RAPPORTS DES AGENCES DE NOTATION DE CRÉDIT

Au moment de déposer la mise à jour des pièces de la Cause tarifaire 2012, le rapport de l'agence de notation suivante n'était pas encore disponible :

- Standard & Poor's credit profile for Gaz Metro Inc. Gaz Metro L.P.

Le 20 septembre 2011, Gaz Métro a donc déposé en révision de la pièce Gaz Métro-7, Document 10 le dernier rapport de l'agence de notation « Standard & Poor's» daté du 19 septembre 2011.

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September 19, 2011

Gaz Metro Inc.
Gaz Metro L.P.

Primary Credit Analyst:
Nicole Martin, Toronto (1) 416-507-2560; nicole_martin@standardandpoors.com

Secondary Contact:
Faye Lee, Toronto (1) 416-507-2568; faye_lee@standardandpoors.com

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Gaz Metro Inc.
Gaz Metro L.P.

Major Rating Factors

Corporate Credit Rating

A-/Stable/--

Strengths:
- Monopoly core gas distribution business
- Stable financial performance and predictable cash flows
- Supportive regulatory regime

Weaknesses:
- Low residential customer penetration rate
- Reliance on industrial customers, resulting in greater cyclicality
- Significant financial key measures

Rationale

The ratings on Gaz Metro Inc. (GMI) and Gaz Metro L.P. (GMLP; collectively, Gaz Metro) reflect Standard & Poor's Ratings Services' opinion of Gaz Metro's monopoly position of its core gas distribution business, regulatory support in the Province of Quebec (A+/Stable/A-1+), and the consistency of earnings and credit metrics. The ratings also factor in our view of GMLP's key subsidiaries' credit qualities and the company's measured growth strategy, including the announced Central Vermont Public Service Corp. (CVPS) acquisition. We believe that counterbalancing these positive attributes are natural gas' relatively low market penetration in the province compared with that of electricity; significant exposure to the industrial sector, where natural gas demand tends to be cyclical; and significant financial measures.

We have equalized the ratings of the parent (GMI) with those on the operating company (GMLP) based on the unconditional debt guarantee from GMLP to GMI, GMLP's investment activity restrictions, and the operating company's major position in the parent's asset base.

GMI holds a 71% interest in GMLP, a Montreal-based partnership. The parent's primary asset is GMLP, where natural gas distribution in Quebec is central to its strategy. While GMI is heavily concentrated in one business--GMLP--cash flows are stable through the partnership's interests in regulated assets such as gas and electricity distribution, gas transportation, and gas storage. Gas distribution assets in Quebec represent the vast majority of cash flows and influence operating performance. GMLP's total consolidated reported debt outstanding at June 30, 2011, was approximately C$1.6 billion. Standard & Poor's treats GMI's approximately C$708 million of subordinated debentures held by its parent company, Noverco Inc. (not rated), as equity.

The excellent business risk profile largely reflects our assessment of supportive regulation that underpins the gas distribution business' monopoly position and operational stability in Quebec. Approximately 96% of GMLP's earnings (including U.S. assets) come from regulated activities. Accordingly, regulatory policies are crucial to the partnership's business risks and financial position. In Quebec, the regulator (The Regie de l'Energie) determines the allowed return on capital that GMLP can generate in delivering natural gas. Similar to Ontario regulation, the

Regie-approved return on equity is linked to the expected interest rate of long-term Government of Canada (AAA/Stable/A-1+) bonds. The total authorized return on equity for fiscal years 2009, 2010, and 2011 are 8.94%, 9.20%, and 9.09%, respectively. Its average rate base in its rate cases for those years has been stable, at C$1.818 billion, C$1.782 billion, and C$1.772 billion, respectively. The regulator uses a deemed capital structure of 54.0% debt to 46.0% equity (including 38.5% common and 7.5% preferred shares) to set rates. Since 2000, the regulator has determined GMLP's Quebec distribution rate under a performance incentive mechanism, a hybrid between the cost of service and revenue price cap. The partnership's natural gas price exposure is negligible because it passes these costs entirely through to customers, making adjustments monthly and using Regie-approved hedging policies and procedures. Furthermore, the regulatory regime allows for stabilization accounts to recoup external factors such as interest rates, energy efficiency programs, and weather normalization, as well as for an incentive return that is built into the rates as a productivity gain.

Despite its monopolistic position in Quebec, Gaz Metro must contend with low natural gas market penetration in the province's energy market. It is materially lower than the national average (according to our estimates), we believe because of highly competitive electricity rates in Quebec. Low residential market penetration undermines profitability to some degree because of the segment's high margins. In addition, GMLP's gas distribution in Quebec has a large industrial customer base, which results in less predictable cash flows. The province's economy is somewhat cyclical, given its significant manufacturing base. Nevertheless, the majority of industrial customers have multiyear take-or-pay-type of contracts that provide a fixed fee irrespective of volume consumed. The partnership's marketing strategy has increasingly focused on bolstering its position in the residential energy market. This strategy, which emphasizes the benefits of natural gas as a clean energy source and at increasingly competitive gas prices, is gaining modest traction, in our view. Higher residential market penetration could somewhat improve operating margins and earnings stability, resulting in more predictable cash flows but is unlikely to affect the rating.

