

**STANDARD
& POOR'S**

Standard & Poor's Research

Gaz Metro inc. Gaz Metro L.P.

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Gaz Metro inc. Gaz Metro L.P.

Major Rating Factors

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 cyclical
- Significant financial key measures

Corporate Credit Rating

A-/Stable/--

Rationale

The ratings on Gaz Metro inc. (GMi) and Gaz Metro L.P. (GMLP; collectively, Gaz Metro) reflect Standard & Poor's Ratings Services' views of its excellent business risk profile and significant financial risk profile. This is supported by 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 acquisition of Central Vermont Public Service Corp. (CVPS). 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 risk profile.

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. Although 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. GMi's total consolidated reported debt outstanding at June 30, 2012, was approximately C\$3.3 billion. Standard & Poor's treats GMi's approximately C\$890 million of subordinated debentures its parent company, Noverco Inc. (not rated), holds 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 and Vermont. Approximately 97% 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 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 Regie denied the recent incentive mechanism renewal application, which expired in September 2012, citing the desire for a more traditional approach. Gaz Metro Inc is working on a new proposal to be filed with the Regie in the fall of 2012 for 2014. We believe that the Regie's decision to reject GMLP's proposed incentive mechanism does not indicate a change in the regulator's direction or an increase in regulatory risk; however, we are monitoring the situation. In the interim, the company will receive cost-of-service rates with no incentive in fiscal 2013 (year ended Sept. 30) The incentive mechanism had previously added C\$5 million-C\$8 million of funds from operations (FFO).

Despite its monopolistic position in Quebec, Gaz Metro must contend with low natural gas market penetration in the province's energy market, which we believe is due to the 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 improve operating margins and earnings stability somewhat, resulting in more predictable cash flows, but is unlikely to affect the ratings.

Although we believe the business fundamentals of the Vermont electricity and gas distribution companies (GMP and CVPS) are not as strong (at the low end of the excellent business risk profile category) as Gaz Metro's core gas distribution franchise in Quebec, this does not affect the business risk profile. In 2013, we expect its core gas distribution franchise in Quebec will generate approximately 70% of its consolidated funds from operations (FFO), while its subsidiaries in Vermont, including Green Mountain Power Corp. (GMP; BBB/Stable/--) and CVPS, will represent more than 20% 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. However, a more pronounced shift to a diversified energy services platform, including increased nonregulated services, could weaken its business risk profile. We would expect to see more conservative financing policies to offset material increases in business risk.

Standard & Poor's believes that GMLP's financial risk profile (both consolidated and deconsolidated) is significant. The CVPS acquisition introduced nonregulatory debt at the GMLP level, and had modestly reduced financial metrics. Due to the acquisition's midyear close, we expect 2012 metrics to be temporarily depressed. We expect that Gaz Metro's 2013's financial measures will improve with a full year of the CVPS acquisition.

We forecast adjusted funds from operations (AFFO)-to-debt in 2013 of approximately 19% and 21% on a consolidated and deconsolidated basis, respectively. We believe increases in 2014 to 20% and 23%, respectively, will result from a combination of synergies from the CVPS acquisition and the Regie's expected approval of a new incentive mechanism. Key assumptions underlying our forecast of approximately C\$450 million of FFO in 2013 include:

- Contribution from Quebec distribution of approximately 70%; and
- Contribution from GMP and CVPS of about 20%.

Liquidity

Gaz Metro's liquidity is adequate, in our view. We expect sources of liquidity will be sufficient to cover uses more than 1.2x in the next 12 months. Our assessment of the company's liquidity position incorporates the following assumptions:

- We expect that even in the event of a 15% decline in EBITDA, sources of funds will exceed uses.
- Sources of liquidity include FFO of approximately C\$450 million, and cash on hand of C\$60 million as of June 30, 2012. Gaz Metro has a C\$600 million committed credit facility.
- Uses of funds consist of expected capital spending of C\$400 million-C\$425 million and distributions to partners of approximately C\$150 million.

We believe GMi has a sound relationship with its banks, and good access to the capital markets. Gaz Metro has minimal debt maturities in the next 24 months, with C\$150 million of first mortgage bonds (FMB) due in 2013

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.

