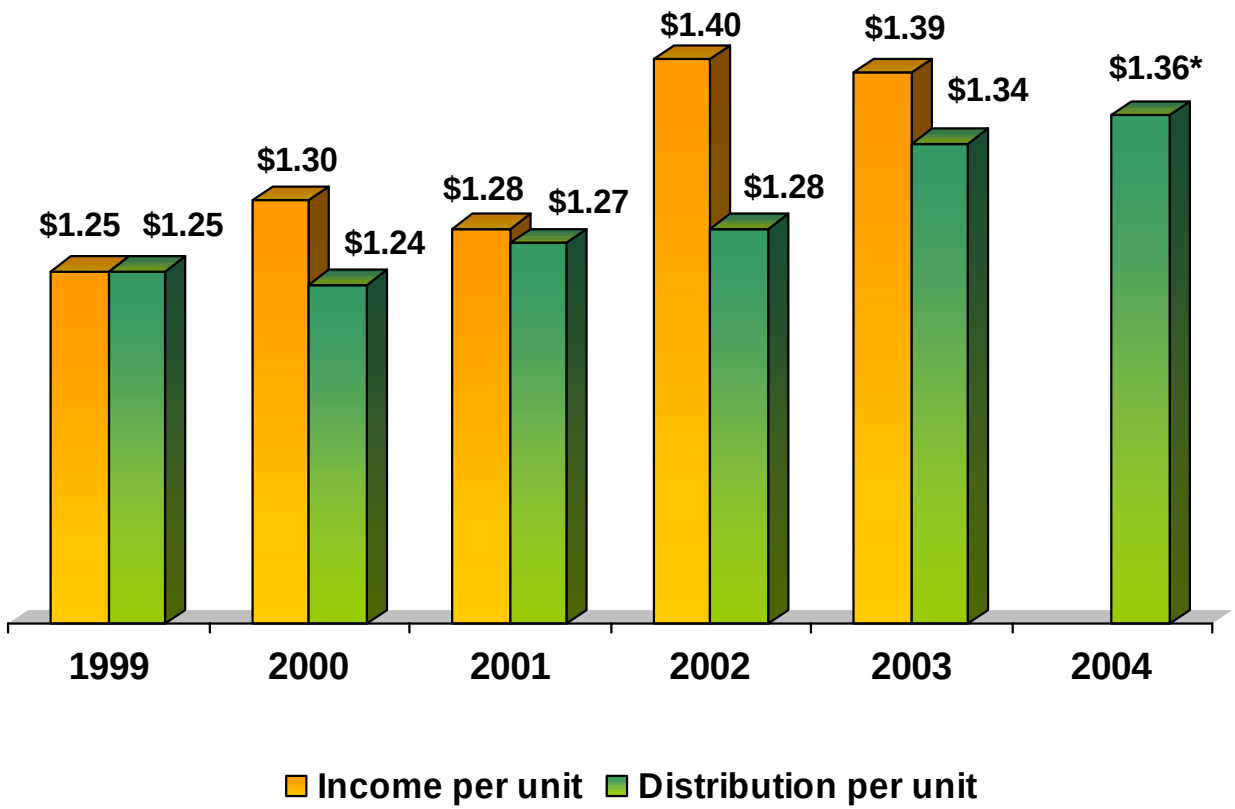
# Income Distributions

- **Distributions per unit have increased from $1.25 in 1999 to $1.34 in 2003, a compounded annual growth rate of 1.8%.**




*** Annualized distribution**



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# Market Data

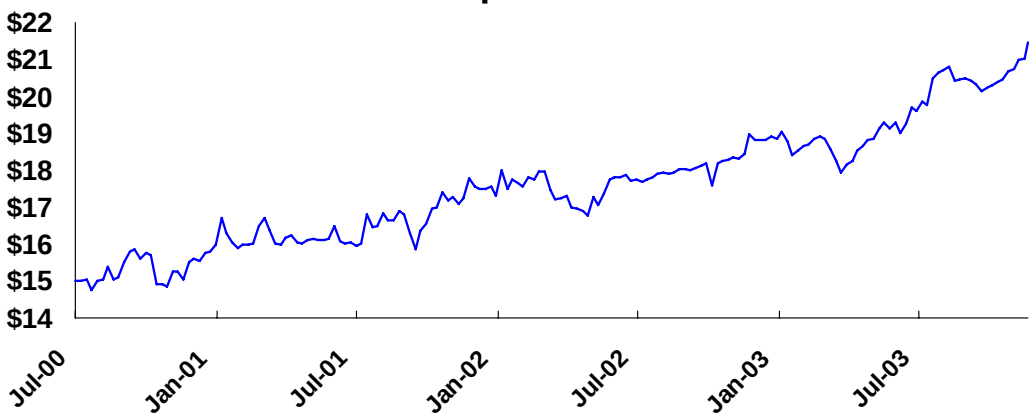
**As of November 25, 2003**

| | | | |
|---|---|---|---|
| Market price | $21.46 | Earnings per unit [1] | $1.39 |
| Units outstanding | 114.4 M | Price/Earnings | 15.4x |
| Market capitalization | $2,455.0 M | Annual cash distribution [2] | $1.36 |
| Public float | $621.1 M | Actual distribution yield | 6.3% |

(1) As of September 30, 2003. (2) Annualized distribution.

Sources: Gaz Métro, Bloomberg

**Evolution of unit price**




**Source: Bloomberg**



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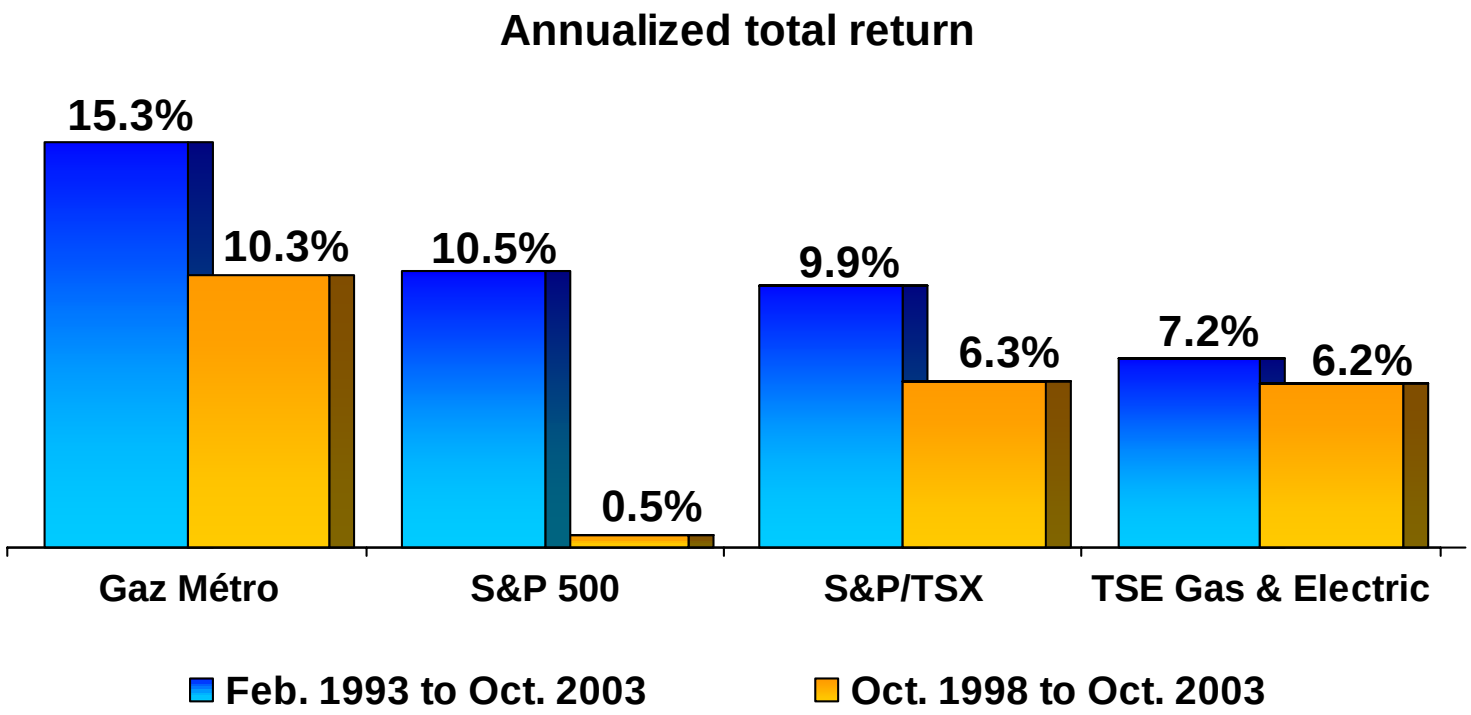
# Long-Term Sustainable Growth

## In a bull or bear market, Gaz Métro units create value




Source: Bloomberg



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# Debt Highlights

## Short-term:

- Commercial paper program:
  - **Up to $300 million;**
  - **Fully backed up by a committed line of credit maturing in April 2005;**
  - **Credit ratings:** **A-1 (low) ⇨ S&P**
    **R-1 (low) ⇨ DBRS**

## Long-term:

- First mortgage bonds:
  - **$830 million outstanding (as at November 27, 2003);**
  - **Credit ratings:** **A ⇨ S&P**
    **A ⇨ DBRS**
  - **Portfolio duration = 10.15 years (as at November 27, 2003).**



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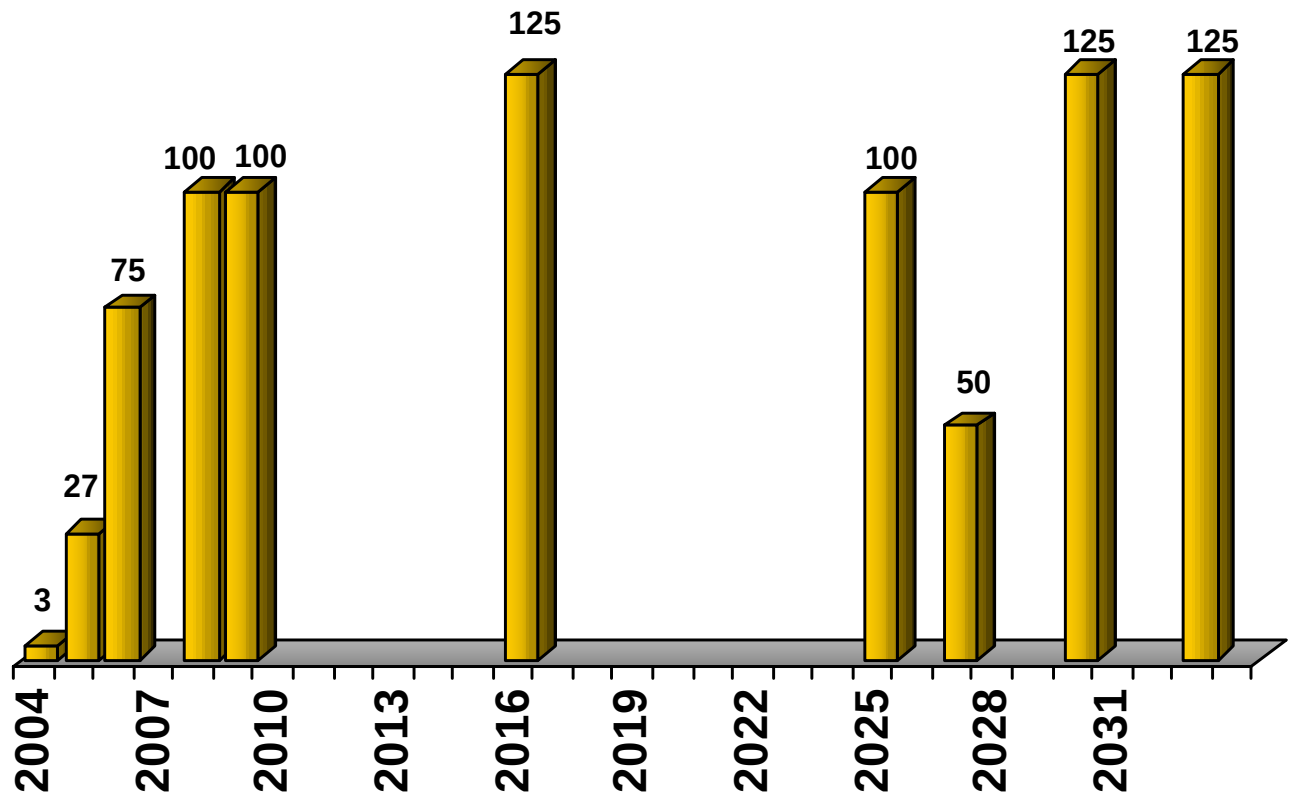
# Long-Term Debt Maturities

In millions of $




On a calendar year basis



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# Development and Value Creation Strategies

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# Development and Value Creation Strategies

❶ Natural gas distribution
- Increase volumes in residential market
  - new construction and densification
- Increase volumes in commercial & institutional markets
  - new construction, volume increase and dual energy
- Increase volumes in industrial market
  - Kyoto ⇨ switch from heavy oil to natural gas = 40% less $CO_2$ emissions

❷ Transportation of natural gas
- Gaz Métro will benefit from increase in ownership of PNGTS in 2004

❸ Cogeneration
- Take advantage of development of electricity and steam generation plants using natural gas
  - large plants to secure supply of electricity in peak periods
  - small plants to supply electricity and steam to industrial users



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# Development and Value Creation Strategies
(cont'd)

❹ Natural Gas Liquids
- Studying the possibility to develop a methane terminal near Quebec City

❺ Landfill Gas
- Take part in the development of landfill gas in Québec

❻ Seeking opportunity in energy sector infrastructure development and/or acquisition

❼ Non-regulated activities
- Benefit from investments made in energy services, water and cable companies



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# Natural Gas Liquids

- Feasibility study of the project
  - Recent association with partners to do a feasibility study to develop a methane terminal near Québec City
  - Terminal would receive NGL from overseas
- Good opportunity to diversify natural gas source of supply
  - Currently, natural gas comes from western Canada
  - Gaz Métro is looking to diversify its source of supply
  - NGL could be a good complement to natural gas coming from western Canada
- Targeted realisation date of the project: 2008



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# Landfill Gas

- Upcoming legislation
  - Obligation to capture and burn landfill gas
- 65 domestic waste disposal sites in Québec
  - 25 have a landfill gas development potential
    - they generate enough methane to produce 12-15 Bcf of natural gas per year
- Gas Métro has exclusive natural gas distribution rights in Québec
- Biogas: unique development opportunity
  - Solution to environmental problems: anticipated reductions in $CO_2$ emissions = between 600,000 and 800,000 tons per year
  - Better contribution of a traditionally spoiled energy source
  - Good opportunity for domestic waste disposal sites' managers (private, municipal and others)



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# Fibre Optics Sector

- Sector in development
- Investment in Cable VDN at cost (20.57% as of September 30, 2003)
- State of the art network
- Specialized in the "last mile connection" in the greater Montreal area
- EBITDA positive in 2003
- Debt free in 2003 (after debt conversion into equity, Gaz Métro will hold around 50% of VDN)



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# Conclusion

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# Conclusion

1. **Pure utility play**
2. **Modern and reliable system**
3. **Low business risk**
4. **Attractive regulatory framework**
5. **Strong cash flow**
6. **Strong capital structure**
7. **Customer oriented culture**

+

Strong market potential

=

Selective and profitable growth



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# Appendix

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# Mission and Objectives

Mission:

- ✓ Transport and distribute natural gas in Québec and the northeastern portion of the United States
- ✓ Pursue non-regulated activities in the energy, water and fibre optics fields

Objectives:

- ✓ Financial: Provide stable and predictable return accompanied by growth in value over time
- ✓ Commercial: Provide high-quality energy services at the lowest possible cost



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# Positioning

- 3rd largest natural gas distributor in Canada
- #1 natural gas distributor in Québec (97% market share)
- Sole natural gas distributor in Vermont, United States




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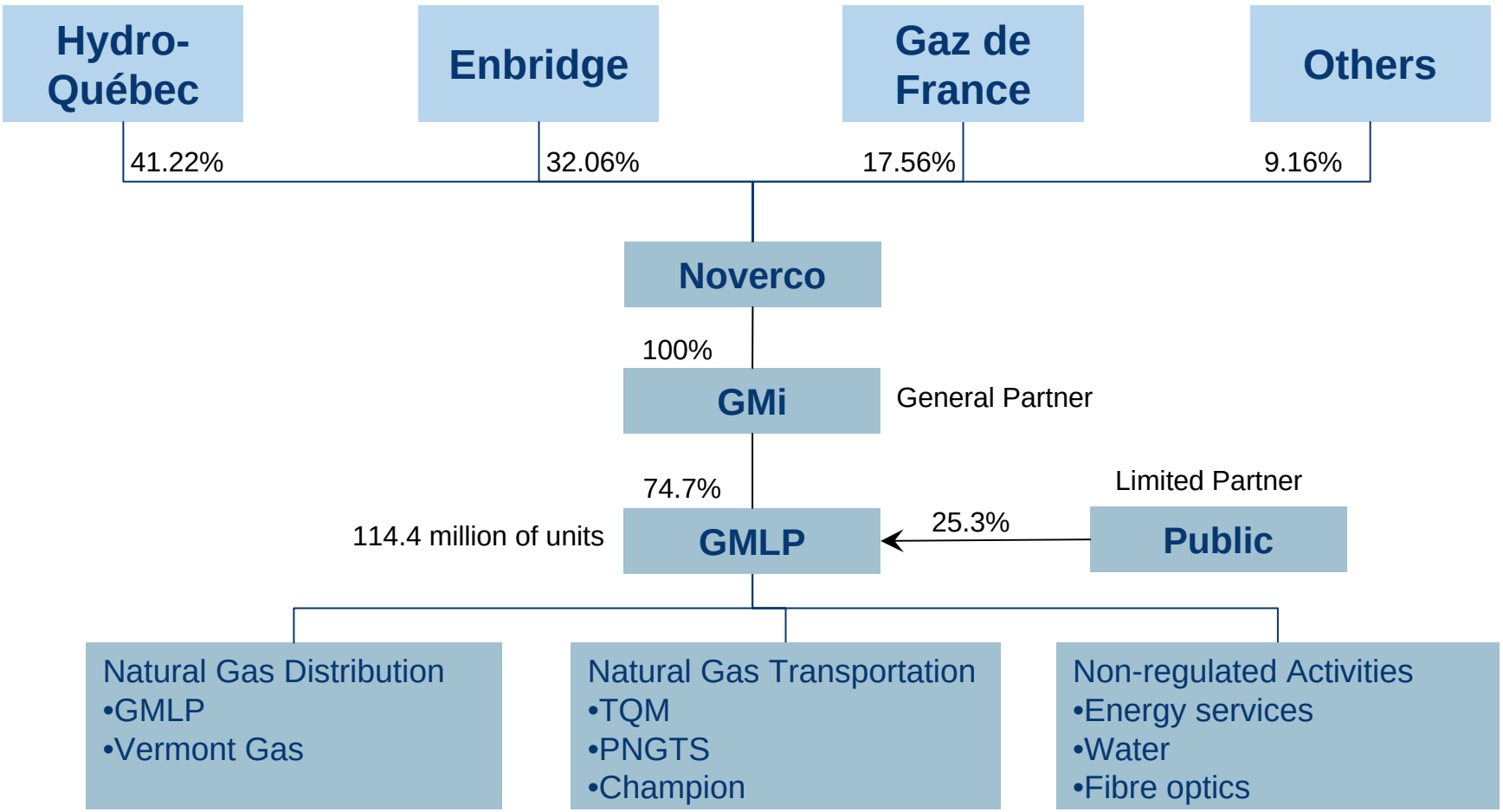
# Corporate Structure




