**Rating Report**

**Report Date:**
October 31, 2012

**Previous Report:**
March 27, 2012

DBRS

Insight beyond the rating.

# Gaz Métro inc.

**Analysts**

**Eric Eng, MBA**
+1 416 597 7578
eeng@dbrs.com

**James Jung, CFA, FRM, CMA**
+1 416 597 7577
jjung@dbrs.com

**Andy Thi**
+1 416 597 7337
athi@dbrs.com

**Chenny Long**
+1 416 597 7451
clong@dbrs.com

**The Company**

Gaz Métro inc. (GMi) is a holding company with majority ownership of Gaz Métro Limited Partnership (GMLP), which owns and operates natural gas distribution in Québec and natural gas and electricity distribution in Vermont, as well as transportation, storage of natural gas, energy and other services. GMLP's gas transportation operations include wholly owned Champion Pipeline, a 50% interest in Trans Québec & Maritimes Pipeline Inc. (TQM) and a 38.3% interest in Portland Natural Gas Transmission System (PNGTS). GMLP is 71% owned by GMi and 29% owned by Valener Inc.

**Recent Actions**

**September 14, 2012**
Assigned a rating of "A" with a Stable trend to Gaz Métro inc.'s Issuer Rating

**March 27, 2012**
Confirmed

## Rating

| Debt | Rating | Rating Action | Trend |
|---|---|---|---|
| Commercial Paper | R-1 (low) | Confirmed | Stable |
| First Mortgage Bonds* | A | Confirmed | Stable |
| Issuer Rating | A | Confirmed | Stable |

*Guaranteed by Gaz Métro Limited Partnership

## Rating Update

DBRS has confirmed the ratings of Gaz Métro inc.'s (GMi or the Company) Issuer Rating and First Mortgage Bonds (FMBs) at "A", and Commercial Paper (CP) at R-1 (low), all with Stable trends. The rating of GMi is based on the credit quality of Gaz Métro Limited Partnership (GMLP or the Partnership), which guarantees GMi's FMBs, and a secured credit facility that supports the CP. GMi is the general partner of GMLP and serves as its financing entity. Funds raised by GMi are loaned to the Partnership on similar terms and conditions.

The credit quality of the Partnership is supported by its low business risk, as most of its earnings are generated from regulated energy distribution (88% of reported EBITDA) and regulated pipelines and storage businesses (9% of reported EBITDA), with the remaining earnings from the non-regulated business. Cash flow stability is underpinned by a supportive regulatory regime in Québec, a reasonable regulatory framework in Vermont and contractual agreements in the pipeline operations. With no commodity price risk, GMLP benefits from a revenue stabilization mechanism, which mitigates volume risk in Québec, where a substantial portion of its earnings are generated.

The acquisition of Central Vermont Public Service Corporation (CVPS), which was funded with 50% debt and 50% equity, closed in June 2012 (the Acquisition). DBRS views the impact of the Acquisition on GMLP's business risk profile as modestly positive, since it further diversifies GMLP's sources of cash flow and expands the Partnership's comparatively lower-risk energy distribution business. Following the Acquisition, GMLP's unconsolidated debt-to-capital improved modestly (to 52.2%) and remained in line with its regulatory capital structure of 54% debt. All other consolidated and unconsolidated credit metrics remained commensurate with the current rating. In addition, DBRS recognizes that under the partnership agreement, GMLP must invest at least 90% of its assets in the regulated sector.

## Rating Considerations

**Strengths**
(1) Supportive regulatory environment in Québec
(2) Solid financial profile
(3) Diversification of cash flow

**Challenges**
(1) Higher regulatory uncertainty in Vermont
(2) Limited growth in Québec
(3) Industrial customers sensitive to economy