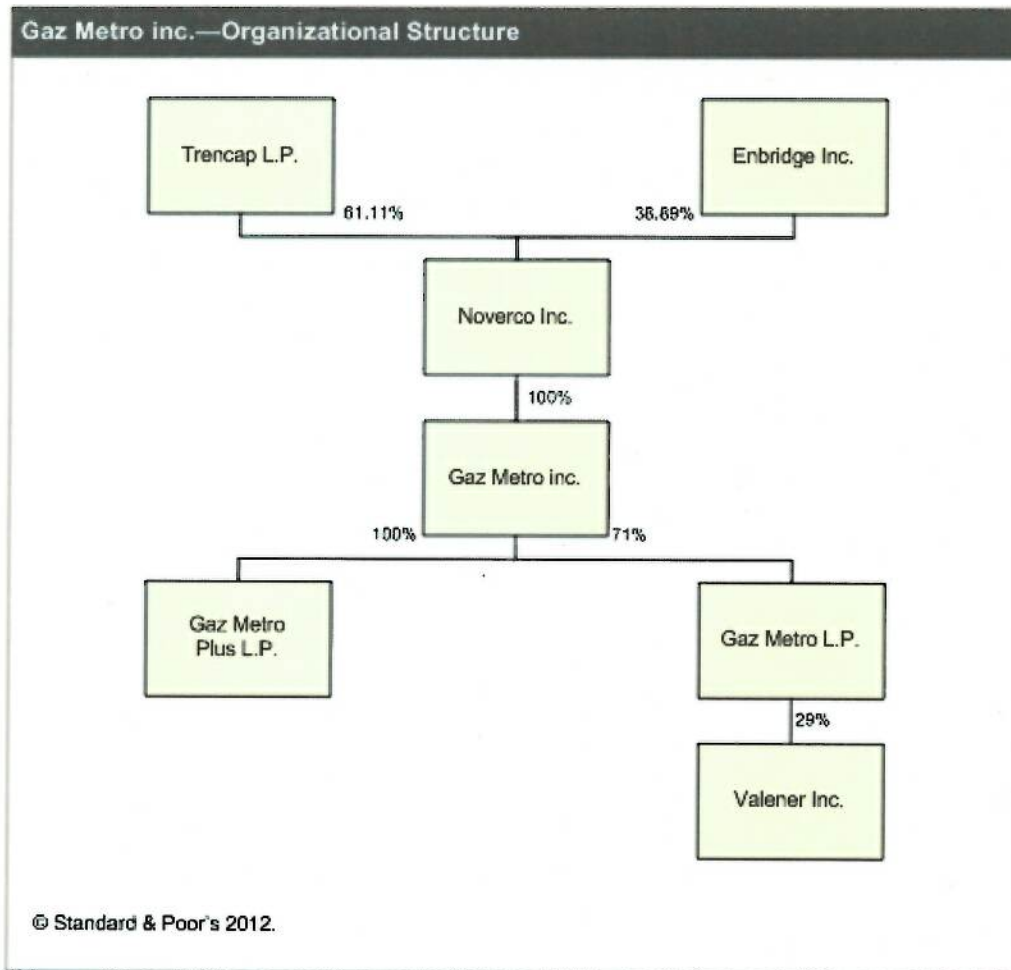
Outlook

The stable outlook reflects our expectations in the next two years of continued regulatory support in Quebec and Vermont, of some modest synergies 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%, consistent with its regulatory capital structure and trust indenture limits. A downgrade is possible if the company fails to keep consolidated AFFO-to-debt above 16% on a sustained basis, which we would expect would be as a result of material non-regulatory debt used to finance acquisitions. We believe material changes to the business risk profile resulting in an outlook revision are unlikely given trust indentures that limit the amount of non-regulatory business contribution to the consolidated entity.

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 an upgrade is not likely without a demonstrated, long-term commitment to a much stronger balance sheet with stronger cash flow metrics (30% AFFO-to-total debt or better).

Business Description

Although its regulated utility operations in Vermont have increased with the CVPS acquisition, we believe GMLP's Quebec-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 (holding co), GMLP's general partner.