GMi : Gaz Métro inc.
GMLP: Gaz Métro Limited Partnership



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# PBR Mechanism - Theory


**Revenue Cap (R)**

Rates inflated by CPI less productivity factor of 0.3%/0.5%

**Cost of service (C)**

Base rate of return on partners' equity determined by automatic formula

❶ Hybrid between Revenue Cap and Cost of Service

❷ Revenue Cap formula:

**R = (r * (1+i - 0.3%/- 0.5%)) * forecasted volumes ± z**

r = gas distribution rates

i = inflation rate

z = exogenous factors

*** Numbers in red represent the changes made in the new agreement recently filed with the Régie.**



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# PBR Mechanism - Theory (cont'd)

❸ How it works

Before beginning of fiscal year

- If R > C: productivity gains shared
  - ⇨ 52.5%/50% Gaz Métro ($ kept for 5 years without any annual rate adjustment)
  - ⇨ 47.5%/50% Customers ($ distributed in the form of a reduction in rates of upcoming fiscal year)
- If R < C: no productivity gains
  - ⇨ Rates set to meet cost of service
  - ⇨ Gaz Métro owes "C-R" plus related interests to customers (this debt will have to be reimbursed before any future sharing of productivity gains or overearnings)



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# PBR Mechanism - Theory (cont'd)

After closing of fiscal year

- If productivity gains are > than expected: overearnings shared
  - ⇨ 33.3%/25% Gaz Métro (Share of overearnings recorded in the year earned)
  - ⇨ 66.6%/75% Customers ($ distributed in the form of a reduction in rates of second subsequent fiscal year)
- If productivity gains are < than expected but > 0: Gaz Métro keeps 100% of what is realized (since the customers got their share before the beginning of the fiscal year and there is no resharing)
- If productivity gains are < 0: deficiency shared
  - ⇨ 50% Gaz Métro (share of deficiency recorded in the year realized)
  - ⇨ 50% Customers (share of deficiency paid by customers through an increase in rates of second subsequent fiscal year; this debt, plus interests, will have to be reimbursed before any future sharing of productivity gains or overearnings)



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# PBR Mechanism - Theory (cont'd)

4. Upside potential of up to 400/375 basis points (after-tax) per year above base rate of return
   (approx. $40 M / year)
5. Overall downside risk limited to 1.5% * rate base
   (approximately $20 M cumulative over the initial 5-year period)
6. Exogenous factors:
   - Interest rates
   - ROE
   - Weather normalization deferral account
   - Energy efficiency programs
7. Off-ramps:

   *Mandatory:*
   - Productivity gains of 400 basis points or more for 2 consecutive years/ No mandatory off-ramp

   *Optionals:*
   - Inflation above 5% for 2 consecutive years
   - No productivity gains for 3 consecutive years
   - Amount in deferral account (debt owed to customers when there are no productivity gains) ≥ 1.5% of rate base at year-end



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# Incentive Mechanism - Example

7-year illustrative example
Scenario: no overearnings or deficiency at end of year

| | Beginning of fiscal year | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Year 1** | **Year 2** | **Year 3** | **Year 4** | **Year 5** | **Year 6** | **Year 7** |
| Volumes ($10^6 m^3$) | 6,000 | 6,120 | 6,242 | 6,367 | 6,495 | 6,624 | 6,757 |
| Inflated Rates (¢/$m^3$) | 7.00 | 7.12 | 7.24 | 7.36 | 7.49 | 7.62 | 7.75 |
| Revenue Cap ($ M) | **420.00** | **435.68** | **451.95** | **468.83** | **486.33** | **484.15** | **494.42** |
| Cost of Service ($ M) | 400.00 | 408.00 | 416.16 | 424.48 | 432.97 | 441.63 | 450.46 |
| Productivity Gain ($ M) | 20.00 | 27.68 | 35.79 | 44.34 | 53.36 | 42.52 | 43.95 |
| Adjusted Revenues ($ M) | 410.50 | 422.53 | 434.95 | 447.76 | 460.99 | 463.96 | 473.54 |
| Adjusted Rates ($) | 6.84 | 6.90 | 6.97 | 7.03 | 7.10 | 7.00 | 7.01 |

| | |
|---|---|
| Inflation = | 2.0% |
| Productivity Factor = | 0.3% |
| Exogenous Factors = | - $ |
| Volumes Growth Rate = | 2.0% |

| | |
|---|---|
| Gaz Métro Share of Productivity Gains = | 52.5% |
| Customers' Share of Productivity Gains = | 47.5% |



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# Rate Base Data

In millions of $

| | 2002 Rate Case | | 2002 Effective | | 2003 Rate Case | | 2004 Rate Case | |
|---|---|---|---|---|---|---|---|---|
| | PP&E | Total | PP&E | Total | PP&E | Total | PP&E | Total |
| **Beginning of year** | 1,240 | 1,747 | 1,232 | 1,622 | 1,238 | 1,649 | 1,262 | 1,732 |
| **End of year** | 1,229 | 1,814 | 1,249 | 1,606 | 1,237 | 1,629 | 1,271 | 1,732 |
| **Average** | 1,232 | 1,657 | 1,237 | 1,546 | 1,236 | 1,563 | 1,269 | 1,648 |



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# Gaz Métro vs. Income Trust Family

| Gaz Métro LP | Income Trust |
| --- | --- |
| Distributes business income and keeps part of its cash flow to grow the business | Distributes cash flow and must issue new units to grow the business |
| Units not treated as foreign property | Other Canadian Limited Partnerships: Units treated as foreign property |
| Pure regulated utility play with a limited partnership structure | Unregulated businesses |
| General partner management fees limited to $50,000/year | Management fees tied to production, revenues or cash distributed |
| Limited responsibility for unitholders | Most of the Trusts, sharing of responsibility among unitholders |



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# DBRS
# Annual Review

Toronto

December 3, 2003

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# Gaz Métro Limited Partnership

DBRS

Toronto, December 9, 2004

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# Table of Contents

# Introduction

GazMétro
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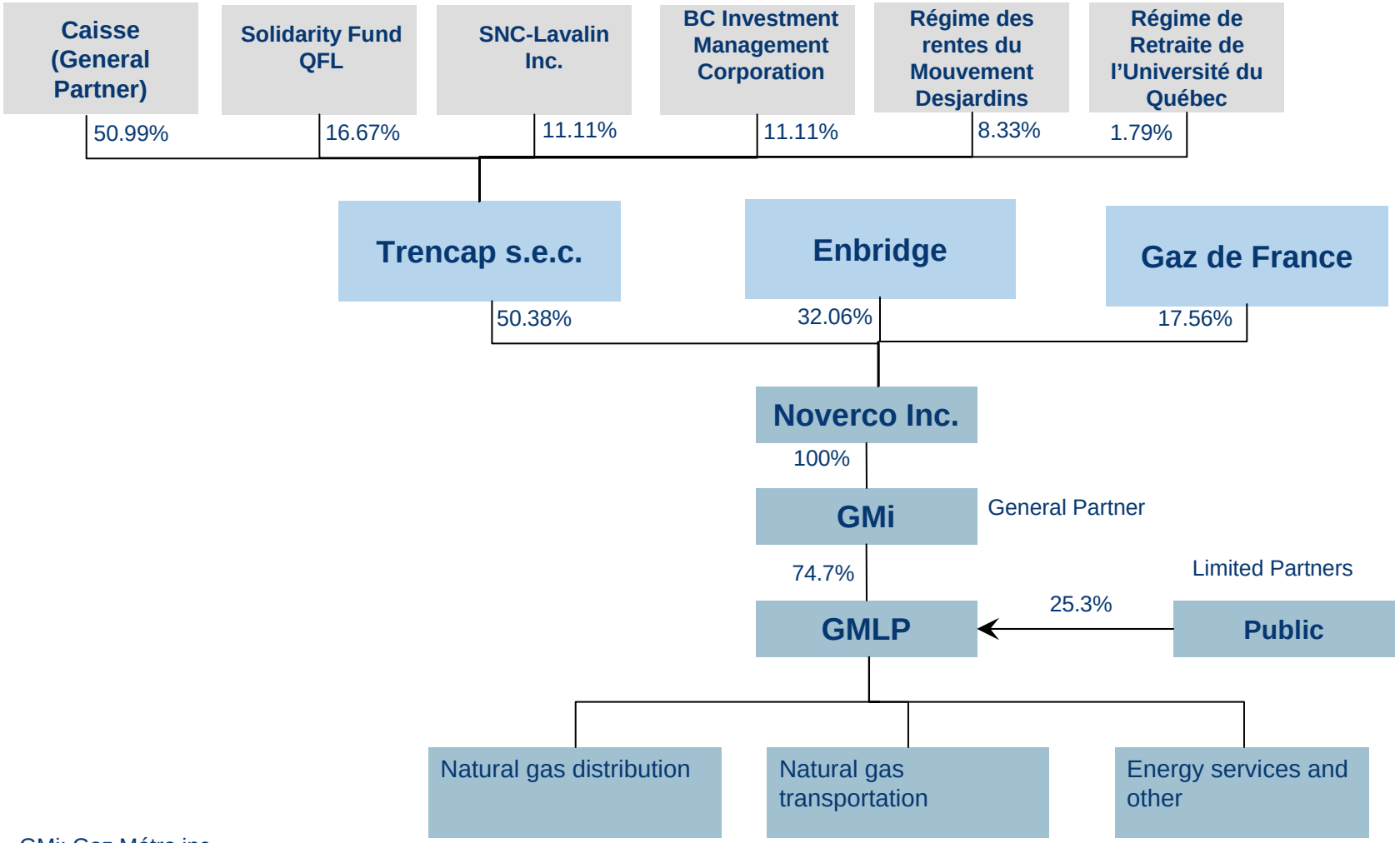
# Ownership Structure




GMi: Gaz Métro inc.
GMLP: Gaz Métro Limited Partnership
Caisse : Caisse de dépôt et placement du Québec and Capital d'Amérique CDPQ Inc. (General Partner)
BC investment Management Corporation: two trusts members of the group hold respectively 9.44% (bcIMC (PPSAF) Investment trust No.1 and 1.67% (bcIMC (WCBAF-PPSAF) Investment Trust No.1) of the participation

# 2004 in Review

- Partners' income up by $7.1 million, or 4.6%, to $160.4 million
- Partners' income per unit up by $0.01 to $1.40
- Distributions paid per unit up by $0.02 to $1.36
- Total return to unitholders of 10.3%
- Increase of 1.3% in normalized volumes during 2004 for a total of 204.4 Bcf: increases in all markets
- Incentive mechanism extended from 2005 to 2009 with minor changes
- "life in blue" ad campaign very successful in Québec
- A record of 7,759 new customers chose Gaz Métro
- Acquired additional 11.4% of PNGTS, bringing total interest to 38.3%
- Régie de l'énergie approved construction of new pipeline to Bécancour
- Issued $125 million first mortgage bonds - 6.30% coupon - maturing October 31, 2033
- Issued additional units for  $10 million (over-allotment)

# Highlights

| | 2004 | 2003 |
|---|---|---|
| **Gas Deliveries**[1] (Normalized) | **204.4 Bcf** | 201.8 Bcf |
| **System length**[1] | **10,504 Km** | 10,253 Km |
| **Number of customers**[1] | **193,845** | 188,716 |
| **Number of employees**[1] | **1,421** | 1,368 |
| **Credit ratings - Long-term debt** | | |
| S&P | **A** | A |
| DBRS | **A** | A |
| **Credit ratings - Commercial paper** | | |
| S&P | **A-1 (low)** | A-1 (low) |
| DBRS | **R-1 (low)** | R-1 (low) |
| **Stability ratings** | | |
| S&P | **SR-1** | SR-1 |
| DBRS | **STA-1 (low)** | STA-1 (low) |

[1] Québec and Vermont natural gas distribution only.

# Normalized Volumes

| *(in billions of cubic feet )* | Fiscal years ended Sept. 30 | | Change | |
|---|---|---|---|---|
| | **2004** | **2003** | **Bcf** | **%** |
| **Markets** | | | | |
| Industrial firm | 82.4 | 82.5 | -0.1 | -0.1% |
| Industrial interruptible | 27.7 | 25.9 | 1.8 | 6.9% |
| Commercial | 67.7 | 67.2 | 0.5 | 0.7% |
| Residential | 26.6 | 26.2 | 0.4 | 1.5% |
| **TOTAL** | **204.4** | **201.8** | **2.6** | **1.3%** |

- Volumes up in the industrial interruptible sector due to the strong economy in 2004
- Residential sector: benefited from new image and advertising campaign

# Financial Results - Highlights

**Consolidated Results**
In millions of $, except per unit data, in $

| | Fiscal years ended Sept. 30 | | Change | |
|---|---|---|---|---|
| | **2004** | **2003** | **($)** | **(%)** |
| Revenues | 1,782.9 | 1,756.5 | 26.4 | 1.5 |
| Gross Margin | 555.0 | 568.8 | (13.8) | (2.4) |
| Partners' Income | 160.4 | 153.3 | 7.1 | 4.6 |
| **Partners' Income per unit** | **1.40** | **1.39** | 0.01 | 0.7 |
| Average number of units outstanding (in millions) | 114.5 | 110.5 | | |
| Units outstanding at the end of the year (in millions) | 114.5 | 113.9 | | |

# Financial Results - Highlights (cont 'd)

In millions of $

| | Fiscal years ended Sept. 30 | | Change | |
|---|---|---|---|---|
| | **2004** | **2003** | **($)** | **(%)** |
| Cash Flow from Operations [1] (A) | 348.4 | 344.6 | 3.8 | 1.1 |
| Capital Expenditures | | | | |
| Maintenance (B) | (35.0) | (35.0) | 0.0 | 0.0 |
| Expansion & Development (C) | (89.4) | (70.7) | (18.7) | 26.4 |
| Deferred Charges[2] (D) | (37.5) | (35.6) | (1.9) | 5.3 |
| | **(161.9)** | **(141.3)** | **(20.6)** | **14.6** |
| Distributions (E) | (154.3) | (148.0) | (6.3) | 4.3 |
| Free Cash Flow after Maint. Capex (A-B-E) | 159.1 | 161.6 | (2.5) | (1.5) |
| **Net Free Cash Flow (A-B-C-D-E)** | **32.2** | **55.3** | **(23.1)** | (41.8) |
| Total Assets | 2,361.0 | 2,430.9 | (69.9) | (2.9) |
| Long-Term Debt (including short-term portion) | 1,208.9 | 1,288.6 | (79.7) | (6.2) |
| Partners' Equity | 884.9 | 876.0 | 8.9 | 1.0 |

(1) Excluding changes in non-cash working capital and rate stabilization accounts (+$2.3 million in 2004 and +$11.7 million in 2003) and including distributions from PNGTS of $10.8 million in 2004.

(2) Excluding items related to gas cost (+$28.4 million in 2004 and +$94.1 million in 2003) but including commercial programs and information system development.

# Deferred Charges

In millions of $

| | Sept. 30, 2003 | Increase (decrease) | Increase (decrease) | Reduction charges related to natural gas | Amortization | Non-cash adj. | | Sept. 30, 2004 |
|---|---|---|---|---|---|---|---|---|
| **Rate stabilization accounts** | 76.1 | (2.3) | - | - | (29.2) | - | | 44.6 |
| **Development of information technology** | 59.7 | - | 10.3 | - | (9.7) | 0.1 | | 60.4 |
| **Expenses related to natural gas costs** | 71.2 | - | 28.4 | (53.1) | (0.1) | (0.2) | | 46.2 |
| **Financing costs** | 15.1 | - | 2.9 | - | (2.3) | (8.7) | (1) | 7.0 |
| **Expenses related to financial instruments** | - | - | - | - | - | (110.0) | (2) | (110.0) |
| **Customer share in overearnings** | (20.0) | - | (7.1) | - | 13.8 | - | | (13.3) |
| **Natural gas conversion** | 62.6 | - | 21.1 | - | (10.7) | (0.3) | | 72.7 |
| **Other** | 15.8 | - | 10.3 | - | (6.6) | (0.1) | | 19.4 |
| | **280.5** | **(2.3)** | **65.9** | **(53.1)** | **(44.8)** | **(119.2)** | | **127.0** |

(1) Including removal of share of PNGTS' deferred charges of $8.6 million.

(2) Net impact of recording financial instruments related to distribution activities in Quebec, in 2004.