On July 11, 2011, Gaz Metro signed a definite agreement to acquire CVPS through its wholly owned subsidiary, Northern New England Energy Corp. (not rated) with the purchase price of US$35.25 per common share. We estimate the acquisition price to be about C$526 million, which Gaz Metro plans to finance with 50% equity and 50% debt at close. The company targets to complete the acquisition, which is subject to U.S. regulator and shareholder approval, within a year.

In our view, the CVPS acquisition makes strategic sense and is consistent with the company's growth strategy and core operating capabilities. Although its business fundamentals are not as strong (at the low end of the excellent business risk profile category), in our opinion, as Gaz Metro's core gas distribution franchise in Quebec, we believe that the company's consolidated business risk profile will stay in the excellent category post acquisition. Post acquisition, we expect its core gas distribution franchise in Quebec will generate approximately two-thirds of its consolidated funds from operations (FFO), while its subsidiaries in Vermont, including Green Mountain Power Corp. (GMP; BBB/Stable/--) and CVPS, will represent approximately 25% of its consolidated FFO by 2014.

Standard & Poor's views GMLP's natural gas distribution and transmission and electricity distribution businesses as low risk and a long-term core focus. Nevertheless, its shift to a more diversified energy services platform, including increased nonregulated services, could hinder its business risk profile. The partnership is diversifying prudently and considering the investments' credit quality impact, in our view.

We understand that construction and financing arrangements related to Gaz Metro's investments in three wind power projects (for a total of 341 megawatts, and in a joint venture with Boralex Inc.) in Quebec are proceeding as planned. Despite the 20-year power purchase arrangements with strong government counterparty Hydro-Québec, we believe volatile cash flows from the wind projects (because of unpredictable wind resources) will weaken Gaz Metro's consolidated business risk profile. However, considering the small size of its economic ownership in these projects (GMLP: about 26%; GMI; about 18%), the impact on its consolidated credit profile will be minimal.

Standard & Poor's believes that GMLP's financial risk profile (both consolidated and deconsolidated) is significant. As of June 30, 2011, the company's rolling-12-month adjusted FFO-to-total debt was 23% and adjusted FFO (AFFO)-to-interest was 4.5x, very similar to its historical three-year average of 22% and 4.5x on a consolidated basis. The business' capital-intensive nature, and high degree of cash distributions constrain financial flexibility. In our view, sustained adjusted total debt-to-capital must therefore remain below 70% at this rating level. As of June 30, 2011, adjusted debt-to-capital was 67%. Gaz Metro's deconsolidated cash flow coverage ratios are slightly stronger that its consolidated cash flow coverage ratios.

We expect the CVPS acquisition will weaken Gaz Metro's financial key ratios (both consolidated and deconsolidated) modestly, but not to the level of revising its existing financial risk profile to aggressive from significant. Assuming that the company finances the acquisition consistent with our expectations, we estimate that its consolidated cash flow coverage will deteriorate to about 16% of adjusted FFO-to-debt in 2012 from its historical level of 20%-22%. This is mainly because Gaz Metro will add the full amount of debt associated with the CVPS acquisition to its balance sheet with only a partial year contribution of additional cash flows from CVPS in 2012. This does not cause us a rating concern, since we view it as a temporary mismatch of additional debt and cash flows driven by the acquisition's timing. We expect that Gaz Metro's 2012's financial measures will improve to slightly lower than historical levels of about 20% adjusted FFO-to-debt with the CVPS acquisition benefits starting in 2013, leaving less cushion at this rating.

Liquidity

In accordance with our criteria, we consider Gaz Metro's liquidity to be adequate. We expect the company's sources of liquidity to exceed its uses by 1.2x or more in the next 12-18 months assuming that it finances the CVPS acquisition as planned. Historically, the company has benefited from good access to capital markets and maintained sound bank relationships. We include in our forecast Gaz Metro's consolidated cash on hand, annual FFO of about C$400 million-C$430 million, and access to more than C$400 million of committed credit facilities (which do not mature in the next 12 months) in liquidity sources. We also include our estimated annual capital expenditures and distribution payments of C$100 million-C$150 million in liquidity uses. The company has minimal debt maturities until 2013, when its first mortgage bonds (FMB) of C$150 million come due.