GMi is 100% owned by Noverco. We believe that Noverco's owners, including Enbridge Inc. (A-/Stable/--) and Caisse de depot et placement 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 its track record of maintaining their proportionate investment in GMLP.

GMLP's core business is the regulated distribution of natural gas (see table 1). We expect regulated businesses (including natural gas, and electricity distribution in Vermont) to account for about 97% of its earnings and cash flows in 2013. 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' 25% ownership position in the Quebec-based Seigneurie de Beupre wind farm development are not material to the rating.

Table 1

Gaz Metro inc.--Forecast Fiscal 2013 Funds From Operations (Year Ended Sept. 30)

(%)

Gaz Metro—Quebec Distribution	70
-------------------------------	----

Table 1

Gaz Metro inc.--Forecast Fiscal 2013 Funds From Operations (Year Ended Sept. 30) (cont.)	
Green Mountain Power Corp. and Vermont Gas System	20
Total regulated energy distribution	90
Natural gas transportation (including Trans Quebec & Maritimes Pipeline Inc.; regulated)	6
Natural gas storage (regulated)	2
Energy services and others (unregulated)	2

Gaz Metro closed the CVPS acquisition June 27, 2012. It financed the purchase price of US\$500 with two tranches of 10- and 30-year debt totaling US\$260 million, and the remaining portion was equity-financed proportionally between the two partners GMi and Valener, C\$185 million, and C\$75 million for their 71% and 29% stake in GMLP, respectively. GMLP will be allowed 100% of synergies above the guaranteed amounts of US\$2.5 million, US\$5.0 million, and US\$8.0 million in the first three years, which provides an incentive to front load the synergies. The net-present-value synergies accruing to GMLP are an estimated US\$60 million.

On March 20, 2012, Gaz Metro announced its potential investment in a natural gas pipeline project (to bring gas to the Cote-Nord region of Quebec; it has a total estimated cost of C\$750 million, with a potential in service date in 2015). The project is still preliminary; and environmental and feasibility studies have begun. The cost of the studies, estimated at C\$40 million, will be shared with the government 75%-25% if the project does not proceed, limiting the company's financial exposure. If it does proceed, we expect Gaz Metro to eventually be able to include these costs in its rate base.

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.

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 9.69% for 2012, including an incentive return of 0.79%.

We believe that the Regie's decision to reject GMLP's proposed incentive mechanism does not indicate a change in the regulator's direction or the regulatory environment. Gaz Metro had operated under a five-year incentive mechanism

that expires at the end of September 2012. The company had proposed a revised mechanism that aimed to simplify the incentive calculations and sharing. However, the Regie rejected it, leading to fiscal 2013 operating solely under cost-of-service. There is a modest financial impact, as we expected C\$5 million-C\$8 million in FFO of incremental performance returns. Gaz Metro intends to reapply and hopes to have the revised application approved for fiscal 2014.

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; 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 includes the City of Montreal (A+/Stable/--), other areas of Quebec, and 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. About 90% of contracted transmission capacity is from GMLP, and TCPL is the sole shipper under a transportation-by-others arrangement.

Strong market and competitive position

Quebec is the largest province in Canada geographically and second-largest by population (8 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 about 30% 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 2011, residential based customers accounted for only approximately 10% of total natural gas deliveries, while industrial and commercial based customers represented for 51% and 39%, 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.

GMP and CVPS will be consolidated into one utility and owned by NNEC, a wholly owned sub of GMLP. GMP will be the largest electricity distribution utility in Vermont (AA+/Stable).

Profitability

We believe 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 also contribute materially.

Significant Financial Risk Profile

Accounting

GMI and GMLP prepare consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP). Similar to other regulated entities, Gaz Metro plans to adopt U.S. GAAP effective Oct. 1, 2013 (fiscal 2014) 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) are not material. In our view the partnership's postretirement benefit obligation, representing about 7% 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 subordinated debentures held by its parent, Noverco (C\$893 million in 2012).