# Segmented Data

## PARTNERS' INCOME

(In thousands of $)

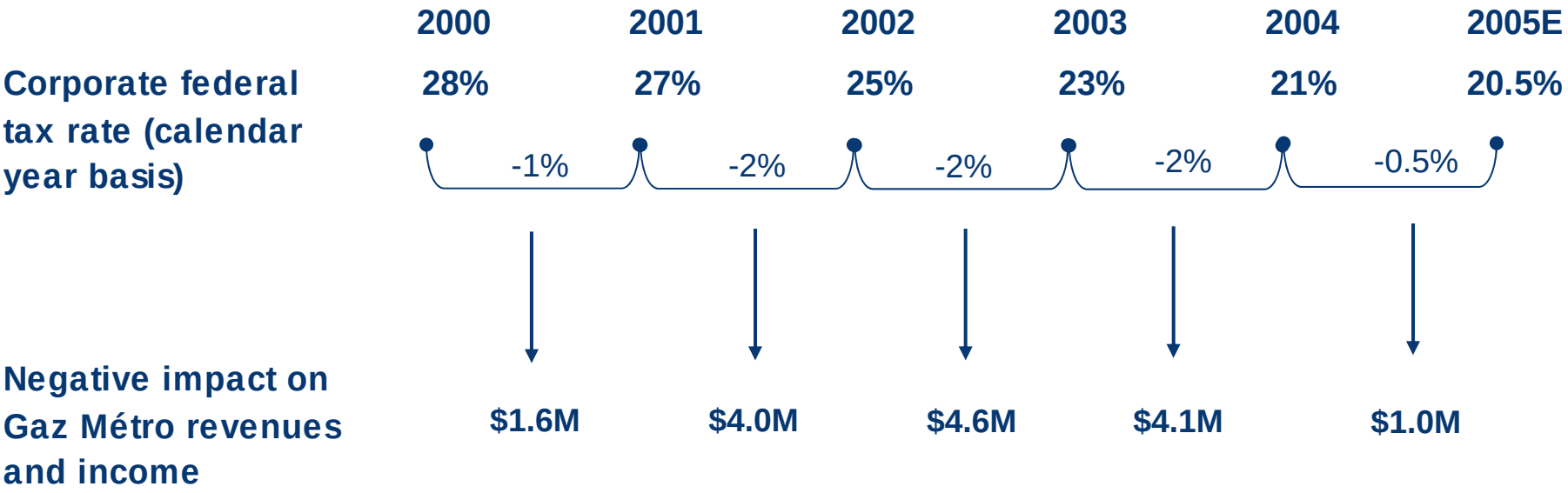
| | Distribution | Transport | Energy services and other | Non-allocated expenses and eliminations | Total |
|---|---|---|---|---|---|
| **Fiscal year ended Sept. 30, 2004** | 137,712 | 22,501 | 2,802 | -2,638 | 160,377 |
| **Fiscal year ended Sept. 30, 2003** | 137,975 | 16,618 | -171 | -1,095 | 153,327 |
| **$ Change** | -263 | +5,883 | +2,973 | -1,543 | +7,050 |
| **% Change** | -0.2 | +35.4 | NM | NM | +4.6 |

# Impact of Reduction in Federal Income Tax Rate

Context:

**Gaz Métro LP and TQM LP do not pay taxes, but they include a deemed current tax cost in the rates for their regulated activities.**

Impact:



# Key Ratios

| | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|
| **EBIT Interest Coverage** | 2.5x | 2.8x | 2.9x | 3.0x |
| **Cash Flow[1] Interest Coverage** | 3.1x | 3.4x | 4.1x | 4.0x |
| **Total Debt / Total Capitalization** | 61.7% | 60.7% | 60.1% | 58.3% |
| **Cash Flow[1] / Average Total Debt[2]** | 23.5% | 22.2% | 27.5% | 26.6% |
| **NCF[3] / CAPEX[4]** | 122.0% | 124.8% | 147.4% | 114.6% |

[1] Funds from operations before change in non-cash working capital items

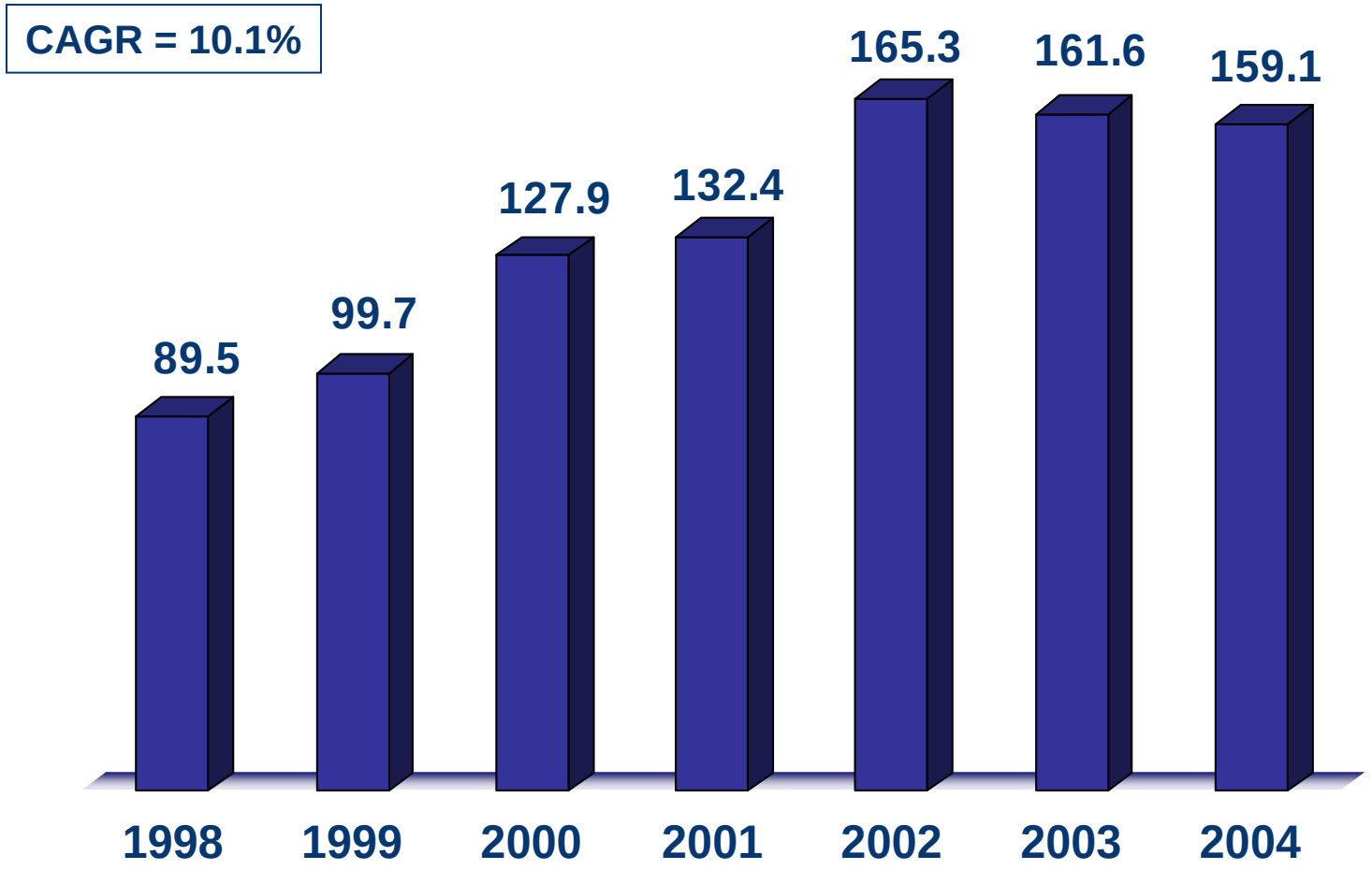
[2] Two-year average

[3] FFO less distributions

[4] Property, plant and equipment plus deferred charges less cost of gas

# Evolution of Free Cash Flow (1)

In millions of $; CAGR = Compounded annual growth rate

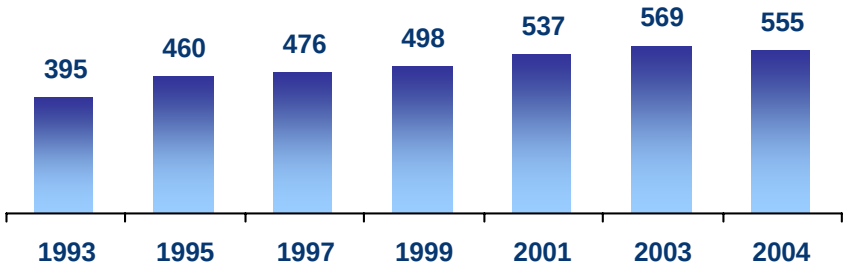



(1) Funds from operations before changes in non-cash working capital items and rate stabilization accounts minus maintenance capex and distributions.

# Historical Financial Review

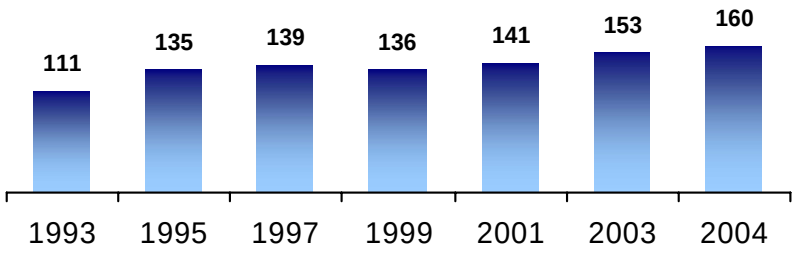
In millions of $, CAGR = compounded annual growth rate

**Gross Margin**



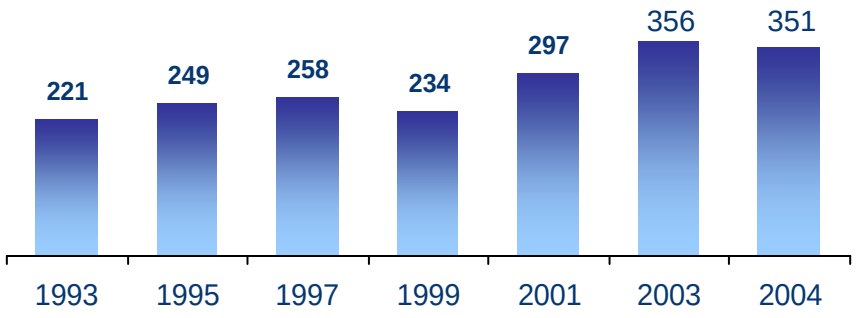

**CAGR = +3.7%**

**Partners' income**




**CAGR = +4.0%**

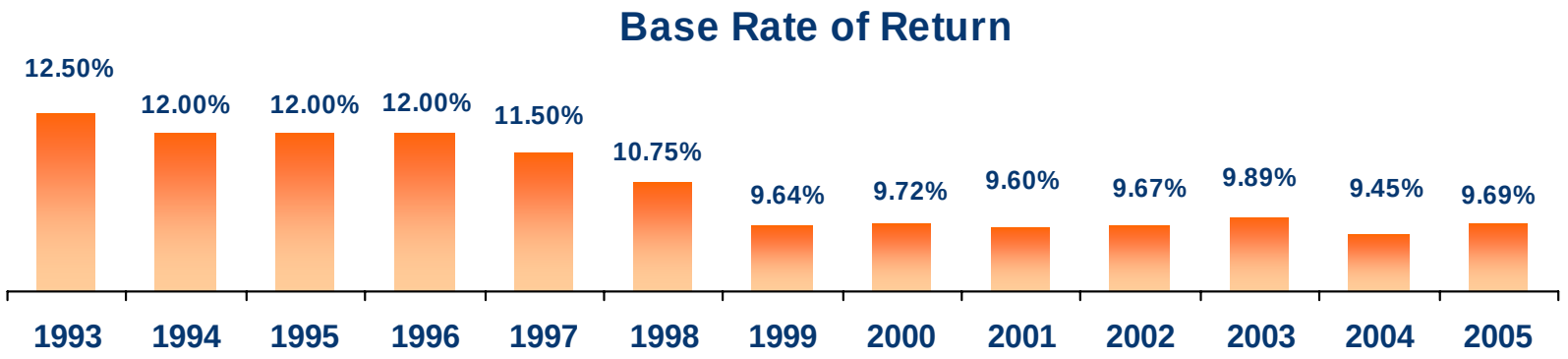
**Funds from Operations (1)**

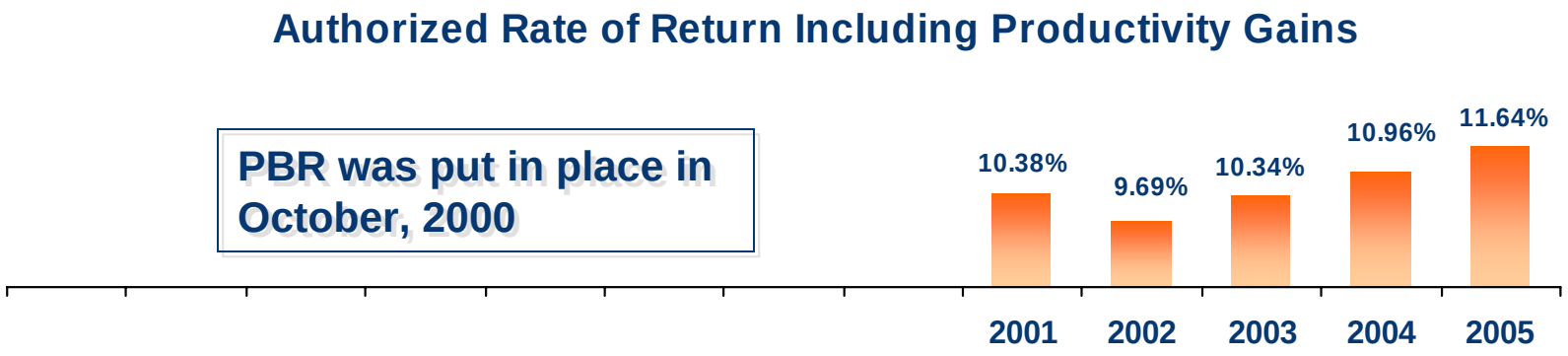



**CAGR = +5.3%**

(1) Before changes in non-cash working capital.

# Historical Financial Review (cont 'd)



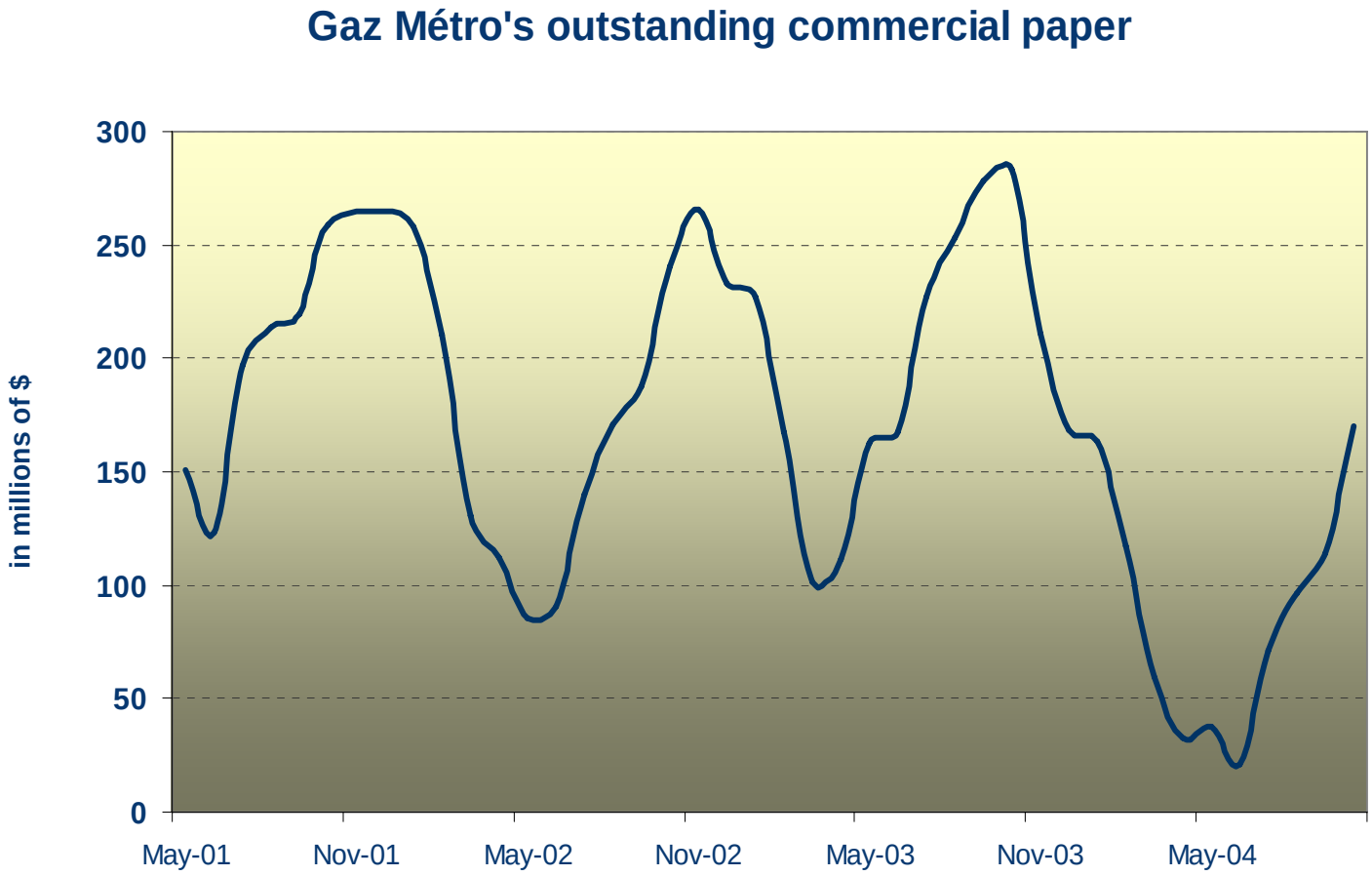



# Debt Highlights

- Commercial Paper Program
  - Up to $300 million (to be increased to $400 million)
  - Fully backed up by current line of credit (being renegotiated)
  - Current credit ratings: A-1 (low) ⇨ S&P
    R-1 (low) ⇨ DBRS

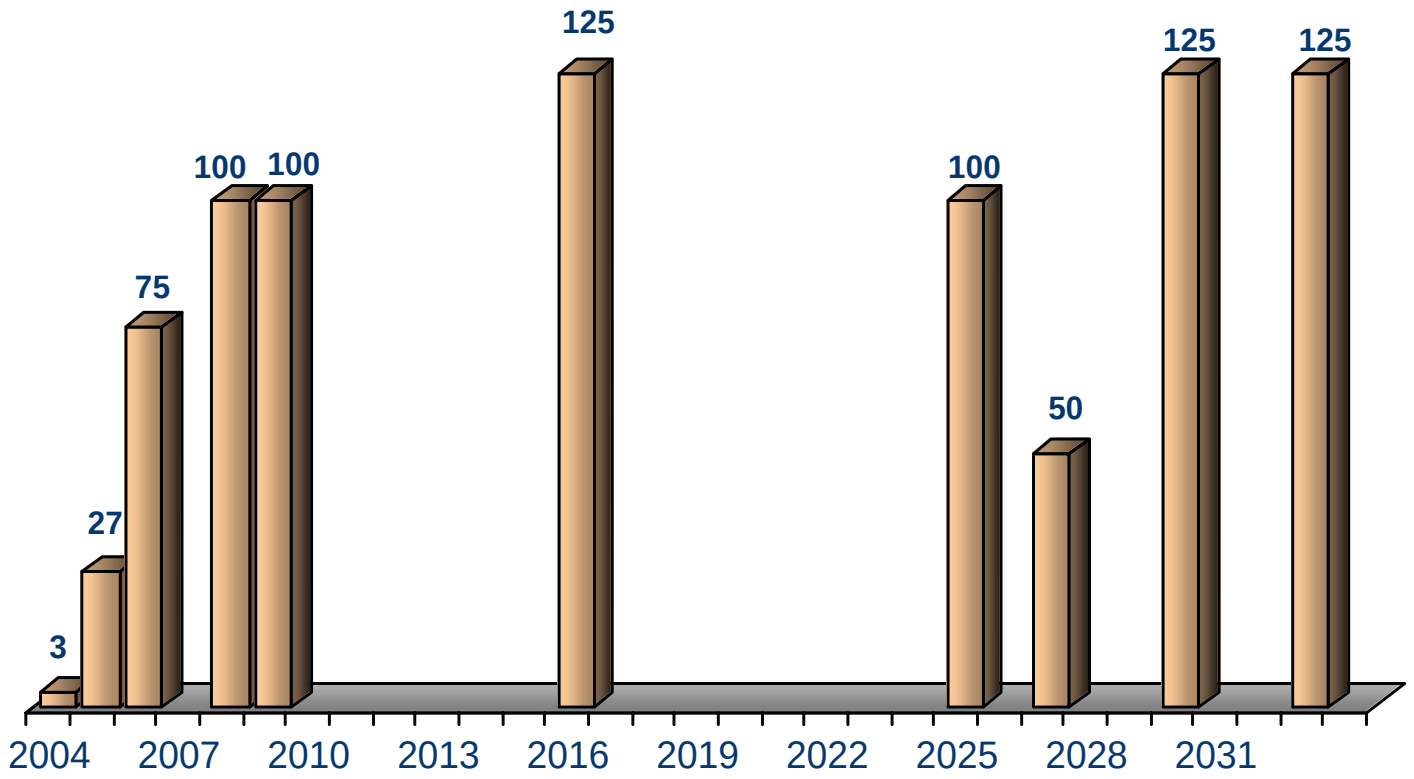
- First Mortgage Bonds
  - $827 million outstanding (as at December 6, 2004)
  - Current credit ratings: A ⇨ S&P
    A ⇨ DBRS
  - Portfolio duration = 8.25 years (as at November 30, 2004).

# Commercial Paper



# Long-Term Debt Maturities

In millions of $




On a calendar year basis.