Recovery analysis

We assign recovery ratings to FMBs issued by investment-grade utilities, which can result in issue ratings being above our corporate credit rating (CCR) on the utility, depending on the CCR category and the extent of the collateral coverage. The investment-grade FMB recovery methodology is based on the ample historical record of 100% recovery for secured bondholders in utility bankruptcies and our view that the factors supporting those recoveries (the creditor class' limited size, and the durable value of utility rate-based assets during and after a reorganization given the essential service provided and the high replacement cost) will persist. Under our recovery criteria, we consider our calculation of the maximum FMB issuance relative to our estimate of the value of the collateral pledged to bondholders, management's stated intentions on future FMB issuance, and any regulatory limitations on bond issuance when assigning ratings to FMBs. Our ratings on these bonds can exceed the CCR on the issuing utility up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories. (For more information, see "Changes To Collateral Coverage Requirements For '1+' Recovery Ratings On U.S. Utility First Mortgage Bonds," published Sept. 6, 2007, on RatingsDirect on the Global Credit Portal.)

Securing GMI's FMBs are a trust deed that contains a hypothec on GMI's Quebec property. A first immovable hypothec on GMLP's pipelines and gas distribution system also covers creditors. The FMBs comprise nine individual debt issues, with maturities ranging from fiscal years 2013-2036. Standard & Poor's believes that if GMI were to default, it would continue to operate as part of a reorganized entity because of the business' essential service nature. The most important factor in determining a utility's asset value upon emergence from bankruptcy is the revenue stream that regulators allow it to collect. In GMI's case, there is a high correlation between the value of the regulated rate base and the assets' book value. Therefore, absent extenuating circumstances, we will assume that the book value of the assets represents a fair value for the assets. The recovery estimate compares the level of collateral to the potential amount of secured debt. Collateral coverage of 1.5x supports a '1+' recovery rating and an issue rating one notch above the CCR on Gaz Metro.

Outlook

The stable outlook reflects our expectation of continued regulatory support in Quebec and Vermont, of some modest benefits from the combination of CVPS and GMP operations, and that Gaz Metro will sustain AFFO-to debt of about 20% (consolidated and deconsolidated). We also expect adjusted debt to capital to remain below 70% (except in 2012 when we expect the transaction to close midyear). A negative rating action is possible if the company fails to meet our expectations. Although we don't expect it, any adverse material developments (such as adverse regulatory decision or additional debt-financed acquisitions) could change our view on the company's business risk and financial risk profiles. An outlook revision to positive or upgrade is not likely without a demonstrated, long-term commitment to a much stronger balance sheet (less than 3x of adjusted debt to EBITDA) and deeper cash flow interest and debt coverage (30% AFFO-to-total debt or better).

Business Description

Although its regulated utility operations in Vermont have grown in the past decade, we believe GMLP's Québec-based gas distribution business remains its strategic core. The partnership is 29% owned by Valener Inc. (see chart), a public equity vehicle, and 71% by GMI, GMLP's general partner.

GMI is 100% owned by Noverco. We believe that Noverco's owners, including Enbridge Inc. (A-/Negative/--) and Caisse de depot et placements du Quebec (AAA/Stable/A-1+), have a strong credit risk profile and that they will continue to be a source of financial support to GMI if required, as demonstrated by their track record of maintaining their proportionate share of GMI.

GMLP's core business is the regulated distribution of natural gas (see table 1). Regulated businesses (including natural gas, and electricity distribution in Vermont) accounted for 96% of its earnings as of Sept. 30, 2010. GMLP also has modest interests in low risk, regulated, natural gas transportation through its 50% ownership of Trans Quebec & Maritimes Pipeline Inc. (TQM; BBB+/Stable/--). Its unregulated energy services business and the partnerships' small ownership position in the Quebec-based wind farm development are not material to the rating.

Table 1

Gaz Metro Inc.--Segment Information		
	--Fiscal year ended Sept. 30, 2010--	
(%)	EBITDA	Assets
Gaz Metro Quebec distribution	72	63
Green Mountain Power Corp. (GMP) and Vermont Gas System (VGS)	13 (about 10% from GMP; 3% from VGS)	23 (GMP is 3x larger than VGS)
Total regulated energy distribution	85	85
Regulated natural gas transportation (including TQM)	9	8
Natural gas storage (regulated)	2	3
Energy services and others (unregulated)	4	3

