JUST ENERGY
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Operator: Hello, and welcome to the Just Energy third quarter fiscal 2013 results. As a reminder, all telephone lines will be on listen-only mode, and there will be a question and answer session at the end of the call. If you need any telephone assistance during the call, please press *0 to speak to an operator. And now, to begin our call, I introduce Rebecca MacDonald, Executive Chair. Please go ahead.

Ms. Rebecca MacDonald: Good morning everyone. Thank you for joining us for our third quarter conference call. With me this morning are Ken Hartwick, our CEO, and Beth Summers, our CFO. Ken and I will make a short presentation and then we'll open up the call to questions. Before we get going, let me preface the call by telling you that our earnings release and potentially all answers to your questions will contain forward-looking financial information. This information may eventually prove to be inaccurate, so please read the disclaimer regarding such information at the bottom of our press releases.

Our third quarter results are highlighted by two things. First, we had another solid quarter with both customer growth and embedded margin growth in double digits. Second, we have announced that we are changing our dividend policy.

Let me move immediately to our board's decision to set the fiscal 2014 dividend at 84 cents, down from current $1.24. The first payment at the new level will be the April 2013 dividend. As you are aware, our board considers the advice of management on dividend policy on an annual basis. After careful and thorough evaluation, it was concluded that the reduction of the current dividend would provide the company with the necessary financial flexibility and stability to focus on three priorities. In order, they are: 1. Further investing growth opportunities in our customer base and particularly the sale of products such as smart thermostats, which deepened our customer relationships. 2. Continue paying a substantial dividend to our loyal shareholders. And, 3. Preserve excess cash to provide us the option of reducing our overall debt level.

As discussed in our prior quarters, with our fiscal 2013 dividend trade of $1.24, our payout ratio of funds from operation will exceed 100% for this year, and based on current forecasts, will exceed 100% in the fiscal 2014 as well. This reflects a period of very high growth, with double digit increases in our customer base and future embedded margin. The newly approved fiscal 2014 dividend level should drop this payout ratio of funds from operation below 100% next year, and management believes it will reach a target range of 60 – 65% by the end of fiscal 2015. We believe this target range is prudent for a high-return business like ours that can show an ability to grow rapidly. Management believes that there needs to be focus on this profitable growth and debt reduction as well as dividends.

Historically, high levels of growth investments have been funded by raising capital. While we were again able to tap the debt market, raising $105,000,000 in ventures privately placed with the CPPIB in December, the need for continued cost-effective financing exists as we expand our business. An improved balance sheet will aid this process. The fiscal 2014 dividend level will allow the funding of necessary growth capital expenditures and the cash repayment of the entire fiscal 2015 90 million converting of the venture issues if necessary. In addition, the new level of dividend will allow Just Energy to build a cash reserve to deal with future refinancing and growth needs. While we will lower dividends, we will continue to have one of the highest dividend yields on TSX 300 and in New York stock exchange.

Furthermore, it's management's belief that our recent share price reflects an expectation of a dividends reduction and is discounted accordingly. Management believes that Just Energy's core business growth combined with a stabilized capital structure will allow our company's return to be a provider of both business growth and income growth to our shareholders. Let me turn it over to Ken to discuss the quarterly results.

Mr. Ken Hartwick: Thanks, Rebecca. Just Energy's third quarter was another strong quarter for long term growth. We were able to build our customer base and future embedded margin, despite a challenging commodity environment, heightened commercial competition, and weak economics for our ethanol business. Let me first talk about growth, something that is often forgotten with a focus on payout ratios and debt levels.

In the past year, we have grown our total customer base by 11%, and our embedded margins are 2.2 billion, up 14% from a year earlier. At the end of the quarter, our embedded future margin per share was $15.19, a solid underpinning to our equity and evidence of the long term financial strength necessary to execute our growth strategy. Customer additions in the third quarter were 341,000, up 10% from fiscal 2012, and the second highest total registered in Just Energy's history. New additions were solid in all segments of the business, led by 150,000 new residential customers, up 34% from the 112 added in the third quarter of fiscal 2012. Commercial additions totaled 191,000, down slightly from the company record 198 added in the prior fiscal year. National Home Services saw 44% year-over-year growth in total installations, reaching 222,000 customers. We see all of our marketing channels making headway towards our continued success, and remain committed to making the necessary investments to strengthen these channels. Just Energy intends to be a growth company for the years to come. Growth expenditures in our UK operation and our smart thermostat business are essential to the expansion plans, and we will continue to invest in both of these areas as well. Management believes that the broadening of the customer relationship is the next step in the evolution of Just Energy. While the funding platform for NHS supports this growth in Canada, there is a need to provide the capital to expand the business in the US. This step will contribute to an increasingly profitable customer relationship, less impacted by natural gas prices.

While we saw significant customer growth during the quarter, our margin growth lagged our customer growth, falling 3%, vs. Q3 of fiscal 2012. There were three main reasons. The ethanol plant was, and remains, a problem division. This non-strategic plant saw its gross margin fall to 2.2 million, down from 6.5 million a year ago. Management cannot forecast when this performance will improve, and we expect no improvement in Q4.