## Financial Information

| | CGAAP | CGAAP | CGAAP | CGAAP | CGAAP | CGAAP |
|---|---|---|---|---|---|---|
| **Gaz Metro Limited Partnership (consolidated)** | 9 mos. June. 30 | | 12 mos. June. 30 | For the year ended September 30th | | |
| (CA$ millions) | **2012** | **2011** | **2012** | **2011** | **2010** | **2009** |
| EBIT gross interest coverage (times) (1) | 2.97 | 3.32 | 2.18 | 2.42 | 2.40 | 2.41 |
| Total debt in capital structure (1) (2) | 62.2% | 58.6% | 62.2% | 61.8% | 65.6% | 64.4% |
| Cash flow/Total debt (1) | 16.6% | 25.3% | 13.0% | 18.2% | 18.2% | 20.5% |
| Cash flow-gross interest coverage (times) | 4.82 | 5.11 | 4.03 | 4.23 | 4.25 | 4.32 |
| Net income before non-recurring items | 167.2 | 180.5 | 133.4 | 146.6 | 178.7 | 158.0 |
| Cash flow from operations | 296.3 | 309.8 | 309.2 | 322.7 | 341.2 | 368.4 |
| **Gaz Metro Limited Partnership (non-consolidated)** | | | | | | |
| EBIT gross interest coverage (times) (1) | 3.33 | 3.52 | 2.28 | 2.41 | 2.37 | 2.43 |
| Total debt in capital structure (1) (2) | 52.2% | 49.6% | 52.2% | 52.6% | 57.9% | 55.9% |
| Cash flow/Total debt (1) | 20.8% | 30.5% | 17.8% | 23.9% | 18.3% | 22.1% |

(1) Adjusted for operating leases. (2) Adjusted for other comprehensive income.

## Rating Considerations Details

**Strengths**

(1) **Supportive regulation in Québec.** The regulatory framework in Québec is viewed as supportive, reflecting the following factors: (1) full recovery on gas supply costs, with a monthly adjustment; (2) rate stabilization accounts to mitigate revenue fluctuations due to weather; and (3) incentive to earn a rate of return in excess of allowed return on equity (ROE).

(2) **Solid financial profile.** GMLP's non-consolidated financial profile has remained solid, with moderate debt leverage and strong interest coverage ratios.

(3) **Cash flow diversification.** Cash distributions from pipeline operations (approximately 11.8% in FY2011) and U.S. gas and distributions (12% in FY2011) provide a diverse source of cash flow to GMLP toward servicing its debt. The completion of the acquisition of CVPS (the largest electric utility in Vermont) should further improve cash flow diversification.

**Challenges**

(1) **Higher regulatory uncertainty in Vermont.** The Partnership faces a higher level of regulatory uncertainty in Vermont than in Québec (although the regulatory framework in Vermont is viewed as reasonable). There is no rate stabilization in Vermont to mitigate volume delivery fluctuations due to weather and the cost of gas supply is adjusted on a quarterly basis (versus monthly in Québec).

(2) **Limited organic growth in Québec.** The overall growth outlook remains modest, with limited organic growth potential in its regulated gas distribution areas in Québec.

(3) **Industrial customers are sensitive to economic conditions.** In Québec, over 50% of the gas volume delivered in 2011 (approximately 15% of revenue) was consumed by industrial customers, whose consumption is highly sensitive to economic conditions. A significant reduction in demand from these customers could affect GMLP's earnings; however, this risk is mitigated by contracts, with a large number of these customers providing guarantee payment of a significant portion of distribution services, regardless of their levels of consumption.