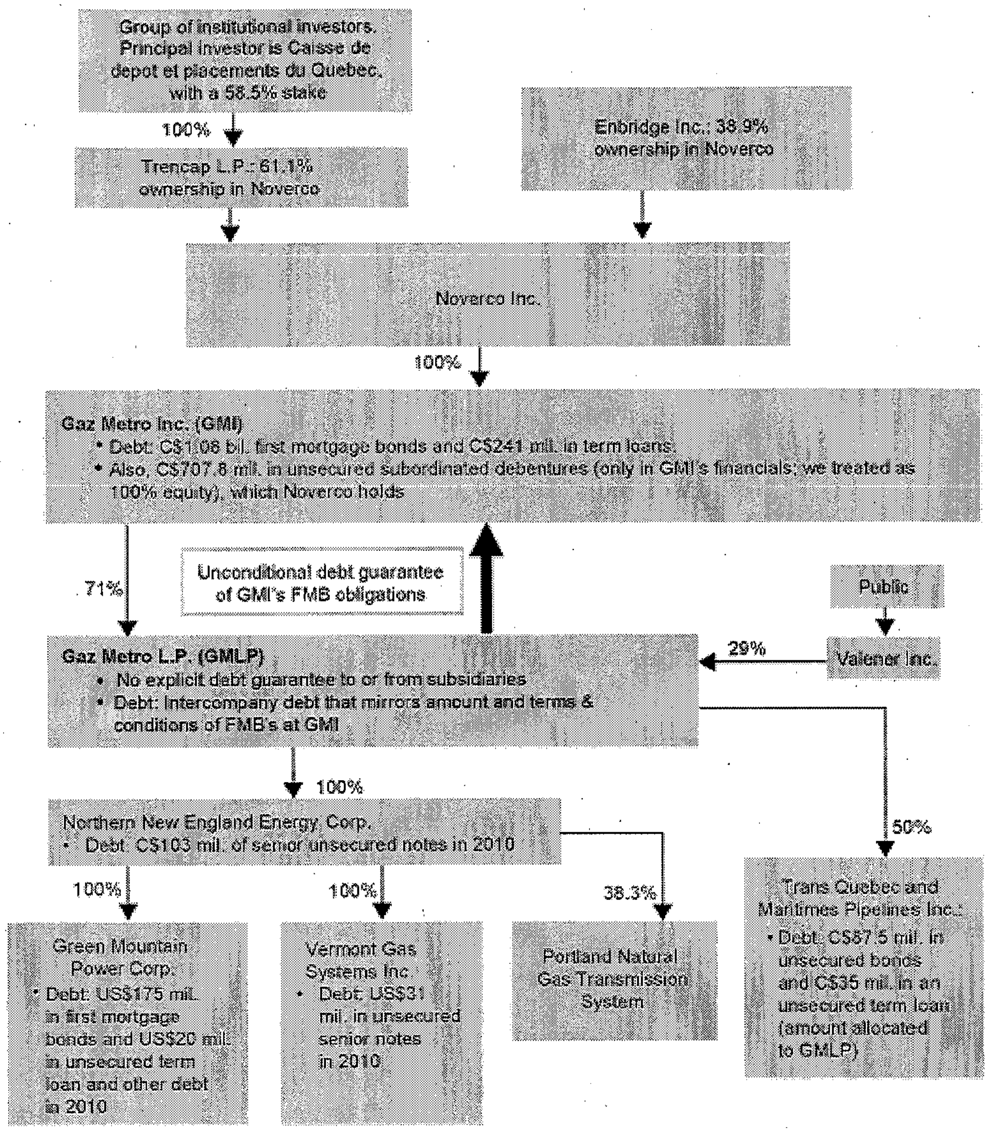
The announced CVPS acquisition is subject to regulatory approval and we do not expect it to close until mid-2012. Assuming it closes, by 2014, we expect Gaz Metro's Quebec-based distribution operations will represent about two-thirds of the consolidated FFO, with regulated Vermont operations representing about 25%.

We understand that Gaz Metro provides no explicit parental guarantee to any of its subsidiaries' debt and expects its subsidiaries to fund ongoing operations and maintenance investments from their own internal cash flows. We also believe that Gaz Metro might consider providing temporary financial support to its key subsidiaries only if it meets the parent's economic interests. Local management runs the subsidiaries and Gaz Metro's control is limited to having a minority number of board members. None of its key subsidiaries share the parent's name. All debt at its subsidiaries is nonrecourse to Gaz Metro.

Based on our understanding of the parent's relationships with its subsidiaries and Standard & Poor's parent subsidiary link criteria, our view of Gaz Metro's business risk and financial risk profiles largely reflects the credit quality of its Quebec distribution assets. Although we also consider the quality of cash flows from its key subsidiaries, we continue to separate the ratings on GMP and TQM from the ratings on Gaz Metro. The ratings on the subsidiaries reflect the companies' stand-alone credit profiles and modest, implicit support from the parent.

Chart 1

Gaz Metro Inc.—Organizational Structure*



*Simplified; as of Sept. 30, 2010.

Excellent Business Risk Profile

Supportive regulatory frameworks

The Regie regulates GMI's Quebec distribution assets and is a key factor supporting the company's excellent business risk profile. The framework is similar to that in other provinces in that it allows for a return of and on capital, limiting downside revenue risk. The allowed base ROE is 9.09% for 2011. Unique to the regulatory environment in Quebec, the distribution operations have formal overearnings sharing mechanism that supports GMLP's ability to generate incentive earnings greater than the regulated base ROE.