The second area of margin shortfall was weather derivatives. In the last two years, the company's hedged its weather exposure through weather derivative options. Based on warm weather, these options pay out during the third and fourth quarters of the year, while the true adverse cash impact of the warm weather is generally not seen until the following Q1 and Q2 results, which contain the utility reconciliations. The record warm weather in fiscal 2012 resulted in a $9,000,000 payout on these options last year, while in Q3 this year, the payout was less than $1,000,000. In this case, much of the shortfall should be recovered in Q1 and 2 next year, while improved utility reconciliations vs. last winter.

Finally, on average, the US dollar fell against the Canadian dollar year-over-year. This reduced margin by 3.2 million. Based on today's dollar, this margin loss would have disappeared. Overall, these factors caused gross margin to be 3% lower in Q3, despite an 11% increase in our customer base.

This customer growth shows that Just Energy remains a benefactor of its unique growth industry. Deregulated energy is a fast-growing market and we are striving to generate both net customer growth and higher profits. Adding customers is very important to this end, but retaining them is vital as well. We continue to see a low stable commodity price environment which makes renewals more difficult, and attrition a challenge. In Q3, both these measures were solid. Attrition was essentially flat year-over-year, at 13%, down from 14. Renewals were strong, at 69%, up from 62% a year earlier. Our ability to sign and retain customers at these rates that have consistently improved supports our belief that we are achieving great customer value out of each relationship. Our administration costs were up $34 per customer, from $32 a year ago. And, as we continue to build a base for future expansion, much of the higher cost was building the momentous base in the establishment of the UK office. We believe that our base is now in place, and expect the administrative expenses to fall to the $30 per customer range, going forward.

Aggregation costs per residential customer was down 22% to $158 from $203 a year prior. Commercial customer aggregation costs run average down slightly. This continued positive trend has been driven by the use of multiple sales channels and the economic scale as fixed marketing costs are spread across more customers. That depth remains in our target range, averaging 2.1%, down from 2.5% a year earlier. As the percentage of our revenue exposed to bad debt grows, management is carefully monitoring to ensure that losses are held within the range of 2 – 3%. National Home Services had another solid quarter, tracking its growth in its tall base year-over-year gross margin and EBITDA are up 32 and 21%, respectively. NHS has recently launched in Quebec, and will look for further expansion opportunities. Gaining a stronger and stronger foothold in the customer base is a key theme you will hear repeated on these calls in quarters to come.

We've begun to see the benefits of getting multiple products into a customer's house. Whether it is our commodity contracts with NHS products, or our smart thermostats, each customer relationship is improving in economic value, and we believe a more stable customer relationship will follow. Regarding our outlook, previously issued guidance called for 10 – 12% gross margin growth, and 8 – 10% adjusted EBITDA growth for fiscal 2013. Although overall margin is up 9% year-to-date, management does not expect it to reach 10 – 12% target range for the fiscal year. Continued weak results from TGF and delays in the positive cash impact of colder winter temperatures causes management to currently estimate no more than 8% margin growth for the fiscal year. Our forecast for roughly flat fourth quarter margins would result in adjusted EBITDA being in the current range of down 6%, compared to the year, again, target growth from 8 – 10%. Administrative and sales and marketing expenses are growing more quickly than margin, as they track the number of customers in our base.

Looking ahead, our efforts and expenditures to broaden our sales channels and geographic footprint have resulted in renewed growth in customer and future embedded margin. Each of our sales channels is performing well. Our customer base is becoming more stable, both through improviture in performance and a deepening of customer relationship. We continue to see a very soft natural gas and electricity wholesale market, which puts some pressure on our business. While these conditions persist, our customer growth and resultant growth of our embedded margin indicate that Just Energy's future is bright. As in the past, we have adjusted our business model to changing market realities, and are working to ensure that customer and margin growth lead to bottom line results. Strategic investment today will lead to a stronger balance sheet and higher returns in coming years.

Let me finish on this note: I want to be clear that we do not see any fundamental problems in our core business. Our customer additions are as strong as they've ever been. Our cost of signing each high margin residential customer is down 22% year-over-year. Our attrition rates and renewal rates are improved, and are at the best levels in the last five years. People will note margins appear weak. This is not due to our core business. Year to date, our electricity margin is 18%, the same as fiscal 2012, and up 1% from fiscal 2011. Our natural gas customer margins percentage is 16%, the same as fiscal 2012, and up 1% from fiscal 2011. The quarter saw our overall margin down five million year-over-year. To be at our annual guidance of 10% after quarter, we would've had to be up 1.5 million in margin.

Why were we not at guidance for the quarter? As I noted earlier, this weakness can be clearly attributed to four either non-core or non-recurring areas. First, our ethanol plant, where margin was down 4.3 million. This is a non-core asset for us, and it only has non-recourse data associated with it. To the extent that the ethanol industry does not recover in the near term, the plant will no longer be able to service its net. It is our intention to not provide any supplementary financing to the plant. In other words, in the worst case of closing a plant, we would remove $64,000,000 of debt from our balance sheet at the cost of 3.1 million of EBITDA in the last nine months.

The second area of margin weakness, the non-recurring eight million timing difference on our weather hedges, this is the nature of weather options. It will result in less volatility going forward, as the relative size of our gas flow continues to shrink. We do not anticipate another record warm winter, but there will always be some weather variance in our book.