We afford 100% equity treatment to GMI's subordinated debentures of C\$893 million held by 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' (Trenco L.P. and Enbridge) 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, 2011--

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	2,474.7	292.8	1,962.8	413.4	238.0	162.9	340.6	340.6	28.1	201.2
Standard & Poor's adjustments										
Trade receivables sold or securitized	N/A	N/A	N/A	N/A	N/A	0.0	1.0	N/A	N/A	N/A
Operating leases	4.3	N/A	N/A	0.3	0.3	0.3	1.0	1.0	N/A	0.3

Table 2

Reconciliation Of Gaz Metro inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. C\$) (cont.)										
Equity-like hybrids	(707.8)	707.8	N/A	N/A	N/A	(57.3)	57.3	57.3	57.3	N/A
Postretirement benefit obligations	133.4	(97.8)	N/A	19.4	19.4	7.2	4.7	4.7	N/A	N/A
Non-operating income (expense)	N/A	N/A	N/A	N/A	29.1	N/A	N/A	N/A	N/A	N/A
Reclassification of interest, dividend, and tax cash flows	N/A	N/A	N/A	N/A	N/A	N/A	(6.3)	(6.3)	N/A	N/A
Reverse changes in working-capital	N/A	N/A	N/A	N/A	N/A	N/A	N/A	8.4	N/A	N/A
Minority interests	N/A	292.5	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total adjustments	(570.1)	902.6	0.0	19.7	48.9	(49.8)	57.7	65.1	57.3	0.3
Standard & Poor's adjusted amounts	Debt	Equity	Revenues	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Dividends paid	Capital expenditures
Adjusted	1,904.6	1,195.4	1,962.8	433.1	286.9	113.1	398.3	405.7	85.4	201.5

N/A--Not applicable.

Financial policy

Standard & Poor's expects GMLP's financial policies, which include maintaining a large proportion of fixed interest rate debt will remain in effect in the medium-to-long term, especially given that much of the total debt figure are FMBs. Despite natural gas cost flow through provisions, GMLP uses natural gas derivatives contracts to manage price volatility for customers. The Regie preapproves its hedging policies and procedures annually.

The trust deed governing FMBs 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 funded debt, after giving effect to issuer assumptions or guarantees, exceeds 65% of its deconsolidated total capitalization.

We believe there is little incentive for management to diverge from regulatory guidelines for a capital structure of 38.5% common 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 distributing 95%-100% of net 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.

Stable cash flows

GMLP's cash flow protection measures have been relatively stable in recent years. Consolidated AFFO-to-debt 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, and lower gas distribution earnings due to the extremely warm winter that affected consumption volumes. However, we believe consolidated financial metrics will improve in 2013 with a full year of CVPS earnings--we forecast AFFO-to-debt of approximately 19%. We expect Gaz Metro's deconsolidated financial measures will remain slightly stronger than consolidated at 21% in 2013. Although we believe the company's financial measures following the acquisition are weaker than historical due to the additional debt at the GMLP level, the fact that more than 95% of Gaz Metro's consolidated cash flows benefit from regulatory support and provide stability and predictability to the cash flow supporting this debt.

Table 3

Gaz Metro inc.--Peer Comparison							
Industry Sector: Gas							
	--Fiscal year ended Sept. 30, 2011--			--Fiscal year ended Dec. 31, 2011--			
	Gaz Metro Inc.	Gaz Metro Ltd. Partnership	Laclede Gas Co.	Vectren Utility Holdings Inc.	Enbridge Gas Distribution Inc.	Union Gas Ltd.	Fortis Inc.
Rating as of Sept. 28, 2012	A-/Stable/--	A-/Stable/--	A/Stable/A-1	A-/Stable/A-2	A-/Stable/--	BBB+/Stable/A-2	A-/Stable/--
Currency (mil.)	C\$		US\$		C\$		
Revenues	1,962.8	1,962.8	932.3	1,457.0	2,466.0	1,813.0	3,747.0
EBITDA	433.1	436.8	151.2	476.2	660.0	659.7	1,223.7
Net income from continuing operations	43.7	164.0	53.8	122.9	211.0	201.0	364.0
Funds from operations (FFO)	405.7	418.0	121.9	350.7	491.4	424.2	771.9
Capital expenditures	201.5	201.5	68.2	232.8	469.0	296.2	1,053.9
Free operating cash flow	196.8	212.8	97.1	98.2	39.4	68.0	(189.0)
Discretionary cash flow	111.5	106.7	61.1	6.6	(179.6)	(79.0)	(372.0)
Cash and short-term investments	38.4	36.4	0.9	6.0	9.0	2.0	89.0
Debt	1,904.6	1,904.7	503.0	1,360.6	2,780.0	2,729.7	6,968.3
Equity	1,195.4	916.7	434.0	1,354.4	1,677.7	1,210.8	4,279.0
Adjusted ratios							
EBITDA margin (%)	22.1	22.3	16.2	32.7	26.8	36.4	32.7
EBITDA interest coverage (x)	3.8	3.9	5.3	5.8	3.7	4.0	3.0
EBIT interest coverage (x)	2.5	2.5	3.8	3.5	2.4	2.7	2.0