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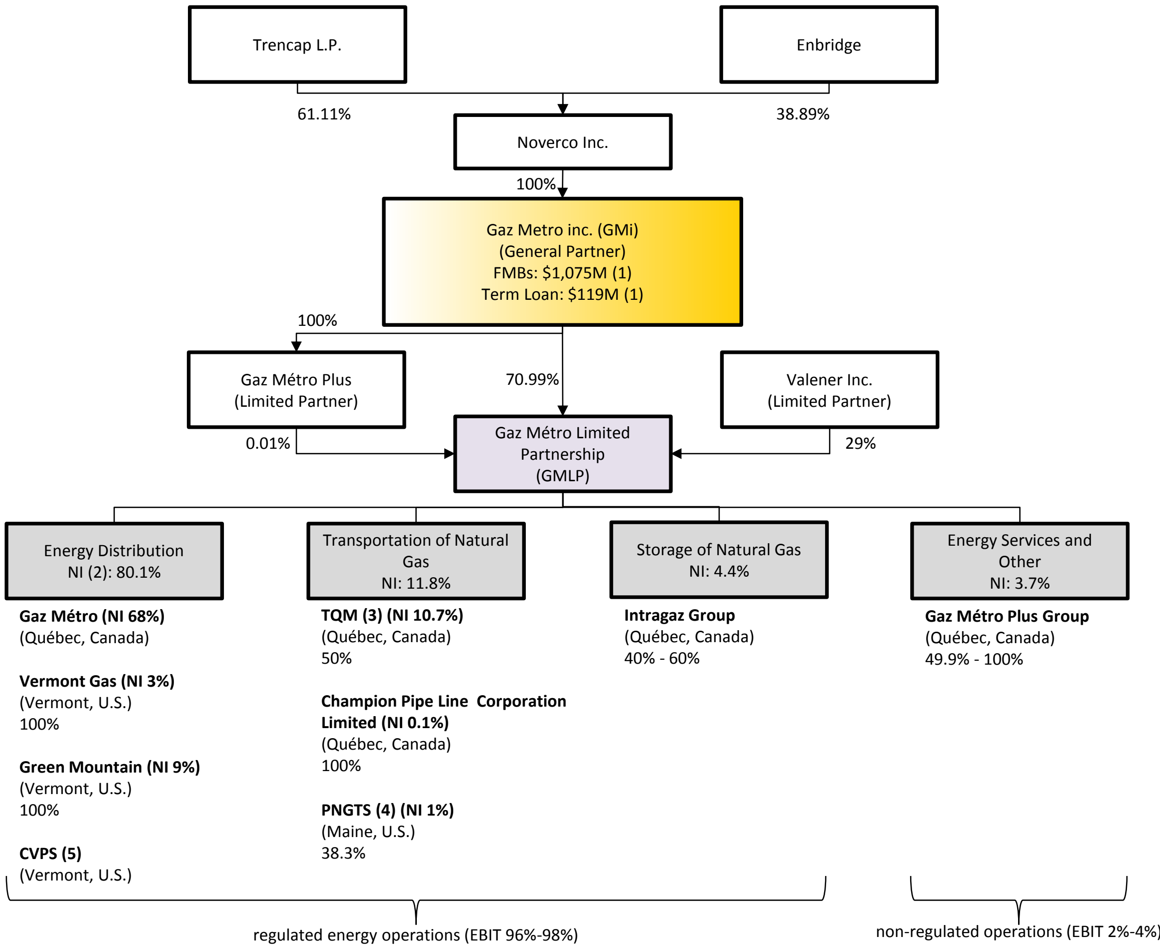
## Simplified Organizational Chart




(1) FMBs and the term loan at GMi are guaranteed by GMLP. Term loan balance is as at September 30, 2011.
(2) Net income (NI) in the chart above is based on 2011 and is calculated as net earnings before financing costs and corporate expenses, excluding non-recurring items.
(3) TQM refers to Trans Québec & Maritimes Pipeline Inc.
(4) PNGTS refers to Portland Natural Gas Transmission System.
(5) CVPS refers to Central Vermont Public Service Corporation; acquired in June 2012.

### Notes

- GMi is the financing vehicle for GMLP, with funds raised loaned to GMLP on similar terms and conditions as those imposed on GMi.
- Given the mirror-like structure of the financing, the only substantive difference between the two entities is the subordinated debt at GMi (intercompany debt from Noverco, Inc.), which was approximately $892.8 million outstanding on June 30, 2012 (not rated by DBRS), and not shown in the chart above.

## Earnings and Outlook

| Gaz Metro Limited Partnership (consolidated) | CGAAP | CGAAP | CGAAP | CGAAP | CGAAP | CGAAP |
|---|---|---|---|---|---|---|
| | 9 mos. June. 30 | | 12 mos. June. 30 | For the year ended September 30th | | |
| (C$ millions) | **2012** | **2011** | **2012** | **2011** | **2010** | **2009** |
| EBITDA | 346.9 | 380.4 | 383.5 | 417.1 | 426.5 | 458.9 |
| EBIT | 230.6 | 250.5 | 221.8 | 241.7 | 252.0 | 266.4 |
| Gross interest expense | 77.6 | 75.4 | 102.0 | 99.8 | 105.1 | 110.9 |
| Net earnings after tax | 149.0 | 160.7 | 110.6 | 122.3 | 156.7 | 134.7 |
| Total share in earnings | 17.2 | 19.3 | 20.8 | 22.9 | 22.0 | 23.4 |
| Net income before non-recurring items | 167.2 | 180.5 | 133.4 | 146.6 | 178.7 | 158.0 |
| Reported net income | 159.3 | 180.5 | 142.9 | 164.0 | 178.7 | 158.5 |
| Return on avg. common equity | 17.6% | 22.5% | 10.3% | 14.1% | 18.1% | 16.0% |
| | | | | | | |
| Regulated rate base (GMLP only) (1) | 1,792 | 1,757 | NA | 1,757 | 1,779 | 1,807 |
| Approved deemed common equity (GMLP only) | 38.5% | 38.5% | NA | 38.5% | 38.5% | 38.5% |
| Allowed base ROE (GMLP only) | 8.90% | 9.09% | NA | 9.09% | 9.20% | 8.76% |