Third, we had a three million swing in US currency exchange year-over-year. This adversely impacts margins, but we had no real losses; we've never repatriated any of these dollars. All were spent on US marketing expense, and G&A. Had we done the calculation at today's exchange rate, this margin loss would disappear.

Finally, we made a decision to limit the number of new momentous agents in the quarter, feeling we have reached critical mass. This meant that fewer kit sales to these agents reduced what we call other margin by two million, vs. the comparative quarter. These non-core or non-recurring issues reduced reported margin by $17,000,000, which added back, brings us within our guidance. The shortfall is entirely in non-core segments of our business. Our core business was right in line with our expectations. The driver of long term value is growth in our customer base, and relative growth in embedded margin. Both are double digits, year-over-year.

The real question is, is Just Energy creating value? The simplest measure of creating value is future embedded margin, which the undiscounted margin locked into our customer contracts. At the end of 2010, our embedded margin was $10.08 per share. At the end of fiscal '11, it was $12.34 per share, up 22%. A year ago it was $13.56 per share, up 10%. And today it is $15.19, up 14%. This is steady creation of real value by Just Energy.

Let us look at what we are saying about our future with our target payout ratios. Our funds from operations for the last twelve months was $103,000,000. Our new dividend is $121,000,000. To bring our payout ratio to a target of less than 100% next year, we would have to grow FFO by 19% in one year. This is substantial growth, reflecting the growth in embedded margin I just spoke about. We also see reaching our payout ratio of 60 – 65% by fiscal 2016. That would require us to increase FFO by 82% over the next three years. Combine this with what will be an 8% plus dividend, and you have a high growth stock with a very high yield by any measure. To say that two quarters of slow results from non-core businesses somehow offsets our embedded margin growth over five years, our substantial growth inherent in our book for the coming view, is, in our view, very short sighted. This the message we want to leave you with: we steadily increase a long term cash flow of our business and intend to continue to do so. With a more sustainable capital structure, we will ensure that we have the funds to support this continued growth and the result will return to shareholders. The future is bright for Just Energy. And we'll now open for questions.

Operator: Ladies and gentlemen, if you'd like to ask a question, please press 01 on your telephone keypad. Once again, if you'd like to ask a question, please press 01 on your telephone keypad. Okay, and our first question comes from Nelson Ng with RBC Capital Markets. Please go ahead.

Mr. Nelson Ng: Great, thanks. Good morning, everyone.

Ms. Rebecca MacDonald: Good morning.

Mr. Nelson Ng: Just in terms of the dividend and payout ratio, let me just summarize. So, for fiscal 2014, it'll be less than 100%, and in fiscal 2016, it will be about 60 – 65%. Is that right?

Mr. Ken Hartwick: That's correct.

Mr. Nelson Ng: Okay. In terms of the other kind of cash flow items for below the FFO lines, such as capitalized commissions and things like advertising debt repayments, will those items pressure your cash flows? I'm trying to figure out whether the cut is large enough.

Mr. Ken Hartwick: Yeah. I think if you're referring to really what else is going to be below FFO with regards to CAPEX related expenditures, then I don't think there's going to be a material difference in the two. As again, outside of the NHS, or National Home Services type of products which, again, we have a financing vehicle in place through Home Trust in Canada, we don't have a lot of other cash-related items go below that FFO line.

Mr. Nelson Ng: Okay. In terms of the DRIP participation, can you let me know what the current participation level is?

Ms. Beth Summers: Yeah. It roughly works out to ten million a quarter. That's what we've been seeing, Nelson.

Mr. Nelson Ng: Okay. Then my next question, just moving on. In terms of the water heater acquisition—I think you did a small acquisition—and the average life for those water heaters was about seven years, are those customers locked into, let's say, an original of 15 year contract? Or could they leave at any time?

Mr. Ken Hartwick: No, their contract life is almost identical to ours. The ones that we sign up organic. So they do have a—I think it is actually a 15 year contract life.

Mr. Nelson Ng: Okay. Got it. And just one more question before I get back into the queue, regarding the weather hedges, how is the winter shaping up this year? I noticed that only about .9 million of the potential weather derivatives of I think a $20,000,000 payout was received. So that implies that the winter has been okay? Or, how is Q4 looking?

Mr. Ken Hartwick: Right. So the way the weather hedge works—and this is across each of the quarters—is, we will always retain the first $3,000,000 of weather exposure, and then the weather hedge protects us above that, up to the cap of $25,000,000, which is what we have in place. So Q3 was slightly warmer than normal, which is why you have the $3,000,000 plus fee, roughly $1,000,000 of the weather hedge that we utilized. January was between 7 – 10% warmer across markets. February's looking very good so far, and you can look out your window right now, for most people anyway. It's looking like a very normal, if not a little bit colder, February than historic norms.

Mr. Nelson Ng: Okay, thanks. I'll get back in the queue.

Mr. Ken Hartwick: Thanks, Nelson.

Operator: Okay, ladies and gentlemen. As a reminder, if you'd like to ask a question, please press 01 on your telephone keypad. Once again, that's 01 on your telephone keypad to ask a question. And we have a question from Kevin Chiang with CIBC. Please go ahead.