Similar to other Canadian regulatory jurisdictions, the company is insulated from commodity price risk since natural gas costs are passed through to distribution customers. Rates are calculated on normal weather and wind velocity (with a 30-year average); any variation is deferred through a normalized account and collected from or returned to customers through rate adjustments over a five-year period. Interest-rate risk is also not a rating concern because GMLP can defer any variations through a normalization account.

The GMP operations in Vermont are subject to Federal Energy Regulatory Commission and Vermont Public Service Board regulation. In Standard & Poor's view, the regulatory framework for gas distribution in the state also supports an excellent business risk profile.

The National Energy Board regulates TQM, which is operated by joint owner TransCanada PipeLines Ltd. (TCPL; A-/Stable/--). TQM's pipeline system serves two primary markets: Quebec and the northeastern U.S. The distribution of the pipeline's natural gas deliveries is concentrated in and around the City of Montreal (A+/Stable/--), other areas of Quebec, and into the Portland Natural Gas Transmission System (PNGTS). In our view, TQM is effectively an extension of the TCPL system and it has a virtual monopolistic position in natural gas transmission in Quebec. Nearly 80% of contracted transmission capacity is from GMLP, and TCPL is the sole shipper.

Strong market and competitive position

Quebec is the largest province in Canada geographically and second-largest by population (7.9 million). We believe the provincial economy has considerable depth and scale. It includes several world-class clusters in aerospace, telecommunications, electricity generation, and aluminum production. Key sectors are finance, manufacturing, trade, and public services (health, education, and public administration).

GMLP's Quebec distribution business delivers about 97% of the natural gas consumed in Quebec. Nevertheless, the partnership's customer base is relatively modest, with a market penetration rate of 30% in the greater Montreal area in 2010 mainly because of very competitive electricity prices in the province based on an abundance of hydro resources.

GMLP's marketing strategy centers on increasing its share of residential customers where demand is less sensitive to the business cycles and margins are higher than those of commercial and industrial customers. In 2010, residential based customers accounted only for 11% of total natural gas deliveries, while industrial and commercial based customers represented for 48% and 41%, respectively. We view its customer profile to be somewhat weaker than that of other gas distribution companies in Canada (for instance, Union Gas Ltd. and Enbridge Gas Distribution Inc.) given that its industrial customer concentration is about twice that of its peers.

Profitability

Gaz Metro's profitability reflects rate-case decisions, operational efficiency and customer energy consumption. Because GMLP consists of mostly regulated operations with little commodity exposure, we don't expect profitability to fluctuate materially. The major contributor to the partnership's earnings is its gas distribution business in Quebec, but the Vermont-based assets are a material contributor.

Significant Financial Risk Profile

Accounting

GMI and GMLP prepare consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP; see tables 2 and 3). Similar to other regulated entities, Gaz Metro plans to adopt U.S. GAAP effective Oct. 1, 2012, to avoid the uncertainty surrounding the recognition of regulated assets and liabilities under International Financial Reporting Standards.

Our operating lease and trade receivables adjustments (see table 2 and 3) are not material. In our view the partnership's postretirement benefit obligation, representing about 8% of total adjusted debt, does not pose a credit concern since these costs are recoverable through rates.

GMI and GMLP's financial measures are economically indistinguishable. Some minor differences include GMI's investment in Enbridge Inc.'s common shares (C$180 million in 2010) and subordinated debentures held by its parent, Noverco (C$708 million in 2010).

We afford 100% equity treatment to GMI's subordinated debentures of C$708 million held by its shareholder Noverco for tax optimization (about 35% of GMI's total adjusted debt), based on our view of their subordination, deferability, and permanence. Interest and principal repayments are fully subordinated to all other debt obligations. In our opinion, it is not in Noverco's economic interest to force an event of default for nonpayment on these securities, which supports our view of the temporary deferability of interest payments. Most importantly, although the notes have a maturity date of 2031, we would expect the parent to roll them over, which supports our view of their permanence in the capital structure. Nevertheless, a material change in Noverco's ownership or its ultimate shareholders' (Trencap L.P. and Enbridge Inc.) willingness to provide equity support to GMI could likely change our equity treatment.

Table 2

Reconciliation Of Gaz Metro Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. C$)

	--Fiscal year ended Sept. 30, 2010--									
Gaz Metro Inc. reported amounts	**Debt**	**Shareholders' equity**	**Revenues**	**EBITDA**	**Operating income**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	2,574.6	194.9	2,020.4	421.2	246.7	170.4	309.6	309.6	37.0	144.1
Standard & Poor's adjustments										
Trade receivables sold or securitized	1.0	N/A	N/A	N/A	N/A	0.9	N/A	N/A	N/A	N/A
Operating leases	5.0	N/A	N/A	0.2	0.2	0.2	1.4	1.4	N/A	4.1
Equity-like hybrids	(707.8)	707.8	N/A	N/A	N/A	(60.5)	60.5	60.5	60.5	N/A
Postretirement benefit obligations	162.1	(133.1)	N/A	13.4	13.4	8.2	(1.6)	(1.6)	N/A	N/A
Reclassification of nonoperating income (expenses)	N/A	N/A	N/A	N/A	27.5	N/A	N/A	N/A	N/A	N/A

Table 2

Reconciliation Of Gaz Metro Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. C$) (cont.)