# Credit Facility Renewal

- Current $300 million credit facility will mature on April 30, 2005. [redacted]
- $400 million credit facility [redacted]
- Targeted closing date: December 17, 2004

# Credit Facility Renewal Conditions and Pricing

| | Actual | Proposed |
|---|---|---|
| **Borrower:** | Gaz Métro inc. | Same |
| **Guarantor:** | Gaz Métro Limited Partnership | Same |
| **Amount:** | CAN $300 million or its US equivalent | Increase to CAN $400 million or its US equivalent |
| **Term:** | 7 year evergreen revolving credit with annual one year extensions [redacted] | 5 year evergreen revolving credit with annual one year extensions [redacted] |
| **Purpose:** | [redacted] | |

# Credit Facility Renewal
# Conditions and Pricing (Cont'd)

| | Actual | Proposed |
|---|---|---|
| **Pricing:** | [redacted] | |
| **Security:** | Guarantee of GMLP and first mortgage bonds of GMi and GMLP | Same |
| **Covenants:** | As per Trust Deed | Same |

# Incentive Mechanism Update

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# Incentive Mechanism

- The incentive mechanism was put in place on October 1st, 2000 and expected to run until September 30, 2005, with the right to reevaluate the terms in 2004.

- In March 2004, the Régie approved the renewal of the incentive mechanism from October 1, 2004 to September 30, 2009, including some changes to the original incentive mechanism. These changes are summarized in the following pages.

- In September 2004, the Régie approved a rate of return on Partners' equity of 11.64% for the 2005 fiscal year, i.e. 9.69% based on the formula for establishing the base rate of return, plus an incentive of 1.95% based on expected productivity gains.

- In September 2004, the Régie renewed the automatic formula for determining the base rate of return on Partners' equity for a period of three years.

# Incentive Mechanism (cont'd)

| | Mechanism : 2001-2005 (renegotiated in 2004) | Mechanism : 2005-2009 |
|---|---|---|
| **Term** | October 1, 2000 to September 30, 2005 | October 1, 2004 to September 30, 2009 |
| **« X » Factor** | 0.3% | 0.5% |
| **Productivity Gains (beginning)** | GMLP: 52.5%<br>Customers: 47.5% | GMLP: 50%<br>Customers: 50% |
| **Overearnings** | GMLP: 33 1/3%<br>Customers: 66 2/3% | GMLP: 25%<br>Customers: 75% |

# Incentive Mechanism (cont'd)

| | **Mechanism : 2001-2005 (renegotiated in 2004)** | **Mechanism : 2005-2009** |
|---|---|---|
| **Right to reevaluate** | In 2004 | In 2008 |
| **Maximum incentive for Gaz Métro** | Off-ramp if incentive >400 basis points for two consecutive years | No off-ramp for incentive. Limited to 375 basis points (Excess goes to customers) |
| **Incentive for F2004** | 1.51% | 1.35%* |
| **Incentive for F2005** | | 1.95% |

* Incentive that Gaz Métro would have had for 2004 if the new agreement had been in place at the beginning of the fiscal year.

# 4-Year Retrospective

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Base rate of return | 9.60% | 9.67% | 9.89% | 9.45% | 9.69% |
| Anticipated productivity gains | 0.78% | 0.02% | 0.45% | 1.51% | 1.95% |
| **Total authorized return** | **10.38%** | **9.69%** | **10.34%** | **10.96%** | **11.64%** |
| **Realized rate of return** | 9.60% | 10.67% | 10.91% | 11.47% | -- |
| **Overearnings** | None | $27.1 M[(1)] | $13.2 M[(2)] | $14.0 M[(3)] | -- |
| **Deficiency** | None | None | None | None | -- |

(1) Gaz Métro's share ($9.0 M) included in 2002 results; customers' share ($18.1 M) distributed in the form of a $12.8 M reduction in the 2004 rates and a $5.3 M contribution to the Energy Efficiency Fund in 2004.

(2) Gaz Métro's share ($4.4 M) included in 2003 results; customers' share ($8.8 M) to be distributed in the form of a $6.2 M reduction in the 2005 rates and a $2.6 M contribution to the Energy Efficiency Fund in 2005.

(3) Gaz Métro's share ($4.7 M) included in 2004 results; customers' share ($9.3 M) to be distributed in the form of a $6.5 M reduction in the 2006 rates and a $2.8 M contribution to the Energy Efficiency Fund in 2006.

# 2005 Anticipated Productivity Gains

**In thousands of $**

| | |
|---|---|
| Revenue CAP | 461,577 |
| Cost of service | (425,896) |
| Productivity gains | 35,681 |

**Customers' share (50%)** **$17,841**

**Gaz Métro's share (50%)** **$17,841**

Gaz Métro's share expressed in the form of a rate of return

| | |
|---|---|
| Gaz Métro's share | 17,841 |
| Income tax (29.9%) | (5,334) |
| | 12,506 |
| Equity - Québec Distribution | ÷ 641,132 |
| | 1.95% |

# Growth Opportunities

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# Gaz Métro's Strategies

- Maintain strong credit and stability ratings
- Consider strategic acquisitions with low risk and predictable and stable revenues – Low cost of capital puts Gaz Métro in a favorable situation
- Increase volume in various markets, especially in commercial and residential markets
- Take advantage of various opportunities in energy sector infrastructure through development or acquisition

# Natural Gas in Québec

| Market | Main Competitor | How Competitive is natural gas? |
|---|---|---|
| Industrial | Fuel oil #6 | More expensive but more flexible and less polluting |
| Commercial & Institutional | Electricity | 12% cheaper |
| Residential | Electricity | 7% to 18% more expensive |

As at October 31, 2004, based on historical prices for past 12 months.

# Growth Opportunities

- **Cogeneration / Generation**
  - Take advantage of development of electricity and steam generation plants using natural gas
    - TCE Energy  (31 Bcf in 2007)
- **Natural Gas Distribution**
  - Increase volumes in all markets
- **Landfill Gas**
  - Take part in development of landfill gas in Québec

# Intragaz

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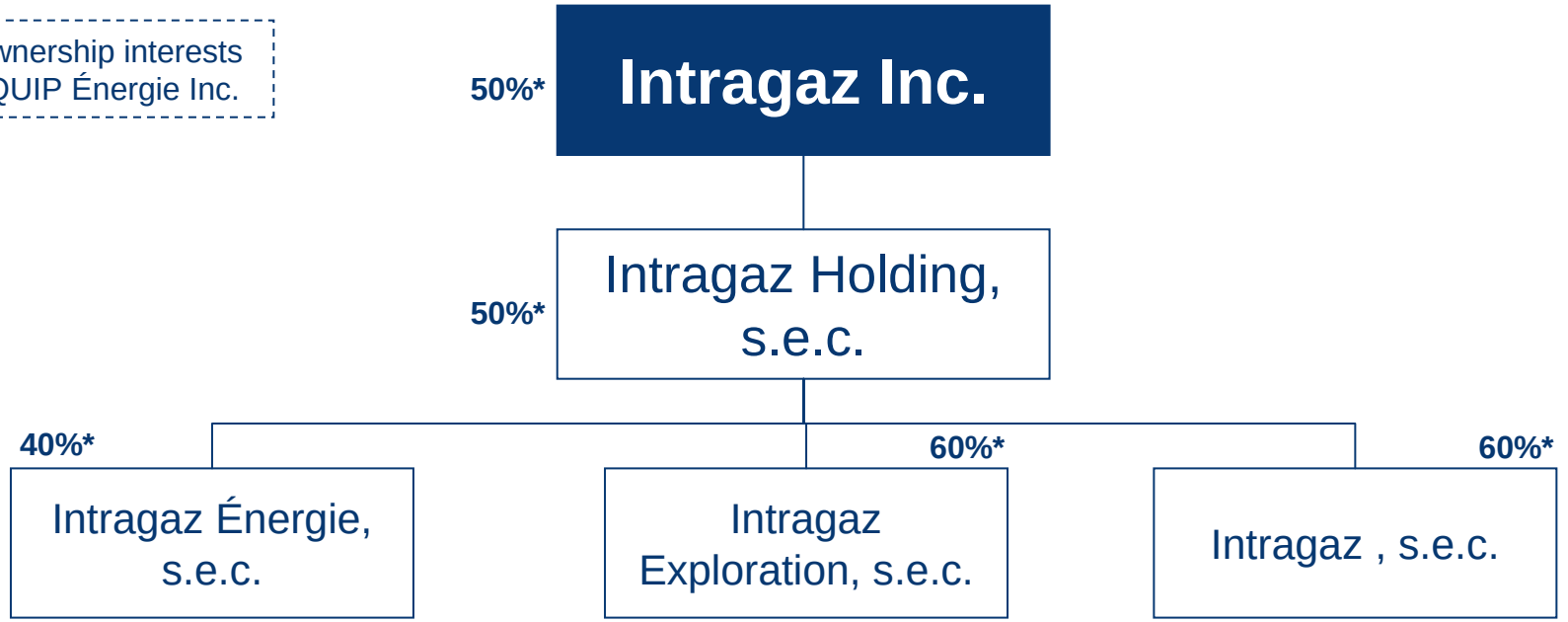
# Intragaz Inc.

*Net ownership interests of SOQUIP Énergie Inc.




Exploration and development of sites outside Quebec

Exploration and development in Quebec

Operates Pointe-du-Lac and St-Flavien storage facilities

Total employees: 34

# Intragaz s.e.c. (60%)

- Intragaz, s.e.c. operates the two storage facilities at Pointe-du-Lac and St-Flavien

- Pointe-du-Lac
  - Put in service in 1991
  - Storage capacity = 22.9 $10^6 m^3$ (0.8 Bcf)
  - Possible to cycle during winter
  - Fully developed

- St-Flavien
  - In operation since 1998
  - Current storage capacity = 107.6 $10^6 m^3$ (3.8 Bcf)
  - Maximum storage potential = 130.0 $10^6 m^3$ (4.6 Bcf) forecasted for April 2006

***La page 36 présente les paramètres et données financières concernant l'acquisition d'Intragaz. Ces informations sont considérées comme de l'information privilégiée au sens de la Loi sur les valeurs mobilières, sont divulguées uniquement aux agences de notation de crédit sur une base confidentielle et non pertinentes au présent dossier.***
***Les informations ont donc été retirées.***

# Intragaz Exploration, s.e.c. (60%)

- Exploration and development of Joly site, 5 km from St-Flavien
- Joly is the only other storage site identified to date with development potential in Quebec
  - Estimated capacity: 198.2 $10^6 m^3$ (7.0 Bcf)

# Intragaz Énergie, s.e.c. (40%)

- Exploration and development of sites outside Quebec
- Includes three separate activities:
  - Intragaz U.S. Inc. (US Holding)
  - Nova Scotia Joint Venture (with Emera)
  - Maritimes Natural Gas Storage

# Natural Gas Market Penetration in Québec

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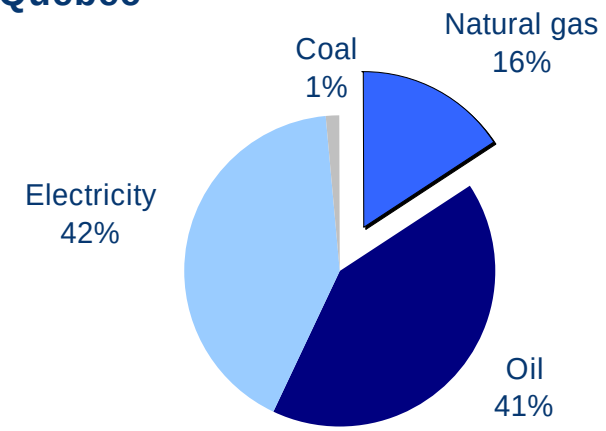
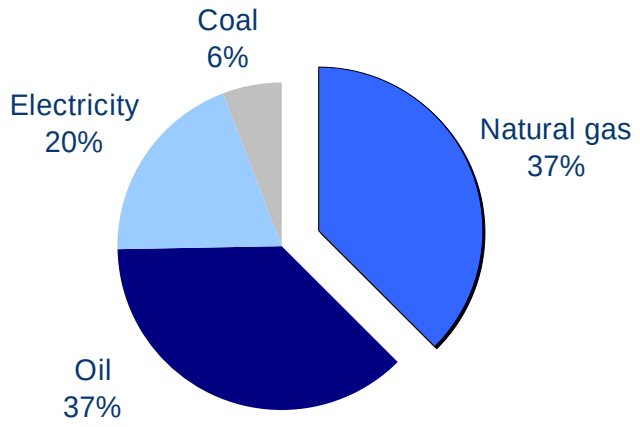
# Québec: A Completely Different Picture!

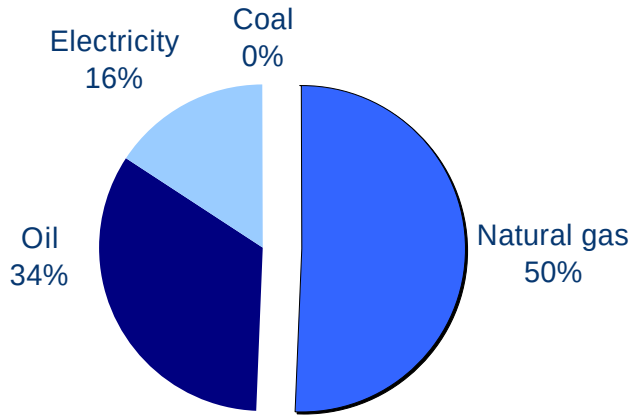
**Québec**



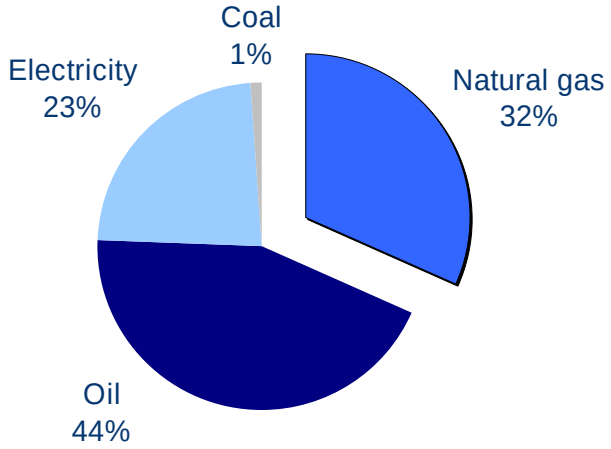

**Ontario**




**Alberta**




**BC and Territories**






Source: Ministère des Ressources naturelles, de la Faune et des Parcs (2001)

# Québec Natural Gaz Market Potential

**** Confidential Information ****

| | Residential | Small business | Medium business | Large business | Large Industrial | Total |
|---|---|---|---|---|---|---|
| **Actual Customers** | | | | | | |
| Number | 105,212 | 20,146 | 25,884 | 6,915 | 370 | **158,527** |
| BCF | 8.8 | 2.9 | 23.0 | 62.2 | 90.7 | **187.6** |
| Distribution Revenues (M $) | 66 | 23 | 121 | 164 | 69 | **443** |
| Charge addition (BCF) | 0.3 | 0.8 | 4.8 | 6.2 | 51.5 | **63.6** |
| Charge addition (M $) | 2 | 6 | 25 | 16 | 35 | **84** |
| **Potential on network** | | | | | | |
| Number | 113,346 | 39,954 | 22,516 | 885 | n.a. | **176,701** |
| BCF | 14.5 | 5.7 | 16.1 | 7.9 | 17.4 | **61.6** |
| Distribution Revenues (M $) | 115 | 44.0 | 80.0 | 19.0 | 3.0 | **261** |

Source: Gaz Métro Marketing Plan 2004-2005, horizon 2007

# Volumes & Number of Industrial Customers

**2004 fiscal year**

| Industry | Number of clients | Volumes [1] (Bcf) |
|---|---|---|
| Metallurgical | 33 | 25.4 |
| Pulp and paper | 52 | 14.9 |
| Petroleum refining and petrochemical | 22 | 13.4 |
| Institution / business | 116 | 8.8 |
| Food and beverage | 53 | 7.8 |
| Chemical | 22 | 6.1 |
| Metal smelting and refining | 8 | 5.4 |
| Cement | 15 | 3.4 |
| Textile | 29 | 3.3 |
| Glass | 3 | 2.7 |
| Manufacturing | 16 | 2.2 |
| Construction | 5 | 2.2 |
| Other | 13 | 2.0 |
| **TOTAL** | **387** | **97.6** |

[1] After interruptions

# 10 Largest Industrial Customers

**2004 fiscal year**

| | Industry | Volumes (1) (Bcf) |
|---|---|---|
| [redacted] | Industrial | 10,1 |
| | Industrial | 4,0 |
| | Integrated Oil | 4,0 |
| | Petrochemical | 3,0 |
| | Paper | 2,7 |
| | Industrial | 2,4 |
| | Integrated Oil | 2,3 |
| | Petrochemical | 2,0 |
| | Chemical | 2,0 |
| | Paper | 1,9 |
| **Total** | | **34,3** |

31% of total industrial volume and 18% of total normalized volume (in Québec)

(1) Before interruptions

# Market Share – Business Segment
## (Commercial, Institutional, Industrial)

| | Examples | Estimated penetration rate [1] |
|---|---|---|
| **Small business segment** (0-10,000 $m^3$) | Small restaurants, clinics, small apartment buildings | 15% |
| **Medium business segment** (10,000-75,000 $m^3$) | Restaurants, arenas, laundries | 50% |
| **Large business segment** (75,000 $m^3$ and up) | Schools, religious orders, hospitals | 80% |
| **Average** | | **45%** |

**NEW SALES COME MAINLY FROM:**

- **New construction** (depends on economic growth)
- **Charge addition** (actual customers)
- **Conversion** (new customers)
- **Dual energy** (electricity/gas)

[1] Among those businesses located on Gaz Métro system.