Mr. Kevin Chiang: Hi, good morning. I just had a quick question on NHS. I'm trying to get a sense of the cash flow profile here. If I'm not mistaken, and correct me if I'm wrong, I believe currently you're not generating any cash flow, based on how your agreement with Home Trust Company is currently set up, you know, given it's a relatively new venture. But when I look at your gross margin on a [PH 00:23:47] trilly twelve month basis, and I'm back on selling expense G&A, it's just expense, I essentially get a business that's essentially, from my perspective, not generating any operating cash flow. Can you just reconcile that for me? I'm just trying to get a sense of—I guess—what the operating cash flow could look like for this division, given it's a huge growth profile for you guys?

Mr. Ken Hartwick: Right. So if we start with the Canadian—under the Home Trust capital structure, the financing, we actually, for every water heater we install, we get back around 120% of the cash that we have put out to install the water heater under the financing arrangement. And then in return we pay that back over—I think—on average around 6.5 years to pay back the cash flow. So each one we install, we actually get the funding back of more than what it cost us to put that in. So that's what you see in the cash flow. And then it gets amortized back through for accounting purposes, the cash payments relative to the margin we're going to receive from the customer against that cash flow. So it's a very efficient cash usage model for us, because we're constantly getting the funding to then install the next water heater under the program. And as I referenced in my comments, as we look to build the asset part of our business into the US, to integrate with our other customers, I think we'll go through a period of time where we will do the funding of that rather than Home Trust in the US, until we get something similar, financing in place, in the US.

Ms. Rebecca MacDonald: And I would just like to add one more thing, that any incremental increases on the rental basis year-over-year are retained by us. They don't go to Home Trust.

Mr. Kevin Chiang: That's good to note. So what I'm trying to get a sense of, as you look over this business longer term, it seems like right now on an accounting basis—at least the way I see it in your MG&A—it looks it's effectively a business that's just breaking even, if I take the gross margin and I back out your selling expense G&A and interest line, and maybe even your amortization, it looks like you essentially get to a number close to zero. You know, when I think of the longer term, it sounds like I should—or I guess you guys are modeling a situation where gross margin growth will outpace the line item—the expense lines below that?

Mr. Ken Hartwick: Right, yeah. And Kevin, because of the nature of the asset intensive vs. our commodity business, we've always said the payback period for that is going to be four years. So yeah, I think if you look at it and say, although technically you don't get your money back until your fives from an all-in cash standpoint, in absence of looking at the financing.

Mr. Kevin Chiang: Okay. And just quickly on your customer growth on the core energy business, you guys have obviously done a good job here over a number of quarters in terms of adding to that customer base. How big can this grow? I mean, I know you're moving to the UK. Giving the challenging weather environment, given I guess what's been a relatively tough renewal environment, given the disconnect between slot price and some of your contract pricing, when does this eventually flatline? And especially related to that, when you consider at least internally here we're not assuming any type of real pickup in commodity pricing. Can you kind of comment around those various variables and the risk to that operation?

Mr. Ken Hartwick: Yeah. It's actually what I think we are most proud of the organization, which is why a lot of both Rebecca's and my comments were around the core part of our business. You know, we've had a low commodity price environment since 2008 or 2009. Or late '08, early 2009. And we've been able to adapt our products to customers, adapt our sales organization to have strong growth and accelerated growth the last couple of years across each one of our sales channels. And on the point, on the customer retention side—and I think this is something we spoke to a couple of years ago, is, when we first had renewal issues, particularly on our gas book, we said at the time that we saw that once our entire book of customers got reprised onto more—it was called current market prices, that we would begin to see renewal rates go up. And they have. We would begin to see attrition rates come down, and they have. So the actual customer churn/retention part of our book has steadily improved, and again, creates that value and that embedded margin. And we don't see that doing anything but improving, going forward. And with respect to customer additions, how much more can we add? If we're sort of consistently now in that 340, 320 range as far as gross customer additions, we feel confident that we can grow that pace, maybe amid high single digits going forward, for the foreseeable future.

Mr. Kevin Chiang: Okay.

Ms. Rebecca MacDonald: And just to add, if you look at our organization historically, and if you even look at just the last couple of years, I know it's always difficult for you guys because there are no direct comparisons to us in the marketplace. One of the biggest strengths we have is our sales organization and our ability to market the product, whatever the product is. And that's not going away. As a matter of fact, I think we should be able to fight to expand and find even different ways of selling the product. And what, in my opinion you can look forward in the next two, three years is management desire and willingness to expand different sales channels even more. And as it happens, we will be announcing it. So I don't think that we expect any weakness there.

Mr. Kevin Chiang: Okay. And maybe just lastly for me, given the announcement on the dividend cut, I guess as you sit here today, maybe you can prioritize for me how you view your use of cash flow, i.e. from paying a dividend, buying back shares, funding growth, and deleveraging the balance sheet. Is there a way to prioritize that when you look at this finite resource, being the cash flow?