Reclassification of interest, dividend, and tax cash flows	N/A	N/A	N/A	N/A	N/A	N/A	(5.5)	(5.5)	N/A	N/A
Reclassification of working-capital cash flow changes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	47.3	N/A	N/A
Minority interests	N/A	270.5	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total adjustments	(539.7)	845.1	0.0	13.6	41.1	(51.1)	54.8	102.1	60.5	4.1
Standard & Poor's adjusted amounts	**Debt**	**Equity**	**Revenues**	**EBITDA**	**EBIT**	**Interest expense**	**Cash flow from operations**	**Funds from operations**	**Dividends paid**	**Capital expenditures**
Adjusted	2,034.9	1,040.0	2,020.4	434.8	287.8	119.3	364.4	411.8	97.5	148.2

N.A--Not applicable.

Table 3

Reconciliation Of Gaz Metro L.P. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. C$)

	--Fiscal year ended Sept. 30, 2010--									
Gaz Metro L.P. reported amounts	**Debt**	**Shareholders' equity**	**Revenues**	**EBITDA**	**Operating income**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	1,866.8	932.6	2,020.4	426.5	252.0	109.9	378.6	378.6	186.7	144.1
Standard & Poor's adjustments										
Trade receivables sold or securitized	1.0	N/A	N/A	N/A	N/A	0.9	N/A	N/A	N/A	N/A
Operating leases	5.1	N/A	N/A	0.2	0.2	0.2	1.4	1.4	N/A	4.0
Postretirement benefit obligations	162.1	(206.8)	N/A	13.4	13.4	8.2	(1.6)	(1.6)	N/A	N/A
Reclassification of nonoperating income (expenses)	N/A	N/A	N/A	N/A	22.0	N/A	N/A	N/A	N/A	N/A
Reclassification of working-capital cash flow changes	N/A	N/A	N/A	N/A	N/A	N/A	N/A	49.1	N/A	N/A
Total adjustments	168.2	(206.8)	0.0	13.6	35.6	9.4	(0.2)	48.9	0.0	4.0
Standard & Poor's adjusted amounts	**Debt**	**Equity**	**Revenues**	**EBITDA**	**EBIT**	**Interest expense**	**Cash flow from operations**	**Funds from operations**	**Dividends paid**	**Capital expenditures**
Adjusted	2,035.0	725.8	2,020.4	440.1	287.6	119.2	378.4	427.5	186.7	148.1

Table 3

Reconciliation Of Gaz Metro L.P. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. C$) (cont.)

N.A.--Not applicable.

Financial policy

Standard & Poor's expects GMLP's financial policies, which include maintaining 75% fixed interest rate debt will remain in effect in the medium-to-long term (82% of long-term debt was fixed-rate as of Sept. 30, 2010). Despite natural gas cost flow through provisions, GMLP uses natural gas derivatives contracts to manage price volatility for customers and minimize it exposure to regulatory deferrals. The Regie preapproves its hedging policies and procedures.

The trust deed governing first-mortgage bonds and the limited partnership agreement limits involvement in nonregulated energy activities to 10% of GMLP nonconsolidated assets. GMLP cannot issue, assume, or guarantee long-term debt if the total, after giving effect to such issuer assumptions or guarantees, exceeds 65% of its deconsolidated total capitalization.

Stable cash flows

GMLP's cash flow protection measures have been relatively stable in recent years. The consolidated adjusted funds from operations (AFFO)-to-debt ratio has consistently been from 20%-22%. Deconsolidated historical cash flow coverage ratios have been modestly stronger.

Standard & Poor's forecasts that Gaz Metro's consolidated AFFO-to-debt will temporarily weaken to about 16% in 2012, mainly due to the timing of the CVPS acquisition. However, we believe consolidated financial measures will improve to about 20% in 2013, reflecting a full fiscal year of CVPS cash flow supporting the associated debt. We expect Gaz Metro's deconsolidated financial measures will also weaken compared with historical level, but remain marginally stronger than consolidated financial measures. Although we believe the company's financial measures postacquisition will leave less cushion, financial performance should still be adequate for the rating given the stability and predictability of more than 95% of Gaz Metro's consolidated cash flows that benefit from regulatory support.