(1) Rate case for fiscal 2012 is based on the Partnership's projections

### 2011 Summary

- GMLP's EBIT declined modestly in 2011, mainly due to: (1) a decrease in the approved ROE of GMLP's Québec gas distribution operations (Gaz Métro-QDA) and its regulated rate base; (2) lower share of overearnings distributable to GMLP's Partners; and (3) a decrease in income taxes and capital tax included in rates charged to customers.
- The majority of GMLP's consolidated earnings was generated by its gas and electric distribution operations (approximately 80% of 2011 net income), which have been relatively stable and consist of the following:
  - 68% of net income was generated by Gaz Métro-QDA.
  - 12% of net income came from GMP and Vermont Gas in Vermont.
- Natural gas transportation operations (mostly from TQM) contributed nearly 12% of net income in 2011. This sector's earnings have declined gradually, due largely to a depreciating rate base at TQM.

### 2012 Outlook

- Earnings for the nine months ended June 30, 2012 (9M 2012), decreased relative to 9M 2011, due to: (1) a rate reduction authorized in 2012 for Gaz Métro-QDA, (2) higher transportation costs not recoverable from industrial customers, due to the change in demand in this segment, despite a higher level of delivers than what was anticipated in the 2012 rate case, (3) a decrease in income taxes and capital tax included in rates charged to customers and (4) Gaz Métro-QDA's share of overearnings realized in fiscal 2011 for $5.2 million.
- Earnings contributions from the U.S. energy distribution subsidiaries are expected to increase following the acquisition of CVPS.
- Earnings for the natural gas transportation businesses will likely be pressured by the continued decline in rate base. However, the impact is not expected to be material.
- Overall, earnings for the full year 2012 are expected to grow, mainly reflecting the CVPS acquisition.

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# Financial Profile

| Gaz Metro Limited Partnership (consolidated) | CGAAP 9 mos. June. 30 | CGAAP | CGAAP 12 mos. June. 30 | CGAAP For the year ended September 30th | CGAAP | CGAAP |
|---|---|---|---|---|---|---|
| (C$ millions) | **2012** | **2011** | **2012** | **2011** | **2010** | **2009** |
| Net income before non-recurring items | 167.2 | 180.5 | 133.4 | 146.6 | 178.7 | 158.0 |
| Depreciation & amortization | 118.1 | 131.2 | 162.7 | 175.8 | 179.8 | 193.4 |
| Distributions/Dividends received | 22.8 | 9.7 | 26.8 | 13.7 | 11.8 | 14.3 |
| Non cash share in earnings | (17.2) | (19.3) | (20.8) | (22.9) | (22.0) | (23.4) |
| Deferred income taxes/Other | 5.4 | 7.7 | 7.2 | 9.5 | (7.1) | 26.1 |
| **Cash flow from operations** | 296.3 | 309.8 | 309.2 | 322.7 | 341.2 | 368.4 |
| Distributions to partners | (106.1) | (70.8) | (141.5) | (106.1) | (186.7) | (149.4) |
| Capex | (294.8) | (129.8) | (379.5) | (214.5) | (147.9) | (151.9) |
| **Gross free cash flow** | (104.6) | 109.3 | (211.8) | 2.1 | 6.7 | 67.2 |
| Changes in working capital (WC) | 43.0 | 15.9 | 22.4 | (4.6) | (46.4) | 57.1 |
| Change in regulatory assets | 65.8 | 86.8 | 65.6 | 86.6 | 48.1 | 73.6 |
| **Net free cash flow** | 4.2 | 212.0 | (123.7) | 84.1 | 8.4 | 197.8 |
| Acquisitions/Long-term investments/Other | (529.0) | (24.6) | (495.8) | 8.6 | (14.0) | (1.8) |
| Net changes in equity | 304.2 | 101.0 | 309.5 | 106.3 | 0.0 | 0.0 |
| Net changes in debt | 357.5 | (226.3) | 487.4 | (96.3) | 89.4 | (46.8) |
| Changes in deferred charges/credits | (109.5) | (73.7) | (148.9) | (113.1) | (85.2) | (129.6) |
| Change in cash | 27.3 | (11.6) | 28.5 | (10.4) | (1.4) | 19.6 |
| | | | | | | |
| Total debt | 2,375.0 | 1,625.2 | 2,375.0 | 1,766.9 | 1,866.8 | 1,783.1 |
| Total debt in capital structure (1)(2) | 62.2% | 58.6% | 62.2% | 61.8% | 65.6% | 64.4% |
| Cash flow/Total debt (1) | 16.6% | 25.3% | 13.0% | 18.2% | 18.2% | 20.5% |
| Distribution payout ratio | 63.5% | 39.2% | 106.1% | 72.4% | 104.5% | 94.5% |
| **Gaz Metro Limited Partnership (non-consolidated)** | | | | | | |
| EBIT gross interest coverage (times) (1) | 3.33 | 3.52 | 2.28 | 2.41 | 2.37 | 2.43 |
| Total debt in capital structure (1) (2) | 52.2% | 49.6% | 52.2% | 52.6% | 57.9% | 55.9% |
| Cash flow/Total debt (1) | 20.8% | 30.5% | 17.8% | 23.9% | 18.3% | 22.1% |