Ms. Rebecca MacDonald: Well, I would say first of all, we have been paying dividends for twelve years. So we take this very seriously. This was not a decision that was made overnight, and now it is taken and our priority for the excess cash that will generated really is around our growth. That's number one. Number two, as I said when I opened up this call, we wanted to set a dividend policy that's sustainable over a long period of time. And number three is everything else that you mentioned. Buying back shares as well, we wanted to get below 100% FFO. And basically wanted to get in a much stronger balance sheet position. So those are our priorities. Company of our size needs cash to grow, and we want clean balance sheet on going forward basis. So I know that nobody likes a cut. I am the one that probably likes it least because I haven't sold a share for over ten years, and I know that my personal income is going to drop. But I am very confident that it is definitely a right decision for the longevity of the business and the growth that we want to experience in the future.

Mr. Kevin Chiang: What gas price do you assume when you kind of look at your dividends—when you make that comment that the dividend is sustainable through a cycle, do you presume that gas prices stay where they are, or commodity prices stay where they are today? Or do you assume some sort of improvement in the commodity price environment? Like, how much does commodity price play into that forecast?

Mr. Ken Hartwick: No, we assume that gas—which we've done for the last four years—we assume that gas prices will stay where they are now.

Mr. Kevin Chiang: Okay.

Mr. Ken Hartwick: And no change. We've built the business around that. Our cost structure, our product offerings. And to a large degree, although electricity is more volatile than gas, it does sort of reflect a little bit. And we assume the same thing on power prices. So no, there's no built-in assumption of commodity prices changing from where they are.

Ms. Rebecca MacDonald: I can assure you that the board looked at very, very conservative assumptions. And board looked at many different variables before they concluded that this was the right thing to do.

Mr. Kevin Chiang: Sounds good. That's it for me, thank you.

Mr. Ken Hartwick: Thanks, Kevin.

Operator: Okay. Next up we have Trevor Johnson with National Bank. Please go ahead.

Mr. Trevor Johnson: Hey, good morning, folks. Just with regards to a UK trans—

Ms. Rebecca MacDonald: Good morning.

Mr. Trevor Johnson: Hey, good morning. Can you just speak about your UK franchise and how you see that business evolving with regards to—maybe customer aggregation being the first point? And if you can share that. And I guess secondly, the potential to maybe expand into other geographies in and around the UK?

Mr. Ken Hartwick: Sure. Trevor, I'll start off with the UK. We launched operationally there in July of last year, of 2012. And commercial only to start. And our intention was to build on a good foundation of an employee management base, as well as a good understanding of the market from a commercial standpoint. And we are very, very happy with the results. It's a well-established market, very similar to Texas. And probably from a customer standpoint, it's the same size as Texas and New York combined. So we see a lot of potential; we are very happy with the early results. But we said we're going to go very slow there because we want to make sure that we are learning the market, building the customer relationships, and broker relationships on the commercial side that we want to be able to do. I think at some point in the next six months we will probably begin to open the residential side of that business and begin to add that into our customer offerings there. And again, that's really premised on the team that's on the ground there, continuing to build that team out. So we view that as just another really big, solid, and well-regulated market for us to grow both parts of our business in. With respect to other geographic expansion, I don't think beyond the UK for the next couple of years, we will not go anywhere else geographically. It's something where we would want to be in the UK for probably two or three years before we would ever look at another market. We're in no big rush. You would look across the North American marketplace and say we probably have 4 or 5% of market share. So we can have significant growth in North America and the UK for the next number of years before going to another market. I think more of our focus, as Rebecca has mentioned, is on other products into the house, in North America. And that's where we want to devote our time. Because we think it does two things: improves the economics of the relationship with the customer on related products, like what we do with NHS and smart thermostats. And we also think it has a very meaningful impact on customer turn. So you'll see us talk more about that as opposed to the next country that we might go to.

Ms. Rebecca MacDonald: And I would just like to emphasize, more and more and more over the next five years you're going to be hearing the same lines from us: we want to own customer basement, and we want to own the basement of the customers that we have presently on our book, and we want to expand, obviously, in the jurisdictions we operate. But the key will be owning that basement, and having numerous products going in there. That's definitely the focus of the management for the future.

Mr. Trevor Johnson: Excellent. And just going back to the UK for a second, are the economics and nature of your wholesale partnership with Shell Energy, Europe, is that consistent with what we see with your North American partners? Or is there any nuances or any differences that maybe we should be made aware of?

Mr. Ken Hartwick: No, I think like I said, we were delighted with the announcement that we put out on Monday with Shell. When Rebecca founded Just Energy back in 1997, Shell was the anchor partner that we grew the business off of. The relationship with them has been great over the fifteen years that we've been in operation, and they were just a natural partner for us to want to build our UK presence with. And again, they took a very long term strategic view as well. They recognize that we want to build out our UK business for the next two or three years, but they also have aspirations to be with us, to grow into other countries in Europe. So the terms of the supply are—the only difference is really the market specifics around them. But otherwise, the structure of it, the no need to post collateral, all those types of arrangements are identical to what we have in North America. And like I said, we are—that has given us now the platform to take and grow the UK business. And, as I said, longer term other places in Europe as they become relevant for us.

Ms. Rebecca MacDonald: And I've got to tell you, from board's perspective, board is incredibly pleased that we were able to finalize this agreement with Shell, because it's just the last piece that we wanted for future growth in Europe. So it's a wonderful arrangement that we have in place.

