STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:
Gaz Metro inc.
Gaz Metro L.P.

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Summary:

Gaz Metro inc.
Gaz Metro L.P.

Business Risk: EXCELLENT Vulnerable — Excellent	a — a — a	CORPORATE CREDIT RATING
Financial Risk: INTERMEDIATE Highly leveraged — Minimal	Anchor — Modifiers — Group/Gov't	**A/Stable/--**

Rationale

Business Risk: Excellent

- Supportive regulatory environment in Quebec and diversity of regulated operations provide stable cash flows
- Dependence on industrial consumption in the province introduces higher volume variability than predominantly residential distributors

Financial Risk: Intermediate

- Financial metrics reflect the regulated capital structure as well as additional debt at the L.P. level
- Standard & Poor's Ratings Services expects financial metrics to remain stable over its two-year outlook period

Outlook: Stable

The stable outlook reflects our expectations, for the next two years, of continued regulatory support in Quebec and Vermont, of some modest synergies from the combination of Central Vermont Public Service and Green Mountain Power Corp. operations, and that Gaz Metro inc. (GMi) and Gaz Metro L.P. (GMLP; collectively, Gaz Metro) will sustain adjusted funds from operations (AFFO)-to-debt of 13%-23% (consolidated and deconsolidated). We also expect adjusted debt-to-capital to remain below 70%, consistent with the regulatory capital structure and trust indenture limits.

Upside scenario

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 (23% AFFO-to-total debt or better).

Downside scenario

A downgrade is possible if the company fails to keep consolidated AFFO-to-debt above 16%, which we would expect would be as a result of material nonregulatory debt that finances 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 nonregulatory business contribution to the consolidated entity. Although we don't expect it, any adverse material developments (such as an adverse regulatory decision or additional debt-financed acquisitions) could change our view on the company's business risk and financial risk profiles.

Standard & Poor's Base-Case Scenario

Assumptions

- FFO of C$530 million-C$550 million in 2015, with about 70% from Quebec, 20% from Vermont, and the remainder from equity interests in other entities
- A cost-of-service methodology for the Quebec gas distribution in 2014, with a return to incentive mechanisms in the future

Key Metrics

	2013A	2014E	2015E
AFFO/debt	15.8	18%-19%	19%–20%
Debt/EBITDA	5.8	4.0x-5.0x	4.0x–5.0x

AFFO--Adjusted funds from operations. A--Actual. E--Estimate.

Business Risk: Excellent

We believe that Gaz Metro has an "excellent" business risk profile, reflecting our opinion of the company's monopoly position of its core gas distribution and supportive regulatory environment in Quebec, diversification through its wholly owned subsidiary Green Mountain Power, and the consistency of earnings and credit metrics. Offsetting these factors is our assessment of the low organic growth in Gaz Metro's jurisdictions and a high degree of dependence on industrial natural gas volumes in Quebec, which has a higher degree of variability than residential consumption.

Financial Risk: Intermediate

We believe that Gaz Metro has an "intermediate" financial risk profile. Financial metrics reflect a high degree of leverage associated with the regulated capital structure, as well as additional debt at the GMLP level. We forecast financial metrics to improve to the 18%-20% funds from operations (FFO)-to-debt range in 2014-2015.

We exclude the C$892.8 million of noncommon equity financing Noverco Inc. provided to GMi from our leverage and coverage calculations. The notes have more than 10 years of remaining life, and we believe that the company intends to extend the maturity date to at least 30 days after all other debt matures. If there is less than 10 years of remaining life, or, while unlikely, we no longer believe Gaz Metro intends to extend the maturity, we might include the notes in our leverage and coverage calculations.

Combining our business and financial risk assessments, we arrive at an 'a' anchor score.

Liquidity: Adequate

We view GMi's liquidity to be "adequate," with sources less uses being positive and sources over uses to exceed 1.2x during the next 12 months. We believe the company will continue to have solid relationships with its banks and a generally high standing in credit markets with prudent risk management.

Principal Liquidity Sources	Principal Liquidity Uses
• FFO of C$530 million-C$550 million • Revolver availability of about C$600 million	• Capex of C$590 million-C$640 million • Distributions of C$170 million–C$190 million

Other Modifiers

All modifiers had no effect on the rating, so the 'A' corporate credit rating is the same as the 'a' initial anchor score.

Ratings Score Snapshot

Corporate Credit Rating

A/Stable/--

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Excellent

Financial risk: Intermediate

- **Cash flow/Leverage:** Intermediate

Anchor: a

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Recovery Analysis

GMi has secured utility bonds (first mortgage bonds [FMBs]) outstanding with maturities of 2017-2036. These FMBs are secured under trust deeds that contains a hypothec on all of Gaz Metro's assets. A first immovable hypothec on GMLP's pipelines and gas distribution system also covers creditors. We estimate that the regulated capital value at Gaz Metro is greater than 1.5x the secured utility bonds outstanding. This results in a '1+' recovery rating, and an 'A+' rating on the FMBs.

Related Criteria And Research

Related Criteria

- The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- 2008 Corporate Criteria: Commercial Paper, April 15, 2008
- Standard & Poor's Canadian CP Ratings: An Overview, March 30, 2006

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	**a+/a**	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-