(1) Adjusted for operating leases. (2) Adjusted for other comprehensive income.

## 2011 Summary

- Year-over-year cash flow from operations in 2011 declined modestly, primarily due to lower earnings from Gaz Métro-QDA. However, earnings were sufficient to cover distributions and a significant increase in capex, leading to a surplus in free cash flow.
- Effective October 1, 2011, a new methodology was applied to Gaz Métro-QDA's revenue normalization mechanism. As a result, charges to the rate stabilization accounts were reduced, leading to a significant increase in changes in regulatory assets.
- $106 million of equity was issued in 2011, largely used to reduce $96 million in debt.
- Credit metrics remained relatively stable in 2011, as lower cash flow was offset by lower debt levels.

## 2012 Outlook

- The modest decrease in cash flow from operations in 9M 2012 relative to 9M 2011, combined with a significant increase in capex and distributions paid, led to a free cash flow deficit for the period.
- Capex increased, as GMLP continues to invest heavily in its gas distribution networks in Québec and Vermont, along with wind power projects in Vermont.
- The Acquisition that was closed in June 2012 was funded with a $260 million equity issuance and $260 million of debt issuances.
- Since the Acquisition was funded with a mix of debt and equity, this led to a modest improvement in the unconsolidated debt-to-capital for GMLP. This leverage level is viewed as strong for a regulated utility and is in line with GMLP's regulatory capital structure of 54% debt. GMLP's other consolidated and unconsolidated key credit metrics remain commensurate with the current rating.
- Cash flow is expected to increase for the full year 2012, largely reflecting the acquisition of CVPS.

## The Acquisition of CVPS

- In June 2011, GMLP offered to acquire all outstanding shares of CVPS, the largest regulated electric distributor in Vermont.
- In July 2011, the Agreement and Plan of Merger (the Agreement) was reached between CVPS and GMLP, and GMLP announced a financing plan that would fund the acquisition with 50% debt and 50% equity.
- In June 2012, the acquisition of CVPS was closed for a total net cash consideration of USD 500.7 million.
- DBRS assessed the impact of the acquisition on GMLP's business risk profile and was of a view that the acquisition would further diversify the source of cash flow to the Partnership, thereby notably increasing the portion of its earnings from its energy distribution operations. DBRS views the distribution utility as a low-risk, stable business.
- DBRS also assessed the impact on the financial profile, with a view that the 50% debt and 50% equity financing is reasonable, with no material impact on the Partnership's current non-consolidated capital structure.
- CVPS's earnings and dividends in 2011 were USD 21.7 million and USD 12 million, respectively.

## Liquidity, Credit Facilities and Long-Term Debt

| **GMLP's LTD maturities as of June 30, 2012** | 2012 | 2013 | 2014 | 2015 | 2016 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| (C$ millions) | | | | | | | |
| Total Amount | | 150.0 | | | | 1,185.0 | 1,335.0 |
| Total | - | 150.0 | - | - | - | 1,185.0 | 1,335.0 |
| % of total | 0% | 11% | 0% | 0% | 0% | 89% | 100% |

**Summary**

- In May 2012, GMi issued notes totaling USD 260 million (two series of USD 130 million each) that will mature in ten and 30 years following their issuance, respectively. The proceeds were loaned to GMLP to finance a portion of the CVPS acquisition.
- The Partnership and GMi have a joint secured credit line (term loan) of $600 million to support the CP program. This facility will expire in March 2017.
- GMi had $119.1 million in term loan outstanding as of September 30, 2011.
- GMLP and GMi have sufficient liquidity to finance their ongoing operational needs.
- Debt maturities in 2013 largely consist of $150 million in FMBs.
- DBRS believes the refinancing of the debt due in 2013 is within the capacity of GLMP and GMi.