Mr. Ken Hartwick: And Trevor, your question on margins; in the commercial business I think what we're seeing so far—although it's relatively small—is actually a higher margin profile than what we see in North America. And we have some insight into what residential margins look like, and I think we would be very satisfied with the residential margin potential in the UK when we open up that market.

Mr. Trevor Johnson: Thanks for the commentary, folks. I appreciate it.

Mr. Ken Hartwick: Thank you.

Operator: Okay. Next up we have Mr. Robert [INDISCERNIBLE] of Claris Wealth Management. Please go ahead.

Robert: Good morning. How many shares—

Ms. Rebecca MacDonald: Good morning.

Robert: **--**owned by management and the board participate in the DRIP program?

Ms. Rebecca MacDonald: I know how many I own. I own 6.7 million shares.

Robert: And do you participate in the DRIP program?

Ms. Rebecca MacDonald: I don't participate in a DRIP program. I do not.

Mr. Ken Hartwick: Yeah, actually, I just want to say, I don't think we know which of our employees and/or management participate in the DRIP program. We have an employee share ownership program which we also run, which the company can manage if your manager can contribute 2% towards. And I would say all of the senior management participate in the share ownership plan.

Robert: With respect to your decision to cut the dividend, are you making any assumptions with respect to the DRIP participation changing, going forward?

Mr. Ken Hartwick: Oh, I think when we looked at the variation on that, I think we're comfortable if the DRIP were to—I think more relevant if the DRIP were to decline slightly, or decline. So we looked at it. We think we have flexibility in the change the 84 cents to reflect that perhaps—again, if it were to decline from its current level, that we're still very comfortable with what we set it at. Obviously if the DRIP level increases for a period of time, then the cash impact of that is the other direction. So yes, we did look at it, and yes, we're very comfortable with the level we set.

Robert: In terms of the decision to cut the dividend, was it a unanimous decision at the board level?

Ms. Rebecca MacDonald: Well, you know, we have a very interesting board, a very strong board. There was a lot of discussion that had taken place around this over the last three months, and when the vote was taken after three month discussion, it was a unanimous decision.

Mr. Ken Hartwick: And I think too, to add to that, the real unanimous part of our board and the entire management team is the belief in what we're doing from a customer and segment part of what the company has moved to, and including the belief that we need to expand the product lines that we are offering in order to continue to grow the company in these segments that we're in. And that part is extremely strong support across the board to continue to evolve the company.

Ms. Rebecca MacDonald: And you know what? I think the fair addition to our answer would be as well, the board has been looking at analyst's reports over the last couple of quarters, and our board members take their job to heart. And they looked at concerns over SSO above 100 payout ratios. That was one of the things that they have definitely looked at. And they looked at the balance sheet issues. So when they combined those with growth, that made it a unanimous and easy decision for the board.

Robert: All right. Thank you.

Ms. Rebecca MacDonald: Welcome.

Operator: Okay. Next up we have Mr. Nelson Ng with RBC Capital Markets. Can you please go ahead.

Mr. Nelson Ng: Great. Thanks. Just in terms of annual growth margins for customer, I think that the trend in general has been that the gross margins for the additional customers has been kind of lower than the gross margins for customers that are kind of lost during the period. Are they—at some point, when do you expect them to generally be equal, in terms of the margins for customers coming in equaling to the margins of the customers leaving?

Mr. Ken Hartwick: Yeah, Nelson, I think if we go back to my earlier comment that when we had customers coming off of very high commodity prices that have come through the renewal process—which we would have perhaps another year's worth of customers coming out—those customers inherently had higher margins on them. And so I think on the residential side of our business, that's something where we're getting pretty much to a normalized basis within the next year or so, that you're going to start to see the customers added on the residential side be very close to the customers peeling off out of that nonrenewal bucket. On the commercial side of the business, again, it's more competitive by its nature. And we've seen some pullback on the margins there. But that's part of the business. We built the cost structure of that business to be very advantageous at the levels it's at, and, again, we'll work to improve those over time as well.

Ms. Rebecca MacDonald: And I think that over time we have told everybody that, as our commercial business grows, and commercial customer number grows with the lower commercial margin, overgrow margin will be pulled down just because of the percent between commercial and residential business. And numbers are very clear. Our commercial book is growing very rapidly, and that is just the nature of the book. Two different types of customers that you're dealing with.

Mr. Nelson Ng: Okay. Got it. In terms of the commercial customers, you mentioned that there is more kind of competition. From a high level or industry perspective, is the higher competition due to additional entrance coming into the market? Or is it just due to the dynamics of the low volatility of energy prices? Or, what are some of the contributors to increased competition?

Mr. Ken Hartwick: Well, I think really the primary factor is, as we've grown our commercial business—with the acquisition of Hudson and then with what the team has done on commercial—we've always had a strong basis. We've said, through that small medium commercial where the margins are better. But again, as we've grown, we've also said we're going to move upscale on those commercial customers. Again, within segments that we like. So we don't like industrial—the big manufacturing. That is not a business we're in. But to move into bigger customers like a school board that might be the equivalent of 5 or 6,000 RCEs, we're now able to move into that segment. Margins are lower on it, which drags the average down on the surface. But the cost to serve that customer is incredibly efficient. And that's really some of what you'll see within our commercial business, is both as we grow and become a bigger market participant, we're going to bump into those higher, more competitive bids. But like I say, on a cost to serve—are very effective for us. And that's in part why you see the commercial margins coming down. Now, definitely, it's a competitive marketplace. And as we move into that segment that I just referred to, we do run into the bigger players like Constellation, like Suez, who will be more competitive. But again, we like the economics of it and we're going to continue to go there.