Source: Gaz Métro Marketing Plan 2004-2005, horizon 2007

# Market Share - Residential Market

## New construction

| | |
|---|---|
| **2004 housing starts** | **56,000** |
| ***Greater Mtl area*** | **28,000** |
| **• Condo** | **9,500** |
| **Gaz Métro share** | **2,225** |
| (mainly appliances, a few central heating) | |
| **▪ Low-end market (<$175,000)** | **6,000** |
| **Gaz Métro share** | **0** |
| **▪ Medium & high-end markets (>$175,000)** | **6,200** |
| **Gaz Métro share** | **2,137** |

Market penetration
(new construction)

| | |
|---|---|
| **Actual - 2004** | |
| **- Province** | **7,8 %** |
| **- Greater Mtl area** | **14,7 %** |
| **3-year target** | |
| **- Province** | **11 %** |
| **- Greater Mtl area** | **21 %** |

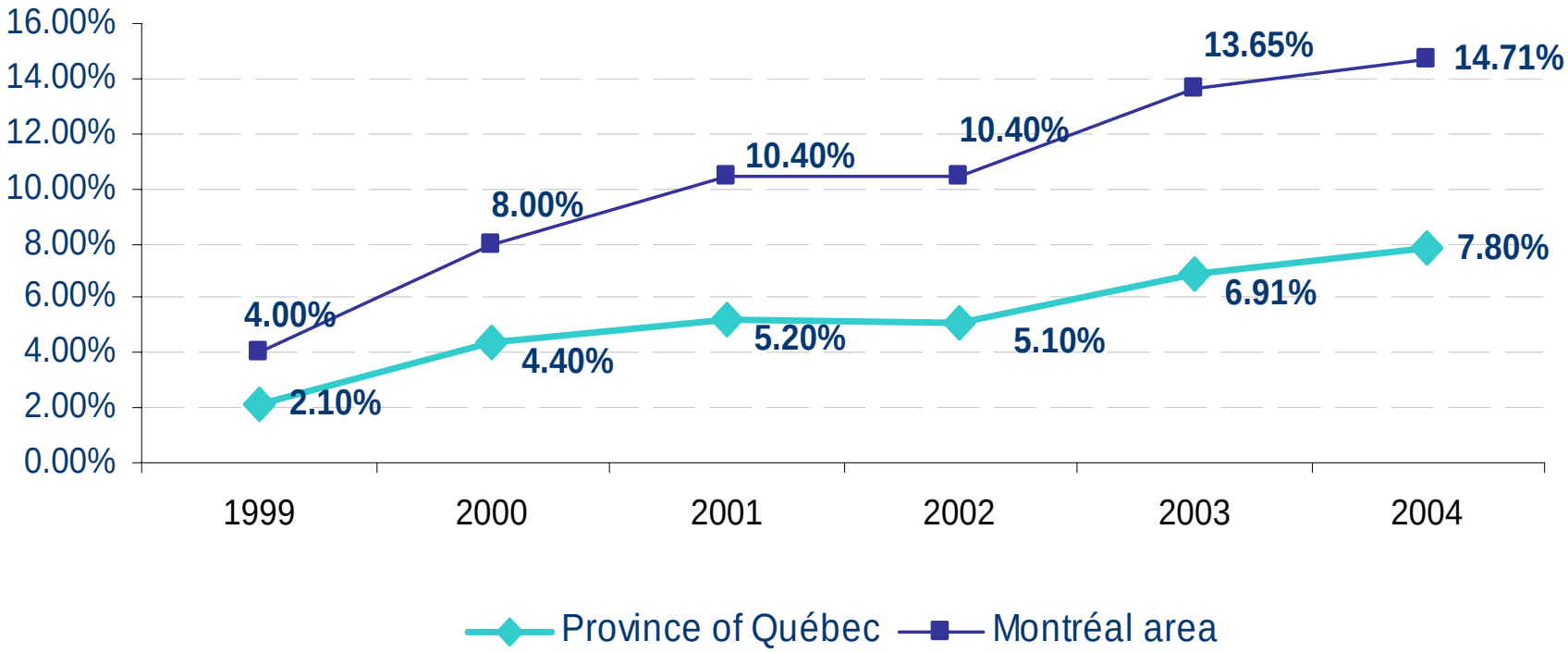
**Average consumption of**
3,000 $m^3$ / year

**Additional gross margin of**
$850/year/house

Source: Gaz Métro Marketing Plan 2004-2005, horizon 2007

# Market Share - Residential Market (cont'd)

## Penetration rate in the residential market (new construction)




Source: Gaz Métro Marketing Plan 2004-2005, horizon 2007

# Distributions Revenues

Estimated average actual distribution revenues by market

| | Average rate (¢/m³) | Total Revenues (in millions of $) |
|---|---|---|
| Residential | 29.0 | 66 |
| Small business segment (0-10,000 $m^3$) | 27.6 | 23 |
| Medium business segment (10,000-75,000 $m^3$) | 18.1 | 121 |
| Large business segment (75,000 $m^3$ and up) | 9.2 | 164 |
| Large Industrial | 2.4 | 69 |

Source: Gaz Métro Marketing Plan 2004-2005, horizon 2007

# Relative Weight of Each Market

**1 Bcf of new sales has a completely different incidence from one market to another**

| | New volumes (Bcf) | New volumes ($10^6 m^3$) | Average illustrative rates (¢/$m^3$) | Additional gross margin (in millions of $) |
|---|---|---|---|---|
| Residential | 1 | 28.328 | 28.81 | 8.2 |
| Commercial and institutional | 1 | 28.328 | 16.96 | 4.8 |
| Industrial | 1 | 28.328 | 2.37 | 0.7 |

# Conclusion

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# Conclusion

- Second phase of the advertising campaign in 2004; Gaz Métro is well positioned to expand its residential customer base in the years to come.
- Gaz Métro will continue to look for investment opportunities.
- Gaz Métro will take advantage of development of cogeneration projects.

# Appendix

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# Gaz Métro at a Glance

- Mission: Transport and distribute natural gas in Québec and the northeastern portion of the United States as well as pursue non-regulated activities in the energy, water and fibre optics fields.

- Objectives: Provide stable and predictable return accompanied by growth in value over time and provide high-quality energy services at the lowest possible cost.

- Positioning: 3rd largest natural gas distributor in Canada; #1 natural gas distributor in Québec (97% market share); Sole natural gas distributor in Vermont, United States.

- Yield: 6.0% distribution yield; 15.2% annualized total return since 1993.

- Business type: Pure regulated utility play with a limited partnership structure
  - Units not considered as foreign content in a RRSP
  - Distribution of business income; free cash flow kept for business growth
  - General partner management fees limited to $50,000/year
  - Limited responsibility for unitholders
  - Strong ownership

# PBR - Theory


Revenue Cap (R)

Cost of service (C)

Rates inflated by CPI less productivity factor of 0.5%

Base rate of return on partners' equity determined by automatic formula

❶ R is compared with C to determine any productivity gain
❷ Upside potential of up to 375 basis points (after-tax) above base rate of return (approx. $40 M / year)
❸ Overall downside risk limited to 1.5% ∗ rate base

# Market Data

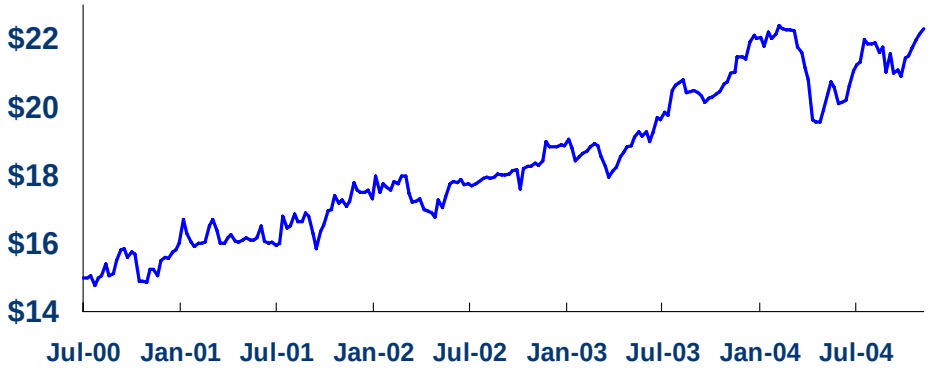
**As of December 6, 2004**

| | |
|---|---|
| Market price | $22.59 |
| Units outstanding | 114.5 M |
| Market capitalization | $2,586.6 M |
| Public float | $654.4 M |

| | |
|---|---|
| Earnings per unit [1] | $1.40 |
| Price/Earnings | 15.9x |
| Annualized cash distributions | $1.36 |
| Actual distribution yield | 6.0% |

(1) As of September 30, 2004.
Sources: Gaz Métro, Bloomberg

**Unit price**




**Source: Bloomberg**

# Gaz Métro Limited Partnership

DBRS

Toronto, December 9, 2004

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# Gaz Métro Limited Partnership

## Credit Agencies Annual Meeting

Toronto, December 1, 2005

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# Table of Contents

# Brief Review of 2005 Results

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# 2005 in Review

- Partners' income per unit of $1.33 versus $1.40 in 2004
- $1.36 distribution per unit maintained
- Rabaska development costs ➔ $0.06 per unit
- 8,698 new natural gas customers in Quebec, a record
- High price of natural gas and lower wind velocity compared to 2004 affected deliveries in Quebec
- Total investments of $109.6 million in Intragaz group and HydroSolution

# Highlights

| | 2005 | 2004 |
|---|---|---|
| **Gas Deliveries**[1] (Normalized) | **198.3 Bcf** | 204.4 Bcf |
| **System length**[1] | **10,664 Km** | 10,504 Km |
| **Number of customers**[1] | **200,086** | 193,845 |
| **Number of employees**[1] | **1,460** | 1,421 |
| **Credit ratings - Long-term debt** | | |
| S&P | **A** | A |
| DBRS | **A** | A |
| **Credit ratings - Commercial paper** | | |
| S&P | **A-1 (low)** | A-1 (low) |
| DBRS | **R-1 (low)** | R-1 (low) |
| **Stability ratings** | | |
| S&P | **SR-1** | SR-1 |
| DBRS | **STA-1 (low)** | STA-1 (low) |

[1] Québec and Vermont natural gas distribution only.

# Normalized Volumes

| *(in billions of cubic feet )* | Fiscal years ended Sept. 30 | | Change | |
|---|---|---|---|---|
| | 2005 | 2004 | Bcf | % |
| **Markets** | | | | |
| Industrial firm | 81,3 | 82,4 | -1,1 | -1,3% |
| Industrial interruptible | 24,1 | 27,7 | -3,6 | -13,0% |
| Commercial | 67,0 | 67,7 | -0,7 | -1,0% |
| Residential | 25,9 | 26,6 | -0,7 | -2,6% |
| **TOTAL** | **198,3** | **204,4** | **-6,1** | **-3,0%** |

Lower industrial consumption in metallurgical sector, mainly due to lower consumption by Gaz Métro's largest customer

Lower contributions from residential and commercial sectors due to:

- Greater use of energy efficiency programs
- Weaker wind velocity during winter period compared to same period in previous year

# Debt Highlights

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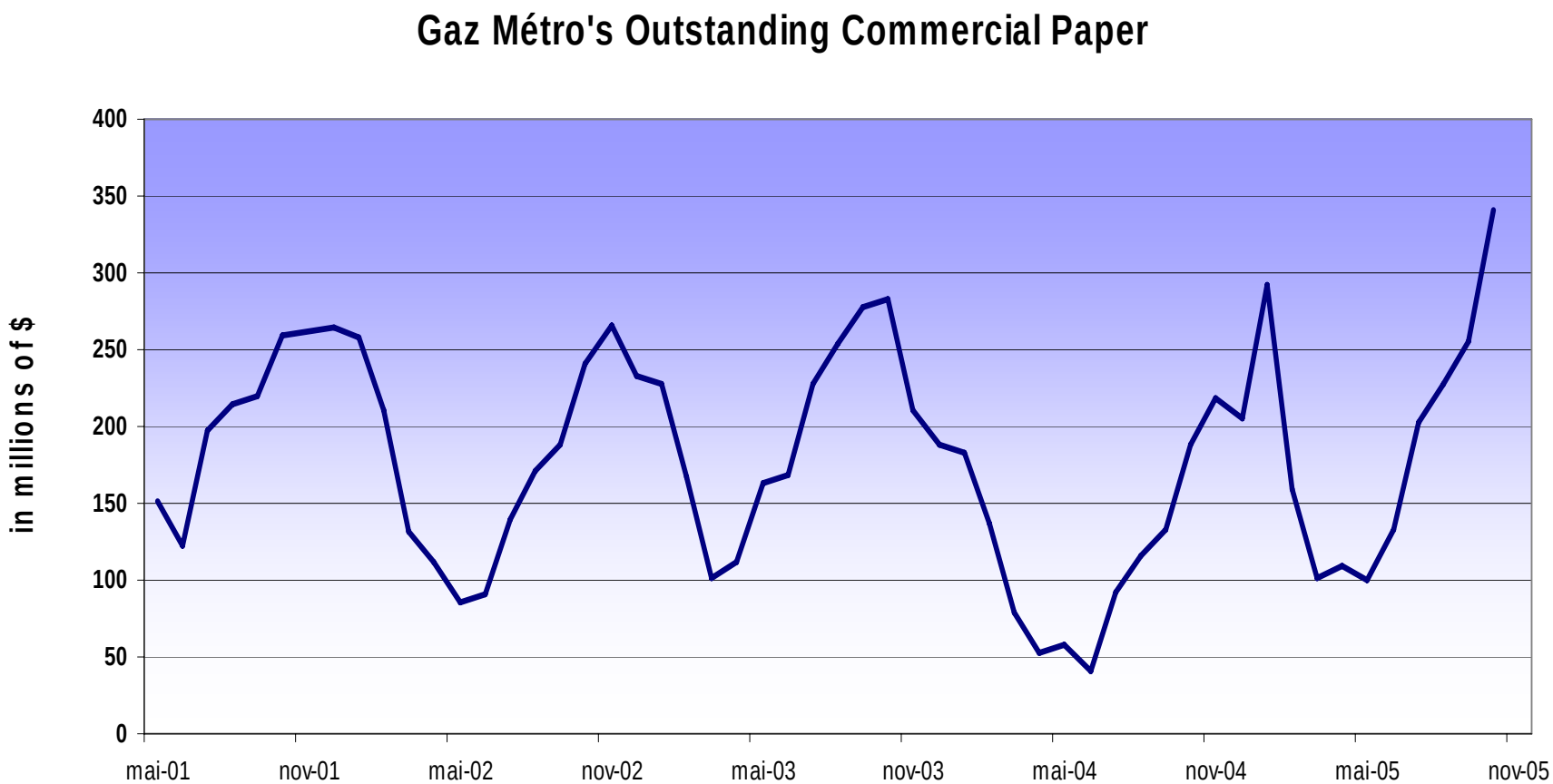
# Debt Highlights

- Commercial Paper Program
  - Up to $400 million
  - Fully backed up by line of credit
  - Current credit ratings: A-1 (low) ⇨ S&P
    R-1 (low) ⇨ DBRS

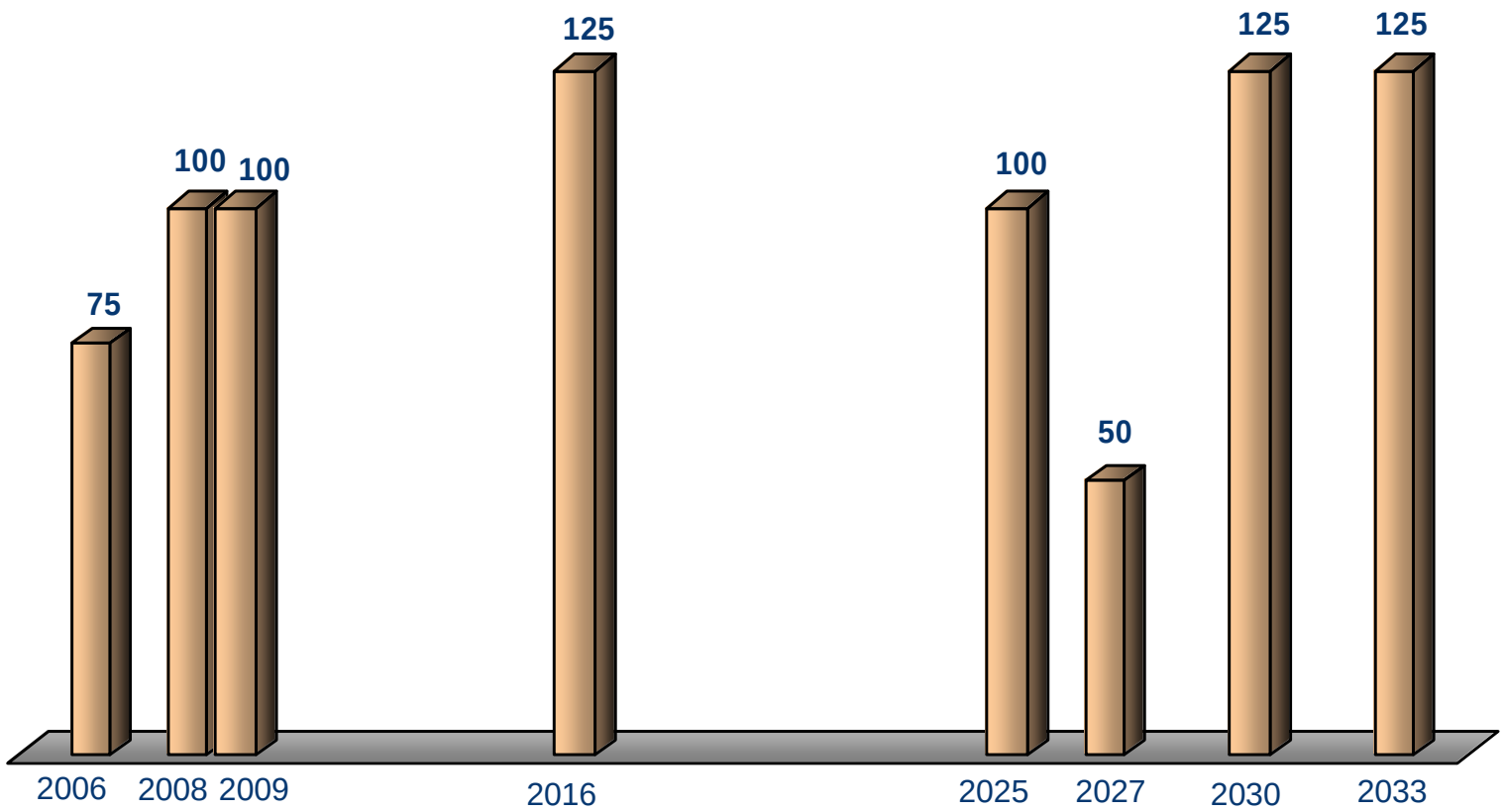
- First Mortgage Bonds
  - $800 million outstanding (as at November 23, 2005)
  - Current credit ratings: A ⇨ S&P
    A ⇨ DBRS
  - Portfolio duration = 8.4 years (as at November 23, 2005).

# Commercial Paper



# Long-Term Debt Maturities

In millions of $




On a calendar year basis.

# Incentive Mechanism

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# Incentive Mechanism

- The incentive mechanism was put in place on October 1st, 2000
- In March 2004, the Régie approved the renewal of the incentive mechanism from October 1, 2004 to September 30, 2009, including some changes to the original incentive mechanism, with a right to reevaluate the terms in 2007
- In September 2004, the Régie renewed the automatic formula for determining the base rate of return on Partners' equity for a period of three years
- In September 2005, the Régie approved a rate of return on Partners' equity of 9.33% for the 2006 fiscal year, i.e. 8.95% based on the formula for establishing the base rate of return, plus an incentive of 0.38% based on expected productivity gains

# 5-Year Retrospective

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|
| Base ROE | 9.60% | 9.67% | 9.89% | 9.45% | 9.69% | 8.95% |
| Anticipated productivity gains | 0.78% | 0.02% | 0.45% | 1.51% | 1. 95% | 0.38% |
| **Total authorized return** | **10.38%** | **9.69%** | **10.34%** | **10.96%** | **11.64%** | **9.33%** |
| **Realized rate of return** | **9.60%** | **10.67%** | **10.91%** | **11.47%** | **10.51%** | **--** |
| **Overearnings** | **None** | **$27.1M(1)** | **$13.2M(2)** | **$14.0M(3)** | **None** | **--** |
| **Deficiency** | **None** | **None** | **None** | **None** | **None** | **--** |

(1) Gaz Métro's share ($9.0 M) included in 2002 results; customers' share ($18.1 M) distributed in the form of a $12.8 M reduction in the 2004 rates and a $5.3 M contribution to the Energy Efficiency Fund in 2004.

(2) Gaz Métro's share ($4.4 M) included in 2003 results; customers' share ($8.8 M) distributed in the form of a $6.2 M reduction in the 2005 rates and a $2.6 M contribution to the Energy Efficiency Fund in 2005.