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## Regulations

### Gaz Métro Limited Partnership, regulated by the Régie de l'énergie

GMLP is regulated by the Régie de l'énergie (the Régie). The regulatory framework is a combination of cost of service (COS) and an incentive mechanism. The regulatory framework in Québec is viewed as supportive, with major features as follows:

- Cost of natural gas is fully recovered through a monthly adjustment mechanism, whereby variances are leveled over a forward-looking, moving 12-month period.
- For rate-setting purposes, GMLP's capital structure is 54% in the form of debt, 7.5% in the form of deemed preferred shares and 38.5% in the form of deemed common equity.
- The existing mechanism, covering the five-year period (October 2009 to the end of September 2012), provides an incentive for operational efficiency, with rates based on the Consumer Price Index (CPI) less a productivity factor of 0.3% (the revenue cap).
- These rates will be measured against the rates required to cover the budgeted costs (excluding the cost of gas) estimated by GMLP at the beginning of the fiscal year.
- Any positive variance (i.e., productivity gain) is shared with customers: at least 50% for customers and a maximum of 50% for GMLP as an incentive return on equity, up to 375 basis points (bps).
- If the rates required to cover budgeted costs exceed rates indexed for inflation less 0.3%, GMLP can recover those rates, but would have to offset such excess with future productivity gains or overearnings.
- In June 2012, the Régie asked GMLP to file a new incentive mechanism proposal for implementation starting on October 1, 2013. In the interim, the rate case for 2013 distribution activities will be processed on a COS basis.
- In July 2012, GMLP filed Phase I of its 2013 rate case application and is expected to file phase II in Autumn 2012. A final decision is not expected until spring 2013, and GMLP has requested to temporarily renew 2012 rates until this final decision is made.
- In November 2011, the Régie rendered a decision on GMLP's 2012 rate application, with the main features as follows: (1) all of GMLP's rates will be reduced by 1.75% (including a 2.38% reduction in distribution rates), (2) productivity gains are set at $14.8 million and (3) ROE is 8.90% (9.09% in 2011).

### Vermont Gas, regulated by the Vermont Public Service Board (VPSB)

- Vermont Gas is subject to an Alternative Regulation Plan (ARP) until September 2013, which includes (1) a quarterly adjustment of gas costs sold to customers, (2) a mechanism for some sharing in over and under gas cost recovery and (3) an annual rate application for other items.
- Vermont Gas's deemed equity is 55%, while deemed ROE for 2012 is 10.25%.
- The annual rate application includes a mechanism for productivity gains, along with an earnings sharing mechanism when the actual ROE is outside of a 50 bps dead band from the allowed ROE.
- In June 2012, a settlement with the Vermont Department of Public Service (DPS) was reached regarding the 2013 ARP and the cost of service. The settlement proposed to eliminate the sharing mechanism on the gas cost recovery and to include a temperature normalization mechanism. In addition, the initial return on equity of 9.75% and a deemed equity of 55% for 2013 was agreed upon.
- In August 2012, the VPSB approved the proposed settlements outlined above. The implementation of the new ARP is effective as of October 1, 2012.
- In November 2011, Vermont Gas filed its 2012 rate case, which requested an average overall rate decrease of 2%, representing a 0.8% increase in the daily access and distribution charges, and a 3.8% decrease in commodity charges. The rate application was approved and took effect on January 23, 2012.

### Green Mountain and Central Vermont Public Service, regulated by the VPSB

- Similar to Vermont Gas, Green Mountain is under the ARP until September 2013. The current ARP provides for (1) a quarterly adjustment of electricity cost, (2) a mechanism for sharing returns or shortfalls in excess allowed ROE, (3) a formula for calculating the non-power supply costs cap in the base rate filings and (4) a benchmark method to provide an opportunity to increase the allowed ROE.
- In August 2012, Green Mountain and CVPS filed a joint base rate application following the acquisition of CVPS. The application was filed under the terms of Green Mountain's ARP and includes a provision to allow the sharing of the synergies resulting from the merger over a ten-year period.
- For fiscal year 2012, Green Mountain's deemed equity was 49.3% and allowed ROE was 9.93%.

**Note:** Unlike GMLP, Green Mountain does not benefit from a temperature and wind normalization mechanism. Its deliveries vary based on actual temperature and wind velocity; therefore, earnings are relatively more volatile than GMLP.