Mr. Nelson Ng: Okay. Got it.

Ms. Rebecca MacDonald: And we said to the market time and time again that our belief is that in the future, North American markets will be served by five, six large players. Of course we are one of them. But as Ken pointed out, Constellation and Suez and NRG are very reputable, good players, and we welcome good competitors. It's very, very healthy for the marketplace.

Mr. Nelson Ng: Okay. So what I'm hearing is, if you stay within the smaller, midsize commercial, then competition hasn't really necessarily increased. It's more about you targeting larger customers whereas in those areas there is more competition?

Mr. Ken Hartwick: Sure, yeah. Absolutely. And like I said, as the commercial business gets bigger, stronger, more effective, we just figure that's a natural place for us to continue to go. Like say, the economics of a $40 margin on a 5,000 RCE school board is very, very good. For us, as a business.

Mr. Nelson Ng: Okay. Just kind of switching gears a bit, in terms of the Fulcrum acquisition in 2011, there is—I think you're expected to pay about a $4,000,000 earn outs out of a potential $18,000,000 earn out. Does that imply that the acquisition, or the performance of Fulcrum is not doing as well as expected? Or how do you—can you give me a bit of color on that?

Mr. Ken Hartwick: Sure. Yeah. When we acquired Fulcrum, it was for two specific focuses. One was the Affinity side of the business that they had in place, and the second was around the specific access into the Asian part of what we do. Or part of the segment of the business. We put that earn out in there for a very specific reason. We said, how fast did the group at Fulcrum expect to be able to expand that business outside of North America? Because it was Texas-centric at the time. And again, from an acquirer's standpoint, we said, if the excess performance could be achieved, that's great, we're willing to pay for it. And if it didn't, that's fine as well. But the effective amount that we would pay out under that earn out, combined with the purchase price we did pay, we're very pleased with the acquisition. We see very strong inroads into the Affinity side of our business. We have a series of Affinity partnerships that have now been struck nationwide, predominantly in the US, that we are very, very excited about and aligning ourselves with other brands and other companies. And again, it has outperformed in Texas—which was its biggest market—and the underperformance side really has come from the speed of us being able to use sort of the Asian part of their marketing process into the Northeast. That's why we put the [PH] IRR out in place when we did the acquisition. So on balance, we're very happy with what we'll end up paying for the company and what it's done, and very excited about the expansion of the Affinity program, which again, is one of the sales channels that will contribute towards the growth that we have.

Mr. Nelson Ng: Okay. Thanks. And just one last question, you guys mentioned that you want to own the basements and put more focus on smart meters. How many smart meters have been deployed to date?

Ms. Rebecca MacDonald: Ah, you are referring to smart thermostats. Not smart meters.

Mr. Nelson Ng: Thermostats. Yes. Yes, sorry. Smart thermostats. That's right.

Mr. Ken Hartwick: Yeah. So we've installed probably as of today around 2500 in Texas and Ontario, which is the two markets that we wanted to run the process initially. Both have different dynamics. In Texas we bill, and in Ontario we bill through the utilities. And like I say, why we're excited about the program and we'll expand it very rapidly, really across every jurisdiction that we operate in over the coming years is that we see a couple of things. It's definitely broadening the relationship with the customer and changing the discussion with the customer, which is what we want to do. Now, we've always been a company that said, "We will come in and fix your price, or give you price certainty in some manner." Increasingly we see customer behavior also saying, "Can you just help me use less?" So helping use less, or use it in a different period, or "Help me participate"—in the case of Texas—"in demand response programs," where there's significant upside for the customer and us to help the customer use energy in a different time during the day. So like I say, we're early stages in this, but we are convinced that this is a material change for the company that will have a significant long term impact. And we're just going to—like we've done with every other part of our business—as we build it out in Texas and Ontario and get sort of all the underpinnings of our customer information system in place to support it, then we'll go into the next state and the next province, and the next state after that. And three years from now it'll be a staple in every state and every province that we operate in.

Mr. Nelson Ng: Okay. Thanks. Those are all my questions.

Mr. Ken Hartwick: Thank you.

Operator: Okay. Next up we have Damir Gunja with TD Securities. Please go ahead.

Mr. Damir Gunja: Good morning. Damir. Just follow-up on the commercial margins. I guess you refer to them stabilizing around the $64 per our seed level. Is there a scenario where, I guess, if you continue to pursue maybe some of these larger customers you alluded to that that number could possibly drift further lower?

Mr. Ken Hartwick: No, we don't actually think so. But we think it will stabilize in at around the $70, $75 range, is what we would expect. So for the next quarter, whether we're within that range within a few dollars is fine. But again, as that segment of our business continues to perform as strongly as they are, you'll see us also then capturing that smaller, higher margin segment. And again, I want to make sure everyone is clear on my comments. We have no intention of going upscale further into industrial, into manufacturing type of businesses. It's not our core customer. But it is those customers that have a very low cost to serve and a very low credit profile, or high credit profile, from a business standpoint. But, Damir, I think long term, we would say $70, $75 is a very comfortable range for us over the next number of years.