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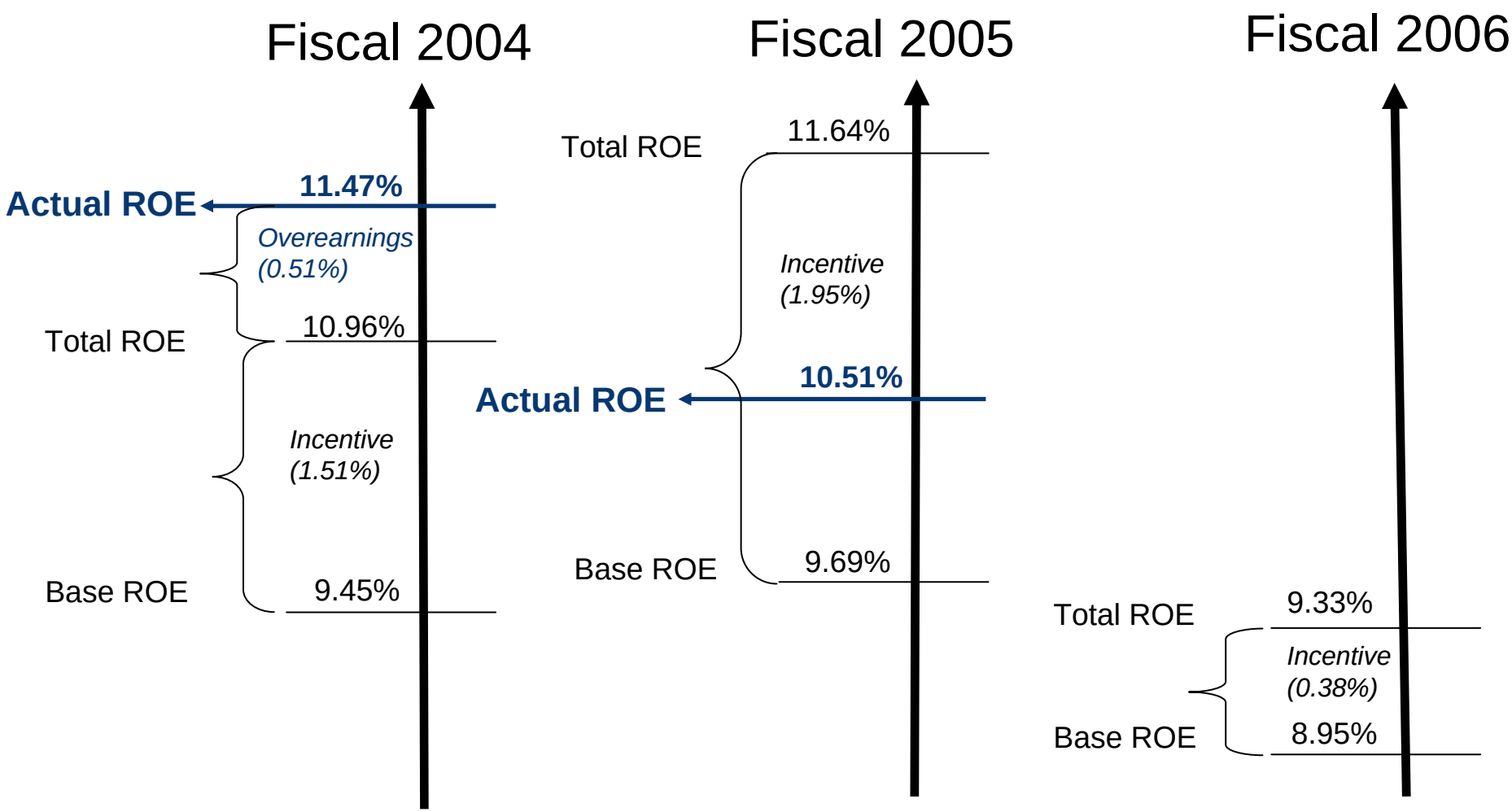
# Overearnings

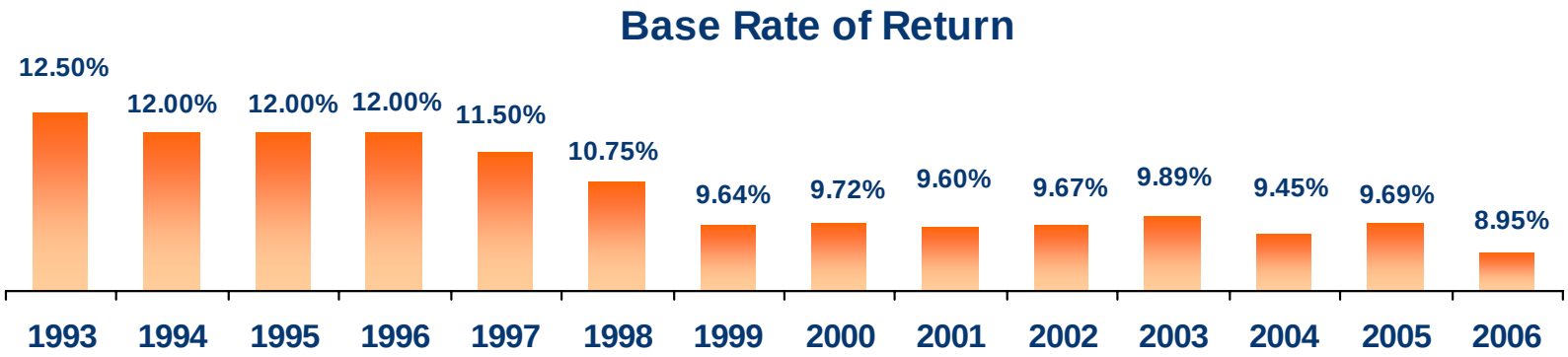


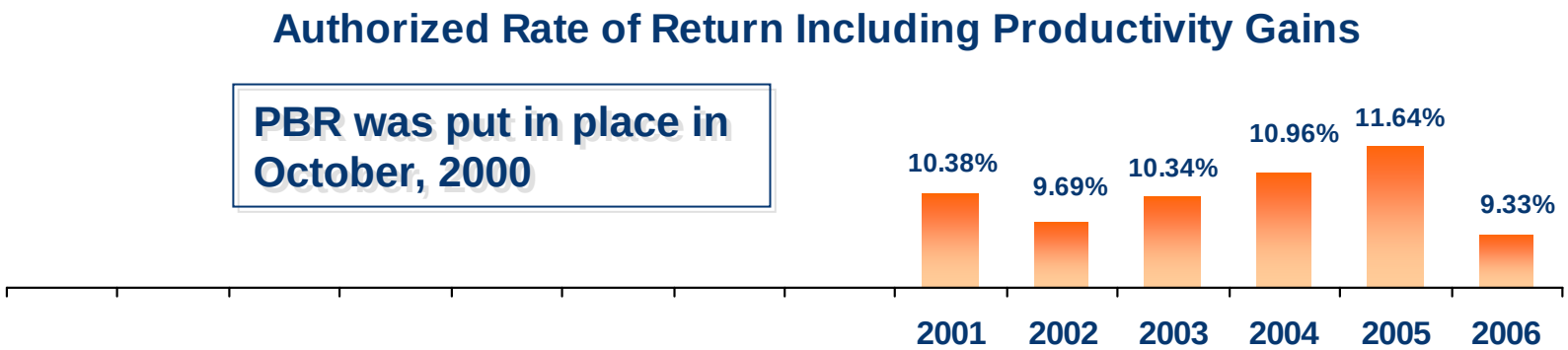

ROE: Return on equity

All figures are before taxes

*(No overearnings in 2005)*

# Historical Rates of Return



# 2005 Anticipated Productivity Gains

**In thousands of $**

| | |
|---|---|
| Revenue CAP | 441,729 |
| Cost of service | (434,361) |
| Productivity gains | 7,368 |

→ **Customers' share (50%)** **$3,684**

→ **Gaz Métro's share (50%)** **$3,684**

Gaz Métro's share expressed in the form of a rate of return

| | |
|---|---|
| Gaz Métro's share | 3,684 |
| Income tax (29.9%) | (1,130) |
| | 2,554 |
| Equity - Québec Distribution | ÷ 672,242 |
| | 0.38% |

# Horizon 2006-2010

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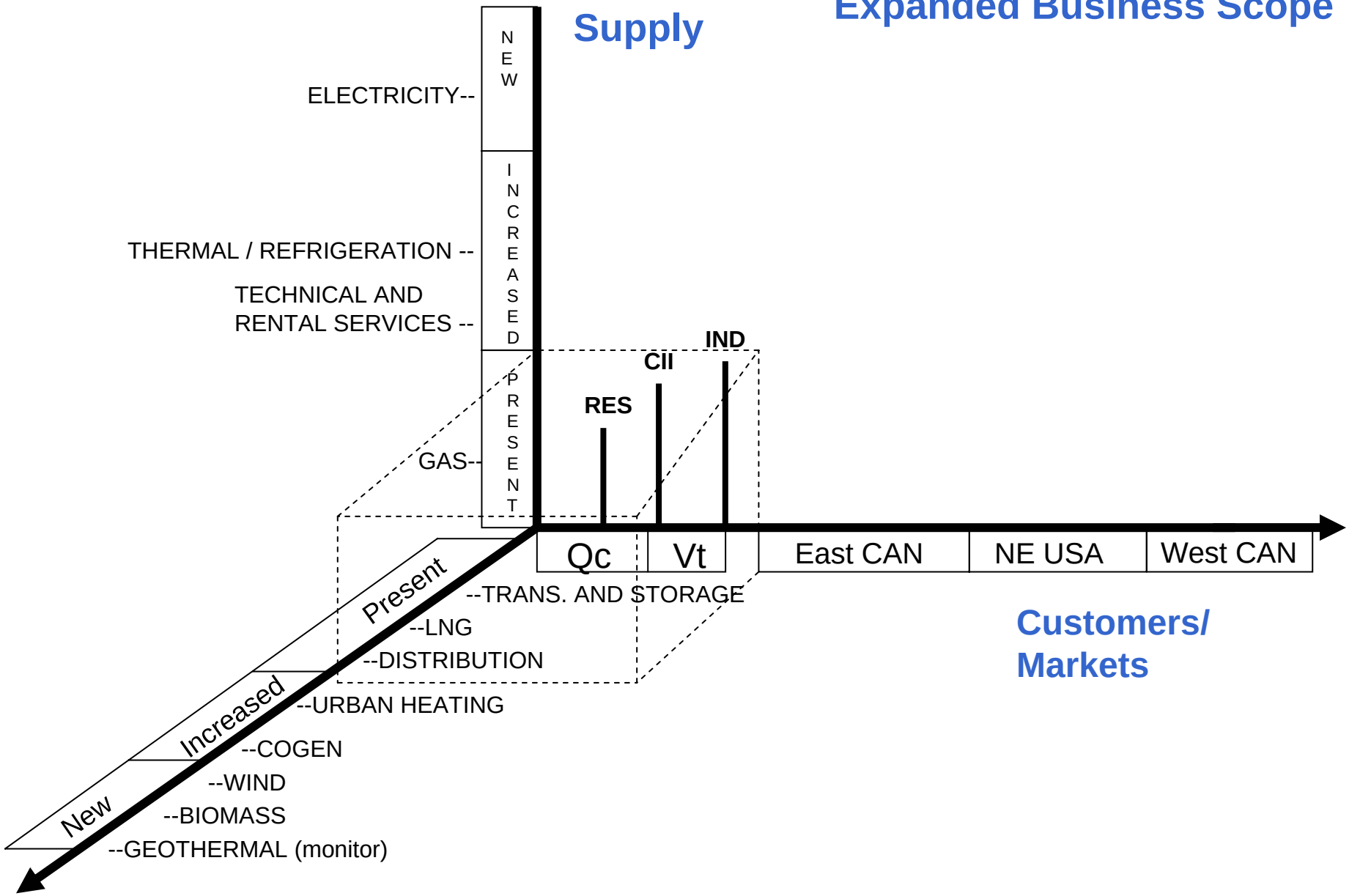
# Natural Gas Distribution in Quebec
# Challenges for the Distributor

- High energy prices
- Large exposure to a single product in a single territory
- Changes in customers' consumption habits
  - Energy efficiency and energy conservation measures
- Hydro-Quebec's rates below market value and below costs
  - Distortion in the energy market
  - Quebec is unique in the world in terms of electric heating

# Steps Taken Recently

- Redefinition of the mission
  - Energy services and solutions mission broadened
- Internal reorganization
  - Will allow the Partnership to grow the Quebec natural gas market and also to be more active in the energy sector at large
- Recent acquisitions
  - Intragaz, a company specialized in underground natural gas storage (December 04)
  - HydroSolution, a portfolio of 200,000 leased water heaters (July 05)

# Expanded Business Scope



# Projects in Development

- LNG terminal: Rabaska project
- Wind power: Agreement with Boralex and *Séminaire de Québec*
  - Hydro-Québec Distribution issued a call for tenders for 2,000 MW of wind power generated in Québec.
- Be aware of any new potential acquisitions, especially in the energy field

# Acquisitons Criteria

- Regulated activities, or
- Governed by long-term contracts that reduce the risks
- Generate cash flows so we can continue to provide investors with a stable income

**Acquisitons must be accretive from Day 1**

# Objective

## Financial objective

- Provide Partners with a stable and predictable return
- Achieve growth in value

## Business Perspective

- Grow existing clientele
- Provide customers with high-quality energy services at the lowest possible cost

# Natural Gas in Québec

- Natural Gas Distribution in Quebec will remain Gaz Métro's core business

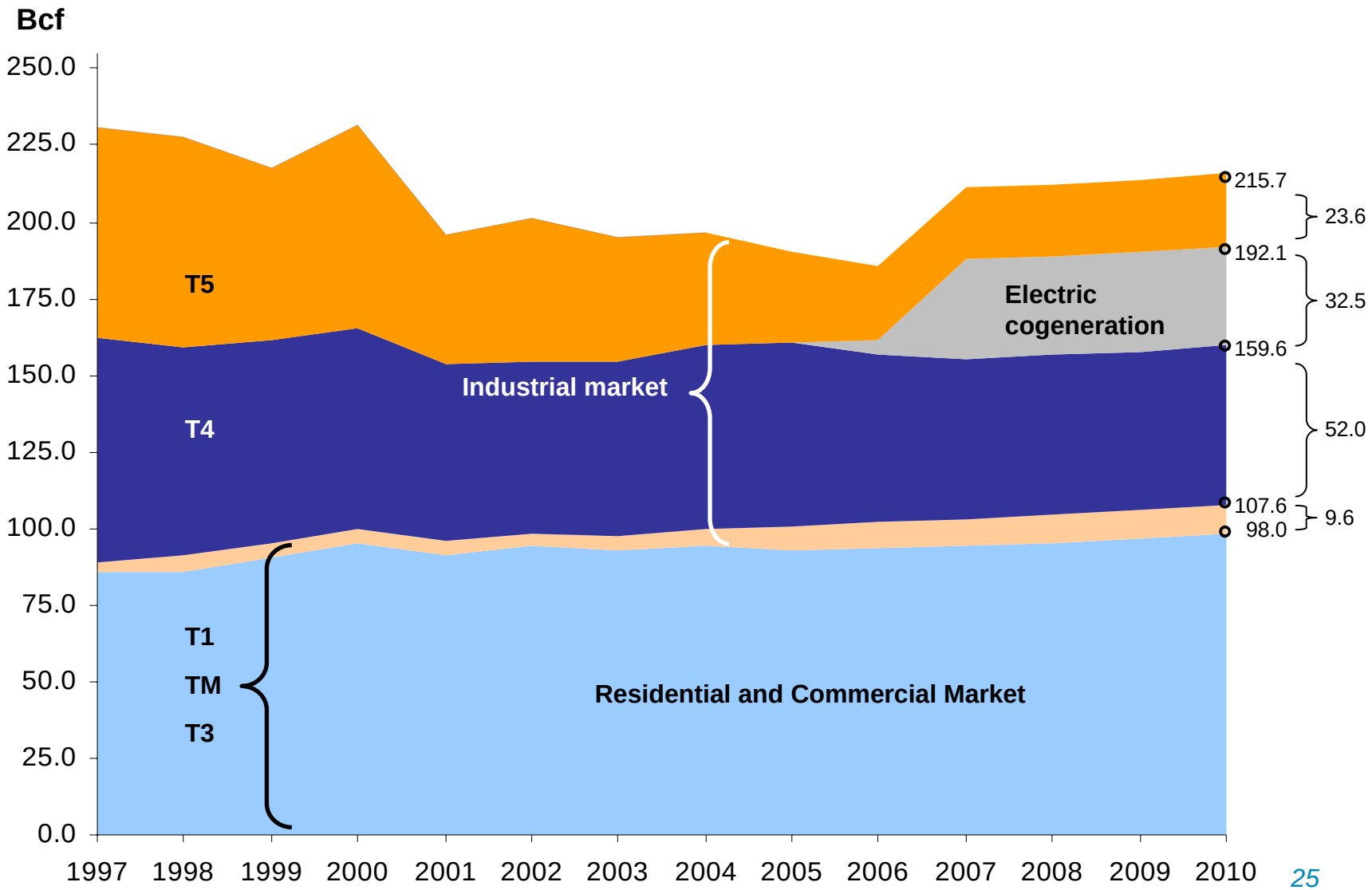
- Objective is to continue to increase market shares in all sectors
  - Position Gaz Métro as a leader in the energy field and a distributor of clean and performing energy

- New customers objectives

| *2006* | *2007* | *2008* | *2009* | *2010* |
|---|---|---|---|---|
| *8,900* | *9,000* | *10,100* | *11,800* | *13,900* |

Source: Gaz Métro's Marketing Plan 2005-2006, horizon 2008

# Forecasted Normalized Deliveries – All Markets



# Conclusion

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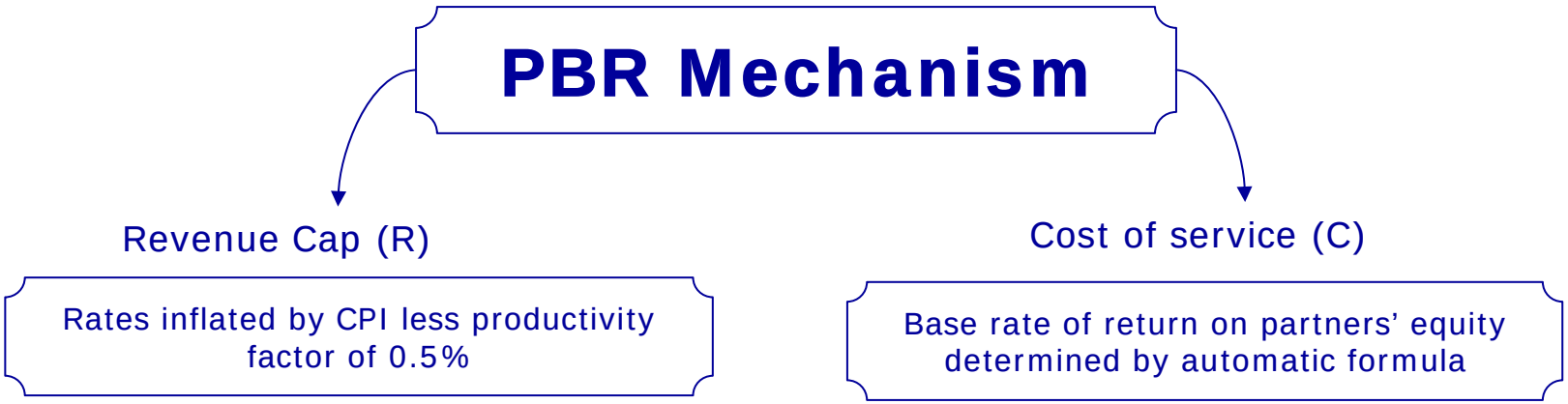
# Conclusion