Table 3

Gaz Metro inc.--Peer Comparison (cont.)							
Return on capital (%)	8.6	9.6	8.7	8.9	8.9	10.6	7.1
FFO/debt (%)	21.3	21.9	24.2	25.8	17.7	15.5	11.1
Free operating cash flow/debt (%)	10.3	11.2	19.3	7.2	1.4	2.5	(2.7)
Debt/EBITDA (x)	4.4	4.4	3.3	2.9	4.2	4.1	5.7
Total debt/debt plus equity (%)	61.4	67.5	53.7	50.1	62.4	69.3	62.0

Table 4

Gaz Metro inc.--Financial Summary					
Industry Sector: Gas					
(Mil. C\$)	--Fiscal year ended Sep. 30--				
	2011	2010	2009	2008	2007
Rating history	A-/Stable/--	A-/Stable/--	A-/Stable/--	A-/Stable/--	A-/Negative/--
Revenues	1,962.8	2,020.4	2,247.4	2,168.6	1,954.2
EBITDA	433.1	434.8	458.5	415.7	391.9
Net income from continuing operations	43.7	39.3	38.5	34.1	47.0
Funds from operations (FFO)	405.7	411.8	422.0	414.2	365.2
Capital expenditures	201.5	148.2	153.1	135.5	124.8
Dividends paid	85.4	97.5	95.9	93.2	97.4
Debt	1,904.6	2,034.9	1,925.0	1,923.3	1,754.2
Preferred stock	707.8	707.8	707.8	707.8	707.8
Equity	1,195.4	1,040.0	799.2	798.6	805.0
Debt and equity	3,100.0	3,074.9	2,724.2	2,721.9	2,559.2
Adjusted ratios					
EBITDA margin (%)	22.1	21.5	20.4	19.2	20.1
EBIT interest coverage (x)	2.5	2.4	2.4	2.4	2.4
FFO interest coverage (x)	4.5	4.4	4.3	4.5	4.4
FFO/debt (%)	21.3	20.2	21.9	21.5	20.8
Discretionary cash flow/debt (%)	5.9	7.5	10.3	7.3	11.0
Net cash flow/capex (%)	159.0	212.0	213.0	236.9	214.6
Debt/debt and equity (%)	61.4	66.2	70.7	70.7	68.5
Return on capital (%)	8.6	9.3	10.3	10.0	10.4
Return on common equity (%)	17.9	21.6	23.6	23.3	43.7
Common dividend payout ratio (unadjusted; %)	59.7	96.2	90.4	86.6	74.3

Related Criteria And Research

- Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

Ratings Detail (As Of September 28, 2012)

Gaz Metro Inc.

Corporate Credit Rating A-/Stable/--

Commercial Paper

Local Currency

A-2

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

Related Entities**Gaz Metro Ltd. Partnership**

Issuer Credit Rating

A-/Stable/--

Senior Secured

A

Green Mountain Power Corp.

Issuer Credit Rating

BBB/Stable/--

Senior Secured

A-

Senior Secured

AA-/Stable

Valener Inc.

Issuer Credit Rating

BBB+/Stable/--

Preferred Stock

Canadian Preferred Stock Rating Scale

P-2(Low)

Preferred Stock

BBB-

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