**Pipelines, regulated by the National Energy Board (NEB) in Canada and by the Federal Energy Regulatory Commission (FERC) in the U.S.**

- TQM (50% owned) is under a multiyear rate agreement with its interested parties for 2010, 2011 and 2012. Under this agreement, annual rates are calculated using a formula that includes fixed-cost component, along with a cost-operating component that is fully recovered from or refunded to customers. The equity thickness in 2011 was 40%.
- TQM is in the process of negotiating a new multiyear rate plan with its interested parties for fiscal 2013 and thereafter. An application for interim rates for fiscal 2013, as well as a rate application for 2013, will be filed with the NEB if an agreement with interested parties is cannot be reached.
- Champion Pipeline (100% owned) is regulated by the NEB, with tolls based on annual COS. In 2011, deemed equity was 46% and ROE was 9.09% (as was that of Gas Métro-QDA).
- PNGTS (38.3% owned) is regulated by the FERC. The objective of the FERC is to ensure the recovery of costs expected to be incurred and a reasonable base return on equity.

## Description of Operations

GMLP's operations are divided into the following sectors: Energy Distribution, Transportation of Natural Gas, Storage of Natural Gas, and Energy Services and Other. Under the Partnership Agreement, GMLP is not allowed to invest in non-regulated assets for more than 10% of its total assets.

(1) **Energy Distribution** (88% of Reported 9M EBITDA)

- GMLP's core business is natural gas distribution in Québec, delivering approximately 97% of the province's natural gas consumed and serving 188,864 customers as of June 30, 2012.
- Vermont Gas is the sole gas distributor in Vermont, with approximately 43,885 customers as of September 30, 2011.
- Green Mountain is the second-largest electric utility in the state of Vermont. It transports, distributes and sells electricity and provides electric network construction services in that state, serving approximately 95,000 customers as of September 30, 2011.
- The acquisition of CVPS adds another approximately 160,000 customers in Vermont.

(2) **Natural Gas Transportation** (7% of Reported 9M EBITDA)

- TQM operates a gas pipeline in Québec that connects upstream with TransCanada PipeLines Limited and downstream with PNGTS and GMLP.
- Champion Pipeline operates two gas pipelines that cross the Ontario-Québec border to supply GMLP's distribution system in northwestern Québec.
- PNGTS's pipeline originates at the Québec border and extends to the suburbs of Boston.

(3) **Natural Gas Storage** (2% of Reported 9M EBITDA)

- The Partnership owns an interest in the Intragaz Group, whose main activity is underground natural gas storage.
- This activity tallies with GMLP's mission, as the storage of natural gas in Québec is part of its supply chain.
- The Intragaz Group operates the only two underground storage facilities in Gaz Métro-QDA's service territory in Québec. GMLP is also its only customer.

(4) **Energy Services and Other (including non-regulated activities)** (2% of Reported 9M EBITDA)

- Energy-related activities are focused on: the maintenance and repair of residential, commercial and industrial equipment; the heating and cooling of large buildings; and the leasing of residential water heaters.

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**Gaz Metro Limited Partnership**

| Balance Sheet (C$ millions) | CGAAP Jun. 30 | CGAAP Sep. 30 | CGAAP Sep. 30 | | CGAAP Jun. 30 | CGAAP Sep. 30 | CGAAP Sep. 30 |
|---|---|---|---|---|---|---|---|
| **Assets** | **2012** | **2011** | **2010** | **Liabilities & Equity** | **2012** | **2011** | **2010** |
| Cash & equivalents | 64.5 | 36.4 | 51.1 | S.T. borrowings | 9.5 | 51.9 | 49.2 |
| Accounts receivable | 189.0 | 141.2 | 165.5 | Current portion L.T.D. | 23.1 | 14.6 | 68.1 |
| Inventories | 80.8 | 152.5 | 157.4 | Accounts payable | 293.2 | 260.5 | 234.6 |
| Others | 41.7 | 38.9 | 17.6 | Others | 101.8 | 161.7 | 107.5 |
| **Total Current Assets** | **376.0** | **369.1** | **391.5** | **Total Current Liabilities** | **427.6** | **488.8** | **459.3** |
| Net fixed assets | 3,161.2 | 2,536.8 | 2,407.5 | Long-term debt (L.T.D.) | 2,342.3 | 1,700.3 | 1,749.5 |
| Goodwill & intangibles | 380.0 | 143.6 | 150.3 | Other L.T. liabilities | 598.9 | 264.4 | 278.2 |
| Deferred charges | 480.4 | 405.3 | 484.0 | Deferred credits | 276.0 | 259.3 | 247.0 |
| Investments & others | 601.9 | 272.5 | 233.2 | Shareholders equity | 1,354.6 | 1,014.5 | 932.6 |
| **Total Assets** | **4,999.5** | **3,727.2** | **3,666.6** | **Total Liab. & SE** | **4,999.5** | **3,727.2** | **3,666.6** |