- 2005 was a challenging year for the Distributor
- 9.33% rate of return for the Quebec natural gas distribution activity in 2006
- Broadened mission in the energy sector
- Diversification of activities
- Efforts will continue to increase natural gas market penetration in Quebec

# Appendices

GazMétro
life in blue

# PBR Mechanism




1. Hybrid between Revenue Cap and Cost of Service

2. Revenue Cap formula:

   **R = (r * (1+i - 0.5%)) * forecasted volumes ± z**

   r = gas distribution rates
   i = inflation rate
   z = exogenous factors

# PBR Mechanism (cont'd)

❸ **How it works**

**Before beginning of fiscal year**

- If R > C: productivity gains shared
  - ⇨ 50% Gaz Métro ($ kept for 5 years without any annual rate adjustment)
  - ⇨ 50% Customers ($ distributed in the form of a reduction in rates of upcoming fiscal year)

- If R < C: no productivity gains
  - ⇨ Rates set to meet cost of service
  - ⇨ Gaz Métro owes "C-R" plus related interests to customers (this debt will have to be reimbursed before any future sharing of productivity gains or overearnings)

# PBR Mechanism (cont'd)

**After closing of fiscal year**

- If productivity gains are > than expected:
  overearnings shared
  - ⇨ 25% Gaz Métro (Share of overearnings recorded in the year earned)
  - ⇨ 75% Customers ($ distributed in the form of a reduction in rates of second subsequent fiscal year and a contribution to the Energy Efficiency Fund)
- If productivity gains are < than expected but > 0: Gaz Métro keeps 100% of what is realized (since the customers got their share before the beginning of the fiscal year and there is no resharing)
- If productivity gains are < 0: deficiency shared
  - ⇨ 50% Gaz Métro (share of deficiency recorded in the year realized)
  - ⇨ 50% Customers (share of deficiency paid by customers through an increase in rates of second subsequent fiscal year; this debt, plus interests, will have to be reimbursed before any future sharing of productivity gains or overearnings)

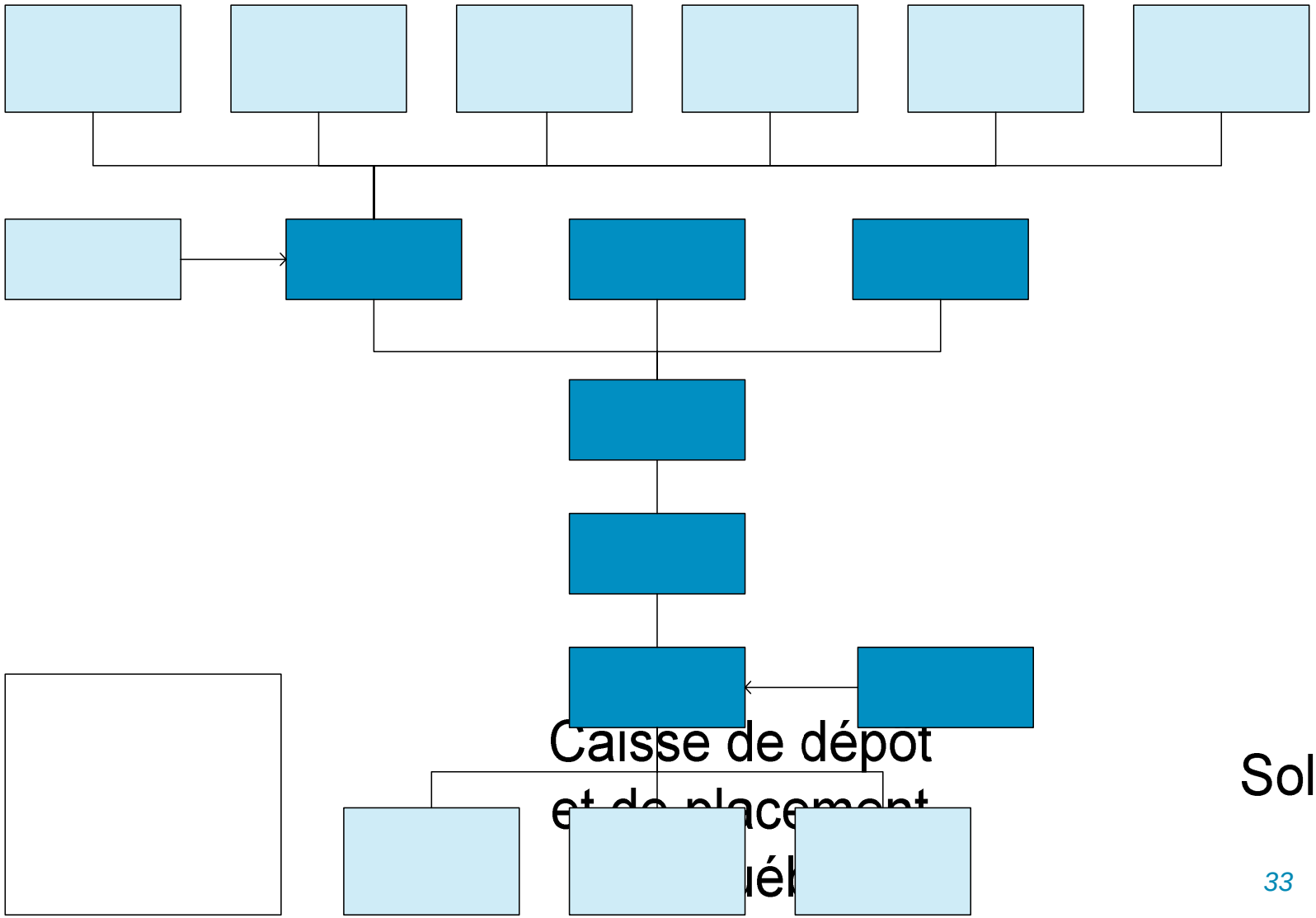
# PBR Mechanism (cont'd)

4. Upside potential of up to 375 basis points (after-tax) per year above base rate of return (approx. $40 M / year)
5. Overall downside risk limited to 1.5% * rate base
6. Exogenous factors:
   - Interest rates
   - ROE
   - Weather normalization deferral account
   - Energy efficiency programs
7. Off-ramps:

   *Mandatory:*
   - No mandatory off-ramp

   *Optionals:*
   - Inflation above 5% for 2 consecutive years
   - No productivity gains for 3 consecutive years
   - Amount in deferral account (debt owed to customers when there are no productivity gains) ≥ 1.5% of rate base at year-end

# Ownership Structure



# Gaz Métro Limited Partnership
# Standard & Poor's Meeting

GazMétro
life in blue

Toronto
December 12, 2006

# Table of Contents

# I. Introduction

# 2006 Highlights

- High and volatile natural gas prices
- Volume deliveries up on spot sales in industrial market, lower average consumption per customer
- Decrease in long-term Canada bond yield used as reference to establish base ROE on Partners' equity for Quebec distribution sector
- Decrease in incentive returns due to difficulty to achieve higher deliveries other than spot sales
- Distribution to unitholders reduced to reflect sustainable Partners' Income
- Offer made to acquire Green Mountain Power Corporation

# Income Distribution

- **Income distribution policy: distribute to unitholders between 95% and 100% of net income on a yearly basis**
- **2005: income per unit of $1.33 vs. distributions of $1.36**
- **2006 income per unit down to $1.25 on reduced authorized ROE**
- **Decision by Board of Directors to reduce quarterly distribution by $0.03 to more sustainable level of $0.31 per unit in May, affected Q4 distribution**
- **2007: Authorized ROE (base plus expected incentive) of 9.57%, forecasted earnings per unit of $1.24 in line with distributions expected**

# II. Quebec Distribution Activity (QDA)

# Quebec Distribution Activity (QDA)

- Base ROE calculated using an automatic formula approved by the Régie in 1999
  - Formula currently under review for inclusion in 2008 rate case
- Incentive mechanism that is highly dependent on volume increases
  - Revision of mechanism currently under negociation with the intervenors
  - Expected to be submitted to the Régie mid-january 2007
- Low penetration of natural gas in Quebec compared to other provinces
  - Achieved 10% penetretion of new home construction market in 2006 - 20% in Greater Montreal area
- Tight competitive situation with electricity
  - Refer to next page for current competitive overview
- Good relationship with the Régie de l'énergie
- Slower economic growth forecasted in Quebec for 2007, might affect volume delivered to commercial and industrial markets

# Competitiveness of natural gas in Quebec

| Market | Main Competitor | How Competitive?(1) |
|---|---|---|
| **Industrial**<br><br>Ex.: Large companies in petro-chemical, metallurgical, etc. industries | **#6 Fuel Oil** | **More expensive, but more flexible and less polluting** |
| **Commercial & Institutional**<br><br>Ex.: Hospitals, schools, restaurants, etc. | **Electricity** | **Small business: 7% cheaper**<br>**Large business: 25% cheaper** |
| **Residential** | **Electricity** | **4% to 16% more expensive** |

**Forecasted competitive situation presented on page 15.**

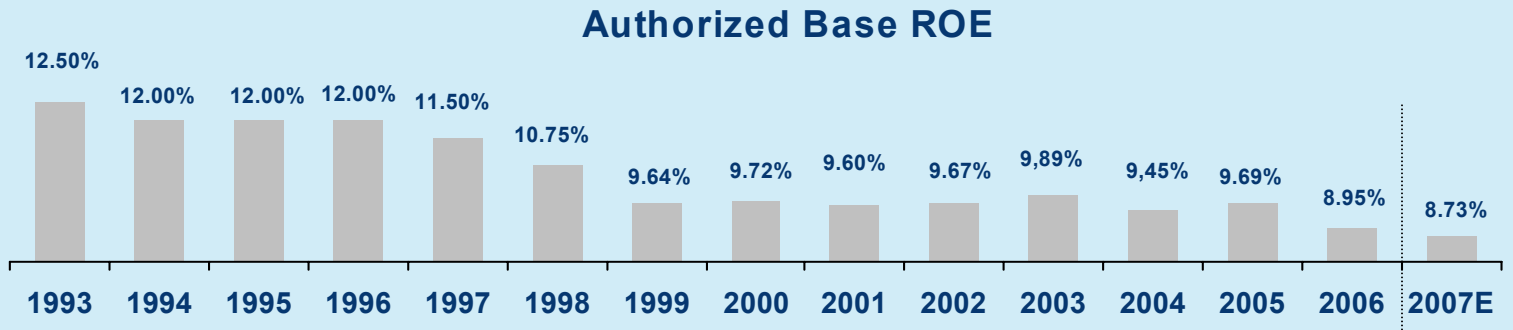
*(1) As at November 30, 2006. Based on average prices for past 12 months*

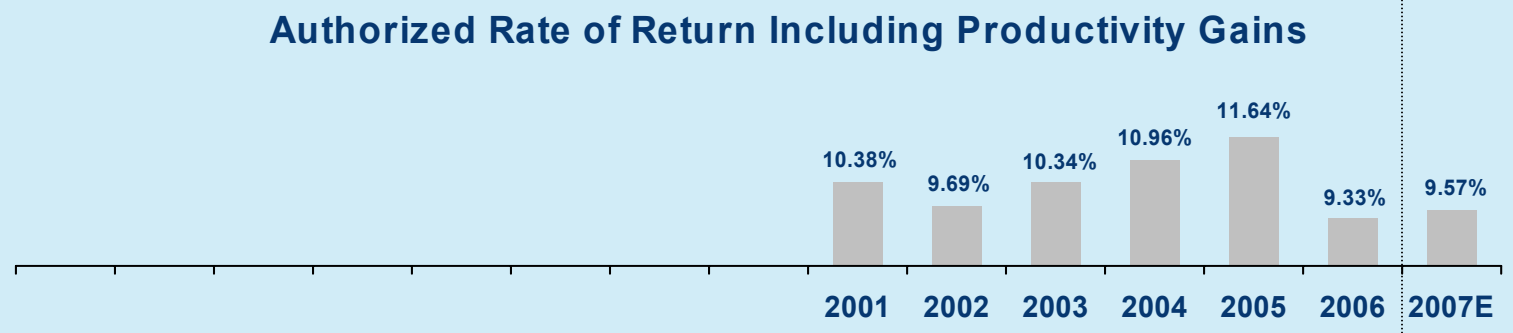
# Current Competitive Situation

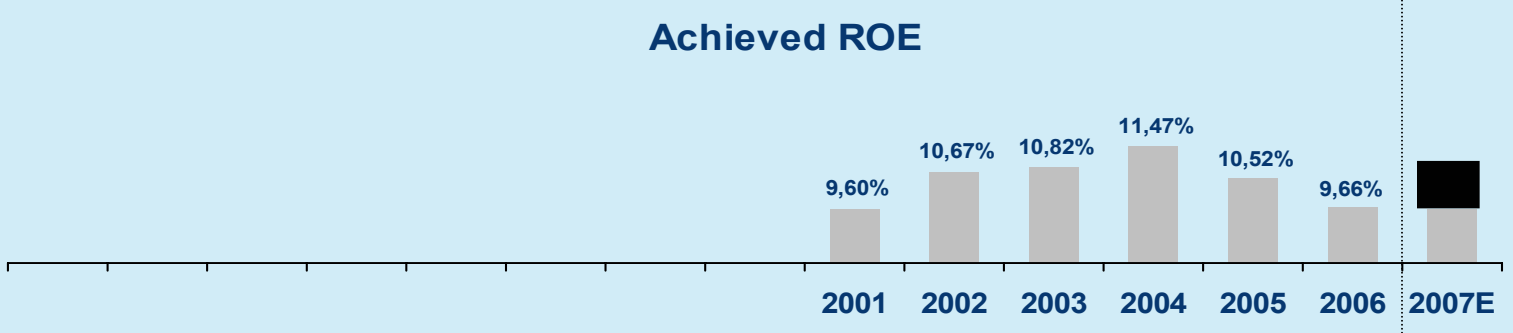
| Market | Main Competitor | How Competitive?(1) |
|---|---|---|
| **Industrial**<br><br>Ex.: Large companies in petro-chemical, metallurgical, etc. industries | **#6 Fuel Oil** | **More expensive, but more flexible and less polluting** |
| **Commercial & Institutional**<br><br>Ex.: Hospitals, schools, restaurants, etc. | **Electricity** | **Small business: 16% cheaper**<br>**Large business: 42% cheaper** |
| **Residential** | **Electricity** | **2% cheaper to**<br>**10% more expensive** |

*(1) As at November 30, 2006. Current market prices*

# Historical Rates of Return

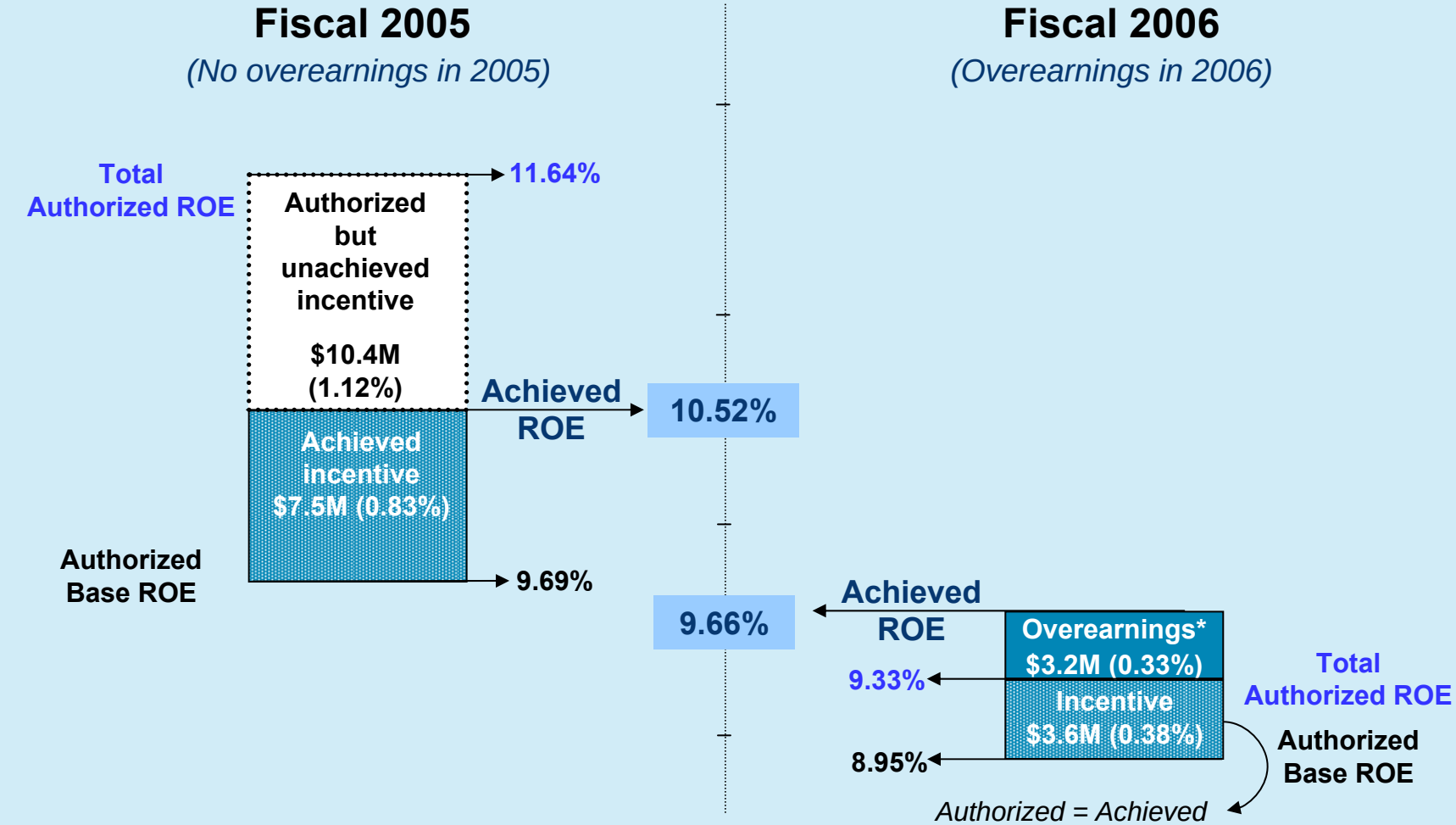



| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007E |
|---|---|---|---|---|---|---|---|---|
| Consolidated Partners' income per unit (in $) | 1.30 | 1.28 | 1.40 | 1.39 | 1.40 | 1.33 | 1.25 | |
| Distributions per unit paid (in $) | 1.24 | 1.27 | 1.28 | 1.34 | 1.36 | 1.36 | 1.33 | |