Capital structure has improved recently

We expect the company will keep adjusted consolidated debt-to-capital below 70% for the foreseeable future. Any sustained deviation from our expectations could pressure the ratings. With its equity issuance in October 2010, GMLP improved its balance sheet to adjusted debt-to-capital of 66% (as of June 30, 2011) from 74% (as of Sept. 30, 2010) after the 2007 GMP acquisition. Our projections assume that there will be no delay in raising equity to finance the CVPS acquisition at time of close, likely in mid-2012. An acceptable balance sheet (relative to business risk) is crucial for the ratings given the business' capital-intensive nature and a high degree of cash distributions.

We believe there is little incentive for management to diverge from regulatory guidelines for a capital structure of 38.5% equity and 7.5% preferred equity at the Quebec gas distribution operations level. The regulator uses this deemed structure in determining rates and as such any excess equity would earn the expected cost of debt not the allowed ROE. Operating with less than the deemed equity level might signal that the allowed equity component return is too generous.

GMLP's track record of distribution 95%-100% of earnings to unitholders severely limits financial flexibility. Although the distribution policy is not fixed, we believe management would be reluctant to curtail cash distributions to unitholders.

Table 4

Gaz Metro Inc.--Financial Summary

Industry Sector: Gas

	--Fiscal year ended Sept. 30--				
(Mil. C$)	**2010**	**2009**	**2008**	**2007**	**2006**
Rating history	A-/Stable/--	A-/Stable/--	A-/Stable/--	A-/Negative/--	A-/Negative/--
Revenues	2,020.4	2,247.4	2,168.6	1,954.2	2,001.2
EBITDA	434.8	458.5	415.6	391.9	363.3
Net income from continuing operations	39.3	38.5	34.1	47.0	29.7
Funds from operations (FFO)	411.8	422.0	413.5	365.2	316.9
Capital expenditures	148.2	153.1	135.5	124.8	153.9
Free operating cash flow	216.2	294.6	233.0	290.1	174.9
Dividends paid	97.5	95.9	93.2	97.4	97.9
Discretionary cash flow	118.7	198.7	139.8	192.7	77.1
Debt	2,034.9	1,925.0	1,923.3	1,754.2	1,477.9
Hybrid securities	707.8	707.8	707.8	707.8	707.8
Equity	1,040.0	799.2	798.6	805.0	753.5
Debt and equity	3,074.9	2,724.2	2,721.9	2,559.2	2,231.3
Adjusted ratios					
EBITDA interest coverage (x)	3.6	3.8	3.6	3.6	3.8
FFO interest coverage (x)	4.4	4.3	4.5	4.4	4.3
FFO/debt (%)	20.2	21.9	21.5	20.8	21.4
Discretionary cash flow/debt (%)	5.8	10.3	7.3	11.0	5.2
Net cash flow/capex (%)	212.0	213.0	236.4	214.6	142.3
Debt/EBITDA (x)	4.7	4.2	4.6	4.5	4.1
Debt/debt and equity (%)	66.2	70.7	70.7	68.5	66.2
Return on capital (%)	9.3	10.3	10.0	10.4	11.1
Return on common equity (%)	21.6	23.6	23.3	43.7	34.7
Common dividend payout ratio (unadjusted; %)	96.2	90.4	86.6	74.3	121.4

Table 5

Gaz Metro L.P.--Financial Summary

Industry Sector: Gas

	--Fiscal year ended Sept. 30--				
(Mil. C$)	**2010**	**2009**	**2008**	**2007**	**2006**
Rating history	A-/Stable/--	A-/Stable/--	A-/Stable/--	A-/Negative/--	A-/Negative/--
Revenues	2,020.4	2,247.4	2,168.6	1,954.2	2,001.2
EBITDA	440.1	463.9	423.7	401.8	372.9
Net income from continuing operations	178.7	158.5	154.4	122.8	147.2
Funds from operations (FFO)	427.5	439.7	431.2	381.4	334.7
Capital expenditures	148.1	153.3	135.5	124.8	153.9
Free operating cash flow	230.2	343.5	249.7	305.5	192.9

Table 5

Gaz Metro L.P.--Financial Summary (cont.)					
Dividends paid	186.7	149.4	149.4	148.4	156.3
Discretionary cash flow	43.5	194.1	100.3	157.1	36.6
Debt	2,035.0	1,925.2	1,953.3	1,786.6	1,512.9
Equity	725.8	807.3	825.4	841.4	889.8
Debt and equity	2,760.8	2,732.5	2,778.7	2,628.0	2,402.7
Adjusted ratios					
EBITDA interest coverage (x)	3.7	3.8	3.6	3.7	3.9
FFO interest coverage (x)	4.5	4.5	4.6	4.5	4.4
FFO/debt (%)	21.0	22.8	22.1	21.3	22.1
Discretionary cash flow/debt (%)	2.1	10.1	5.1	8.8	2.4
Net cash flow/capex (%)	162.5	189.4	208.0	186.7	115.9
Debt/EBITDA (x)	4.6	4.2	4.6	4.4	4.1
Debt/debt and equity (%)	73.7	70.5	70.3	68.0	63.0
Return on capital (%)	10.0	10.3	10.0	10.2	10.6
Return on common equity (%)	19.0	16.8	16.6	13.3	15.8
Common dividend payout ratio (unadjusted; %)	104.5	94.3	96.7	120.8	106.2