| | CGAAP | CGAAP | CGAAP | CGAAP | CGAAP | CGAAP |
|---|---|---|---|---|---|---|
| **Balance Sheet &** | 9 mos.ending Jun. 30 | | 12 mos. June. 30 | For the year ended September 30th | | |
| **Liquidity & Capital Ratios** | **2012** | **2011** | **2012** | **2011** | **2010** | **2009** |
| Current ratio | 0.88 | 0.92 | 0.88 | 0.76 | 0.85 | 0.70 |
| Net debt in capital structure | 63.0% | 59.3% | 63.0% | 63.0% | 66.1% | 64.6% |
| Total debt in capital structure | 63.7% | 59.9% | 63.7% | 63.5% | 66.7% | 65.3% |
| Total debt in capital structure (1) (2) | 62.2% | 58.6% | 62.2% | 61.8% | 65.6% | 64.4% |
| Cash flow/Net debt | 17.1% | 26.1% | 13.4% | 18.6% | 18.8% | 21.2% |
| Cash flow/Total debt | 16.6% | 25.4% | 13.0% | 18.3% | 18.3% | 20.7% |
| Cash flow/Total debt (1) | 16.6% | 25.3% | 13.0% | 18.2% | 18.2% | 20.5% |
| Cash flow-intrest coverage | 4.82 | 5.11 | 4.03 | 4.23 | 4.25 | 4.32 |
| (Cash flow - dividends)/Capex | 0.65 | 1.84 | 0.44 | 1.01 | 1.05 | 1.44 |
| Deemed common equity | 38.5% | 38.5% | NA | 38.5% | 38.5% | 38.5% |
| Distribution payout ratio | 63.5% | 39.2% | 106.1% | 72.4% | 104.5% | 94.5% |
| **Coverage Ratios (times)** | | | | | | |
| EBIT gross interest coverage | 2.97 | 3.32 | 2.18 | 2.42 | 2.40 | 2.40 |
| EBITDA gross interest coverage | 4.47 | 5.05 | 3.76 | 4.18 | 4.06 | 4.14 |
| Fixed-charges coverage | 3.34 | 3.66 | 2.49 | 2.70 | 2.66 | 2.66 |
| Debt/EBITDA | 6.85 | 4.27 | 6.19 | 4.24 | 4.38 | 3.89 |
| EBIT gross interest coverage (1) | 2.97 | 3.32 | 2.18 | 2.42 | 2.40 | 2.41 |
| **Profitability Ratios** | | | | | | |
| EBITDA margin | 22.4% | 22.7% | 20.9% | 21.3% | 21.1% | 20.4% |
| EBIT margin | 14.9% | 14.9% | 12.1% | 12.3% | 12.5% | 11.8% |
| Profit margin | 10.8% | 10.8% | 7.3% | 7.5% | 8.8% | 7.0% |
| Return on equity | 17.6% | 22.5% | 10.3% | 14.1% | 18.1% | 16.0% |
| Return on capital | 8.9% | 11.0% | 6.2% | 7.6% | 8.9% | 8.4% |
| Allowed base ROE | 8.90% | 9.09% | NA | 9.09% | 9.20% | 8.76% |

(1) Adjusted for operating leases. (2) Adjusted for other comprehensive income.

**Gaz Métro inc.**

**Report Date:**
October 31, 2012

## Ratings

| Debt | Rating | Rating Action | Trend |
|---|---|---|---|
| Commercial Paper | R-1 (low) | Confirmed | Stable |
| First Mortgage Bonds* | A | Confirmed | Stable |
| Issuer Rating | A | Confirmed | Stable |

*Guaranteed by Gaz Métro Limited Partnership

## Rating History

| | Current | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|
| Commercial Paper | R-1 (low) | R-1 (low) | R-1 (low) | R-1 (low) | R-1 (low) | R-1 (low) |
| First Mortgage Bonds | A | A | A | A | A | A |
| Issuer Rating | A | | | | | |

Note:
All figures are in Canadian dollars unless otherwise noted.