# Quebec Distribution – ROE




** Overearnings shared 25%-75% with customers. Amount shown is Gaz Métro's share*

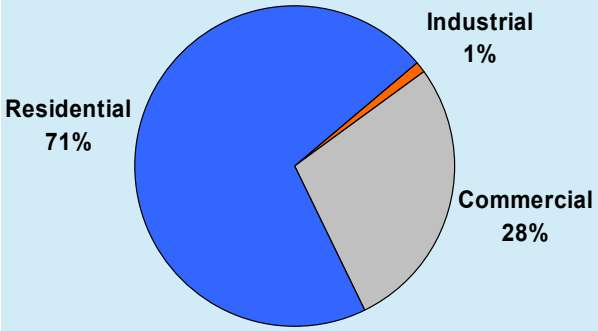
*Base ROE: Return on equity authorized by the Régie ; Total ROE: Base ROE plus Incentive Return; Achieved ROE: Actual ROE*

*All $ figures are before taxes*

# Quebec Distribution Clientele

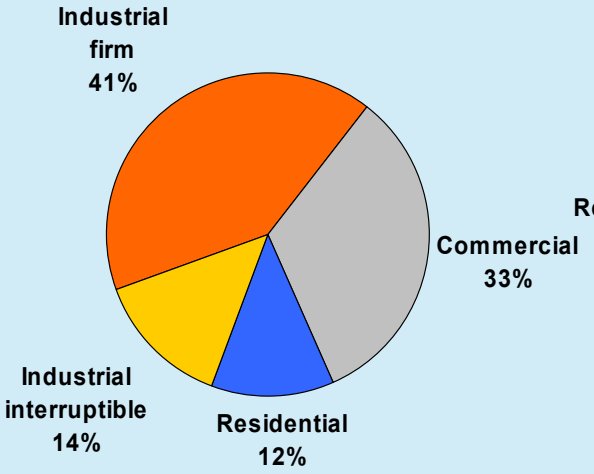
2006 Fiscal Year

## Number of customers



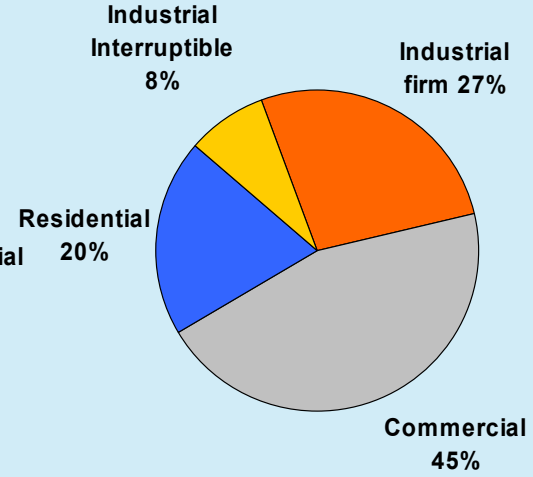

Total number of customers: 167,451

## Normalized volumes




Total normalized volumes: 193.8 Bcf

## Revenues



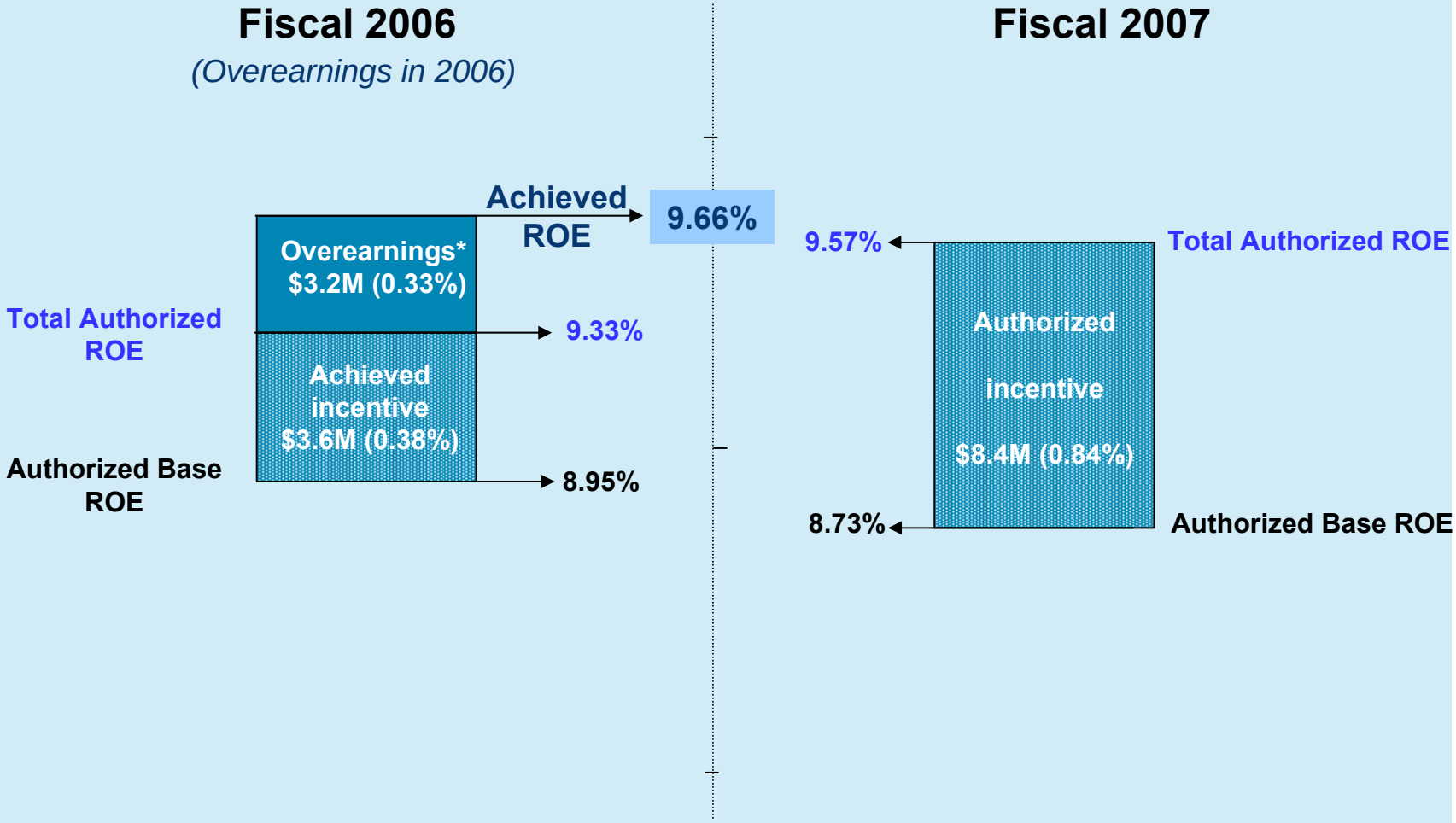

Total revenues: $1,775M

# III. 2007 Rate Case

# 2007 Rate Case Summary

| | **2007 Rate Case** | 2006 Rate Case |
|---|---|---|
| **Energetic Assumptions (in $/GJ)** | | |
| Natural gas price 1 year at Empress | **8.58** | 7.76 |
| Distributor's natural gas supply | **7.58** | 6.79 |
| **Forecasted Natural Gas Deliveries (in Bcf)** | | |
| Residential & commercial | **103.2** | 105.1 |
| Industrial firm | **81.7** | 69.7 |
| Industrial interruptible | **22.1** | 27.1 |
| **TOTAL** | **207.0** | 201.9 |
| **Rate Base (in '000 $)** | **1,814,462** | 1,711,414 |
| **Base ROE (in %)** | **8.73** | 8.95 |
| **Revenu Cap (in '000 $)** | **467,007** | 441,729 |
| **Cost of service (in '000 $)** | **450,174** | 434,361 |
| **Incentive (in %)** | **0.84** | 0.38 |
| **Number of customers** | **171,360** | 165,235 |
| **Rate increase (decrease)** | | |
| (in '000 $) | **37,790** | (9,445) |
| (in %) | **5.35** | (1.25) |

# Quebec Distribution – ROE




** Overearnings shared 25%-75% with customers. Amount shown is Gaz Métro's share*

*Base ROE: Return on equity authorized by the Régie ; Total ROE: Base ROE plus Incentive Return; Achieved ROE: Actual ROE*

*All $ figures are before taxes*

# Natural Gas Competitive Situation – 2007 Rate Case

## Residential and Commercial Markets
## Forecasted Competitive Situation 2006-2007

Natural gas price: $6.49/GJ

| | Annual Volumes (in $m^3$) | Natural gas is ... than electricity | Natural gas price (in $/GJ) to be at parity with electricity | |
|---|---|---|---|---|
| | | | | if electricity increases by 1% |
| **Residential** | | | | |
| High energy appliances | 1,923 | 2% more expensive | 5.97 | 6.13 |
| Existing appliances | 3,179 | 11% more expensive | 4.14 | 4.28 |
| **Commercial** | | | | |
| Small commercial | 14,600 | 16% cheaper | 8.74 | 8.91 |
| Middle commercial | 100,000 | 24% cheaper | 9.32 | 9.47 |
| Large commercial | 400,000 | 34% cheaper | 10.13 | 10.27 |

# Value of Customers

**Average Distribution Revenue (D) by Customer**
(Estimated, based on 2007 rates)

| | Business Type | Average Revenue ($cents/m^3$) | ($/mcf) |
|---|---|---|---|
| Residential | | 28.5(1) | 8.07 |
| Small commercial | Restaurants | 22.8 | 6.46 |
| Middle commercial | Schools | 17.2 | 4.86 |
| Large commercial | Hospitals | 14.4 | 4.08 |
| Industrial | Large industrial | 5.8 | 1.65 |
| Industrial - TCE Energy | Cogeneration | 1.1(2) | 0.32 |

Conversion factor: 1 billion cubic feet = 28.328 million cubic metres

(1) Average distribution revenue for a test case in the residential market

(2) Rate based on budget – may vary on realized volume

# IV. Financial Forecasts (2007-2010)

***Les pages 19 à 30 (excepté 23), présentent des prévisions financières pour les années 2007 à 2010, par secteur d'activité de Gaz Métro pour l'ensemble de ses filiales et participations. De plus, les stratégies de développement de chacune des filiales et participations y sont décrites. Ces prévisions et stratégies sont considérées comme de l'information privilégiée au sens de la Loi sur les valeurs mobilières, sont divulguées uniquement aux agences de notation de crédit sur une base confidentielle et non pertinentes au présent dossier.***
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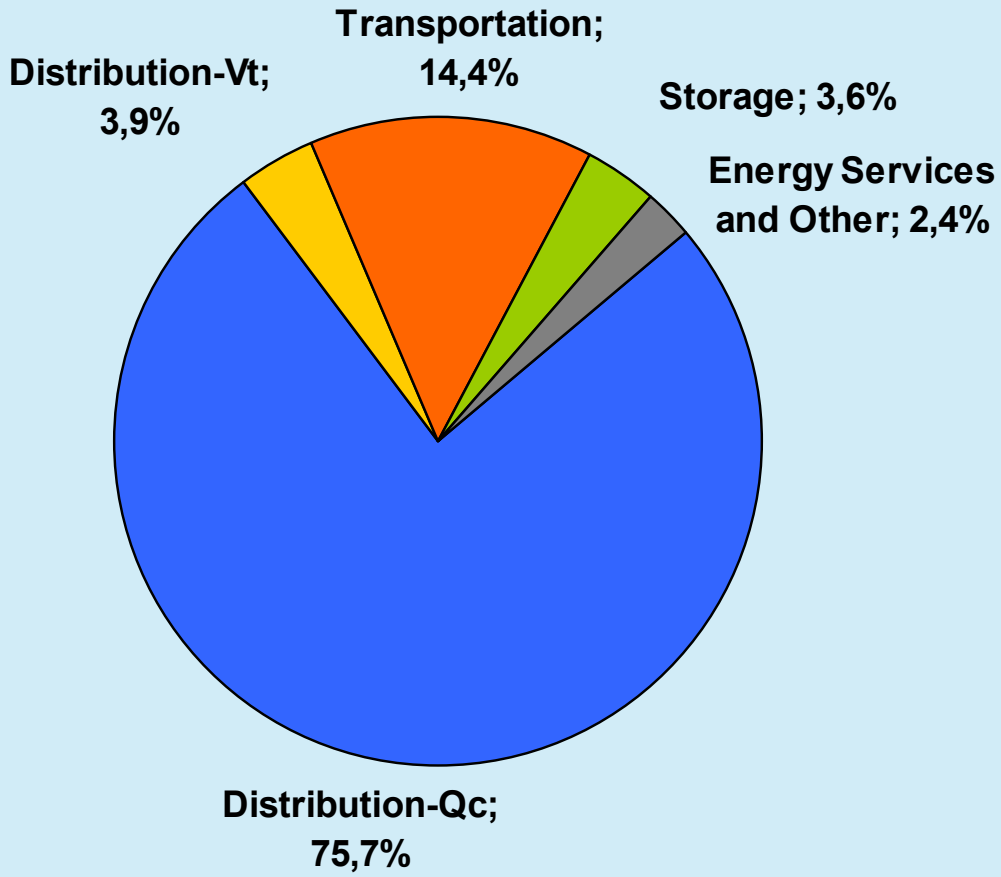
# GMLP – Partners' Income per Sector*

As at September 30, 2006




*Excluding non-allocated elements

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# V. Green Mountain Power Acquisition

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***Les informations ont donc été retirées.***

# Closing Timetable

| Task | Preliminary Expectation | Status | Status |
|---|---|---|---|
| Shareholders' Approval | End of October 2006 | Shareholders approved the merger by more than 97% on Oct 31, 2006 | √ |
| Maine Public Service Board Approval | End of October 2006 | Approval received on Oct 16 | √ |
| HSR Notification | End of October 2006 | Early termination received on Nov 1st | √ |
| FERC Approval | December – January 2007 | FERC approved merger on Dec 5, 2006 | √ |
| Exon-Florio Notification | End of December 2006 | Notification to be filed mid-january | In progress |
| Vermont Public Service Board Approval | Not before June 2007 | VPSB hearings on Dec 5, ahead of plan, now waiting for the decision | In progress |

***Les pages 33 à 38 présentent les paramètres et données financières concernant l'acquisition de Green Mountain Power. Ces informations sont considérées comme de l'information privilégiée au sens de la Loi sur les valeurs mobilières, sont divulguées uniquement aux agences de notation de crédit sur une base confidentielle et non pertinentes au présent dossier.***
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***Les informations ont donc été retirées.***

# VI. Other Development Projects

# Other Development Projects

| Projects | Status |
|---|---|
| Rabaska (LNG Terminal) | • BAPE hearings started on Dec 6<br>• Gas supply still a concern |
| Seigneurie de Beaupré (Wind) | • Objective is to submit a bid in May 2007 for a portion of the level contemplated by Hydro-Quebec RFT ie 2000 MW |

# VII. Taxation Impact

***La page 42 présente des prévisions financières jusqu'en 2011. Ces prévisions sont considérées comme de l'information privilégiée au sens de la Loi sur les valeurs mobilières, sont divulguées uniquement aux agences de notation de crédit sur une base confidentielle et non pertinentes au présent dossier.***
***Certaines informations ont donc été cachées.***

# Gaz Metro Fiscal Challenge

- **Various scenarios currently being assessed**
  - **Status Quo = EPU** [redacted]

# VIII. Action Plan

# Action Plan
# Steps in 2007

| Action | Expected Outcome | Action Plan |
|---|---|---|
| Review formula used to set ROE | Adjust ROE formula to better reflect Gaz Métro's risk profile | To be presented as part of 2008 rate case |
| Renegotiate performance incentive mechanism | Modify performance incentive mechanism to better reflect market conditions | Under discussion with intervenors. To be filed with Régie once an agreement has been reached |
| Assess federal Fairness Tax Plan | Get a better understanding of implications for Gaz Métro and assess various options | |
| Increase penetration in residential and commercial markets | Increase number of customers and total deliveries in both markets | Marketing and tariff strategies under review |

# Action Plan (cont'd)
# Steps in 2007

| Action | Expected Outcome | Action Plan |
|---|---|---|
| Pursue development efforts | | Finalize acquisition of Green Mountain Power Corporation |
| | | Take part in BAPE hearings and await recommendations on Rabaska project |
| | | Continue wind testing at the Seigneurie de Beaupré and establish bidding strategies with partners |
| Remedy PNGTS' situation | Secure PNGTS transportation volume | Part of excess capacity already sold for 12- to 17- month periods. Current tolls valid until April 2008 |

# Incentive Mechanism

- Incentive mechanism was renegotiated in 2004 with some minor changes compared to the original mechanism approved in 2000
- Negotiation with the intervenors have begun in fall 2006
- Negotiated agreement should be filed with the Régie in mid-january 2007, for an application in the 2008 rate case
- Actual mechanism is highly dependent on volume increases
- Difficult to increase volumes due to current market conditions and competitive situation in Quebec
- Contemplated changes cover different alternatives whereby productivity gains would not be entirely tied to volumes
- Timetable
  - Mid-January: Filing of the agreement with the Régie
  - Mid-February/March: Hearings
  - End of March: Decision by the Régie
  - May: 2008 rate case filing including incentive mechanism and proposed ROE formula

# Appendix 1: Deferred Charges

# Deferred Charges Fiscal Year 2006

| In millions of $ | At beginning (Oct 1, 2005) | Normalized rate stabilization accounts | Increase (decrease) deferred charges and credits | Reduction charges related to natural gas | Amortization deferred charges and credits | Non-cash adjustments | | At end (Sept 30, 2006) |
|---|---|---|---|---|---|---|---|---|
| **Rate stabilization accounts** | 26.4 | 37.1 | - | - | (13.7) | 0.1 | | 49.9 |
| **Development of information technology** | 60.0 | - | 11.0 | - | (10.6) | - | | 60.4 |
| **Financing costs** | 7.2 | - | 6.1 | - | (3.7) | - | | 9.6 |
| **Customer share of overearnings** | (7.1) | - | (7.4) | - | 7.1 | - | | (7.4) |
| **Conversion grants** | 85.8 | - | 29.2 | - | (14.6) | - | | 100.4 |
| **Gain on transfer of investment** | | | | | | (6.1) | | (6.1) |
| **Other** | 12.6 | - | 6.6 | - | (6.1) | - | | 13.1 |
| **Sub-total** | **184.9** | **37.1** | **45.5** | **-** | **(41.6)** | **(6.0)** | | **219.9** |
| **Expenses related to natural gas costs** | 2.8 | - | (8.5) | (54.5) | - | (0.2) | | (60.4) |
| **Expenses related to financial instruments** | (228.3) | - | - | - | - | 266.8 | (1) | 38.5 |
| Total | **(40.6)** | **37.1** | **37.0** | **(54.5)** | **(41.6)** | **260.6** | | **198.0** |

(1) *Net impact related to change in fair value of financial instruments related to Gaz Métro – Quebec Distribution for the 2006 fiscal year.*

# Deferred Charges

## Rate stabilization accounts

- To alleviate the effect of unpredictable and uncontrollable factors on its operations, in particular the impact of temperature fluctuations on its revenues
- Beginning in the second subsequent year, annual fluctuations are amortized over five years and recovered in rates

## Development of information technology

- Amortized over 3 to 10 year periods

## Expenses related to natural gas costs

- To mitigate the impact of significant fluctuations in gas supply rates and defer the difference between actual costs, including the impact of derivatives, and anticipated costs billed to customers
- Amounts are returned to or recovered from customers over a 12 month period

## Customer share in overearnings

- Gaz Métro includes the customers' share of overearnings in deferred charges
- Amount is returned to customers in the form of a rate reduction during the year following the approval by the Régie of the year-end regulatory report