Mr. Damir Gunja: Okay, that's encouraging. And I guess maybe part of that is maybe competition easing up at some point? Or…?

Ms. Rebecca MacDonald: Well, Damir, where there is money to be made, I don't think you're going to see easing on competition. I don't think we are counting on that. I think we've seen a lot of consolidations in the last couple of years, and I would say that competitors that we have right now, most of them are still going to be around. We can't see that they will be exiting, because it's a profitable business! And companies like making money. Market is—

Mr. Damir Gunja: I guess—

Ms. Rebecca MacDonald: Damir, market is very big. And it cannot be served by one company. So that's just nature of the beast. I would be very concerned if we were the only players in that segment. That definitely would concern me. But the fact that people like NRG or Constellation or Suez are very much interested in the segment that we are playing in is good for everyone.

Mr. Damir Gunja: Actually, that ties in to something I was going to ask you guys. I guess you've adopted the Rights Plan, maybe somewhat related to that. Can you guys just talk about the overall industry dynamic? Are there utilities now looking at moving downstream, or maybe producers that are looking at moving downstream? Have there been any assets that have traded in the market, or any sort of big macro movements that you could touch on?

Mr. Ken Hartwick: Yeah, Damir, I don't think so. I think what we're seeing is really the consolidation of activities around a handful of very big participants. And, as Rebecca said, it's Energy, Direct Energy, Constellation, which is part of Exelon, and someone like First Energy. So we don't really see a lot of others stepping into the marketplace. There's always going to be smaller participants, whether they're private or sort of are regional in nature. But those guys, we don't see them having a long shelf life. In part I think for the industry as a whole at its very macro level, I think if you're not able to evolve into managing the volume side of the customer—so control of that basement—then I think longer term, I don't think the smaller retailers are really going to be relevant to the industry.

Ms. Rebecca MacDonald: And what I'm just adding to it, the only caveat is, it's always possible for a foreign company to make a decision to step into the retail sector in North America. And that's speculation on my part, but, you know, you have mainland Chinese people that are constantly looking what other business they could get in in North America. And in the next two, three, four years, it's possible that they will step in. But from a producer's point of view, I don't think most of them want to be there. And I think that you just look at Shell. At one point of time Shell has [PH 00:58:49] Sesco and they walked away from it. So I don't think we're going to see much change.

Mr. Damir Gunja: Okay. Just a couple final ones from me. What, if any, competition do you have on the smart thermostat business line?

Mr. Ken Hartwick: Yeah. It's the—I'd say from a retail sector standpoint, Direct Energy and NRG are both active with it. I'd say on a relevant basis. And then I'd say our other level of competition on smart thermostats is really from places like Best Buy, where a consumer can go in and decide to get one. Why I think that is a far distant and less relevant competitor is, unless the customer is given the ability to participate in demand/response type of programs, they're really not going to achieve some of the benefits that they are able to achieve. So I think this is going to be a product that needs to be pushed and explained vs. one that's on a store shelf and people realize they should go get one.

Mr. Damir Gunja: Are the incumbent utilities, I guess, potentially competitors there?

Mr. Ken Hartwick: They might install a smart thermostat, which I think in Ontario Princess they've been running a program where you can get a rebate from the Ontario Power Authority. I think if you talked to the incumbency utilities, nobody's really done it. But again, if you go to the consumer and say, "I can help you manage your energy properly and I can give you a benefit if you participate in the demand/response side of it"—which the utilities do not do—then that becomes a value proposition to the customer. And that's why I'm saying, the value needs to be pushed, not put on a brochure or on a store shelf.

Mr. Damir Gunja: Okay. And just—

Ms. Rebecca MacDonald: Damir, you have to appreciate, it's really targeting customers that are willing to change their behavior around their energy use. Like, it's not me. I'll never change my behavior. I'm terrible like that. But is it going to be my son? Absolutely. So I would say that there's a large segment of North American population that's very willing to change their behavior around energy management. And we want to be there.

Mr. Damir Gunja: Okay. Okay. And just a final one. I guess you've kind of implied some forward guidance with the payout ratios you're sort of referencing. With the year-end or the Q1, will you be providing sort of a 2014 growth view?

Mr. Ken Hartwick: Damir, we've not decided what we're going to do on guidance for the year-end. So you'll need to—we thought sort of given the range of the panel ratios of what we expect to get to should give people enough of a path forward. And that, combined with the fact that the dividend will continue to pay, will place us among the highest if not the highest EI yield on the TSX should be enough to bridge people through 'til the year end.

Mr. Damir Gunja: Okay. Thanks.

Mr. Ken Hartwick: Thanks, Damir.

Operator: Okay ladies and gentlemen, our time has expired for this webcast. I will turn it back to management for closing remarks.

Ms. Rebecca MacDonald: Thank you very much for joining us on this call. If by any chance any of you have additional questions, Ken, Beth and myself are available. So feel free to call us at any time. Look forward talking to you at our next quarter. Bye bye.

Mr. Ken Hartwick: See if they get back.