Table 6

Gaz Metro Inc. And Gaz Metro L.P.--Peer Comparison

Industry Sector: Gas

	--Average of past three fiscal years--						
	Gaz Metro Inc.	**Gaz Metro L.P.**	**Enbridge Gas Distribution Inc.**	**Terasen Gas Inc.**	**Union Gas Ltd.***	**Laclede Group Inc**	**Vectren Corp.**
Rating as of Sept. 19, 2011	A-/Stable/--	A-/Stable/--	A-/Negative/--	NR	BBB+/Stable/A-2	A/Stable/--	A-/Stable/--
Currency (mil.)			C$			US$	
Revenues	2,145.5	2,145.5	2,827.7	1,487.4	1,993.0	1,946.4	2,234.4
EBITDA	436.3	442.6	670.0	311.2	603.6	153.9	511.6
Interest expense	119.0	119.8	198.3	116.5	166.6	32.0	106.2
Net income from continuing operations	37.3	163.9	208.6	90.4	187.0	58.6	131.9
Funds from operations (FFO)	415.8	432.8	482.2	178.5	387.2	122.4	447.9
Capital expenditures	145.6	145.6	377.6	130.4	292.7	57.9	365.0
Free operating cash flow	247.9	274.4	230.3	59.6	45.1	53.2	65.2
Dividends paid	95.5	161.8	184.2	83.5	159.3	33.7	107.3
Discretionary cash flow	152.4	112.6	46.1	(23.9)	(114.2)	19.5	(42.1)
Cash and short-term investments	51.9	41.6	33.3	11.5	15.3	58.8	38.5
Debt	1,961.1	1,971.1	2,854.0	1,669.7	2,491.9	551.0	1,976.2
Preferred stock	707.8	0.0	50.0	0.0	106.7	0.2	0.0
Equity	879.3	786.2	1,808.7	867.2	1,257.8	513.2	1,412.5
Debt and equity	2,840.3	2,757.4	4,662.7	2,536.9	3,749.8	1,064.2	3,388.7

Table 6

Gaz Metro Inc. And Gaz Metro L.P.--Peer Comparison (cont.)

Adjusted ratios							
EBITDA margin (%)	20.3	20.6	23.7	20.9	30.3	7.9	22.9
EBITDA interest coverage (x)	3.7	3.7	3.4	2.7	3.6	4.8	4.8
EBIT interest coverage (x)	2.4	2.4	2.3	1.9	2.5	3.6	3.0
Return on capital (%)	9.9	10.1	9.7	8.6	10.5	9.0	8.4
FFO interest coverage (x)	4.4	4.5	3.4	2.4	3.3	4.6	5.1
FFO/debt (%)	21.2	22.0	16.9	10.7	15.5	22.2	22.7
Free operating cash flow/debt (%)	12.6	13.9	8.1	3.6	1.8	9.6	3.3
Discretionary cash flow/debt (%)	7.8	5.7	1.6	(1.4)	(4.6)	3.5	(2.1)
Net cash flow/capex (%)	219.9	186.1	78.9	72.9	77.8	153.4	93.3
Debt/EBITDA (x)	4.5	4.5	4.3	5.4	4.1	3.6	3.9
Total debt/debt plus equity (%)	69.0	71.5	61.2	65.8	66.5	51.8	58.3
Return on capital (%)	9.9	10.1	9.7	8.6	10.5	9.0	8.4
Return on common equity (%)	22.8	17.4	10.9	9.9	13.7	11.9	9.3
Common dividend payout ratio (unadjusted; %)	91.3	98.7	91.1	92.3	85.1	57.5	81.4

*Rating reflects that on owner Spectra Energy Corp. (BBB+/Stable/--). NR--Not rated.

Related Criteria And Research

- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- Key Credit Factors: Business And Financial Risks In The Investor-Owned Utilities Industry, Nov. 26, 2008
- Methodology And Assumptions: Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers, July 2, 2010

Ratings Detail (As Of September 19, 2011)

Gaz Metro Inc.	
Corporate Credit Rating	A-/Stable/--
Corporate Credit Ratings History	
26-Aug-2011	A-/Stable/--
24-Jun-2011	A-/Watch Neg/--
08-Feb-2008	A-/Stable/--
Business Risk Profile	Excellent
Financial Risk Profile	Significant

Ratings Detail (As Of September 19, 2011)*(cont.)	
Related Entities	
Gaz Metro Ltd. Partnership	
Issuer Credit Rating	A-/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.