Rating Report

Gaz Métro inc.

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Insight beyond the rating.

Ratings

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

* Guaranteed by Gaz Métro Limited Partnership.

Rating Update

DBRS Limited (DBRS) has confirmed the ratings of Gaz Métro inc. (GMi or the Company) as listed above, all with Stable trends. The ratings of GMi are based on the credit quality of Gaz Métro Limited Partnership (GMLP or the Partnership), which guarantees GMi's First Mortgage Bonds (FMB), Senior Secured Notes and a secured credit facility that supports the Commercial Paper (CP). GMi is the general partner of GMLP and serves as its financing entity.

The credit quality of the Partnership has remained relatively stable over the past year. GMLP's diverse portfolio of low-risk regulated businesses, which accounted for more than 95% of consolidated earnings for the fiscal year ended September 30, 2015 (F2015), have continued to provide predictable earnings and cash flow. Recent regulatory decisions have also all been reasonable. In May 2015, the Régie de l'énergie (the Régie), approved the authorized return on deemed equity (ROE) for 2016 and 2017 at 8.90% for the GMLP's flagship entity, Gaz Métro-QDA, unchanged from 2015. DBRS views the recently authorized ROE for 2016 and 2017 as being fair given the continued low interest rate environment. As for Green Mountain Power Corporation (GMP), GMLP's electricity distribution utility subsidiary based in Vermont, the authorized ROE for 2015 was reasonable at 9.44%. GMP has an opportunity to earn a higher actual ROE than that of the authorized ROE if GMP achieves its annual target merger savings (estimated at USD 21 million in 2016; of which 50% is retained by GMP). These two utilities combined accounted for approximately 85% of the Partnership's consolidated earnings in F2015. GMLP's smaller gas distribution utility, Vermont Gas Systems, Inc. (VGS; approximately 5% of total earnings), is exposed to construction cost overrun risk. The Addison Natural Gas Project's capital budget has increased to USD 154 million from its 2013 initial estimate of USD 86 million. As a result, the Partnership took a pre-tax impairment charge of USD 10.3 million in F2015 following the agreement reached with the Vermont Department of Public Service. Negative earnings and cash flow impacts from the project cost overrun have been manageable within the current rating category.

The Partnership's financial risk profile remained relatively stable in F2015 from F2014. Looking into F2016, DBRS does not expect any significant change in the Partnership's financial risk profile as its estimated capital expenditure (capex) for F2016 (approximately $485 million excluding greenhouse gas emission allowance purchases) is expected to be financed in a prudent manner. In 2015, GMLP completed two equity offerings for aggregated gross proceeds of $255 million to maintain leverage in line with the regulatory target. Incremental earnings (supported by the sustained growth of regulated activities and higher earnings contribution from GMLP's wind farm projects) are expected to be used to fund higher distributions.

Financial Information

Gaz Métro Limited Partnership (consolidated)

	For the year ended September 30th				
(CA$ millions)	**2015**	**2014**	**2013**	**2012**	**2011**
EBIT gross interest coverage (times) 1	1.82	1.85	1.83	2.11	2.42
Total debt in capital structure 1,2	67.2%	67.9%	65.3%	63.7%	62.1%
Cash flow/Total debt 1	15.7%	14.4%	12.6%	13.0%	18.2%

1 Adjusted for operating leases. 2 Adjusted for accumulated other comprehensive income.

Issuer Description

GMi is a holding company with majority ownership of GMLP. GMLP owns and operates natural gas distribution in Québec and natural gas and electricity distribution in Vermont, as well as financial interests in transmission, storage, gas and other underground systems enterprises. GMLP is 71% owned by GMi and 29% owned by Valener Inc.

Rating Considerations

Strengths	Challenges

Strengths

1. Supportive regulation in Québec

The regulatory framework in Québec is viewed as supportive, reflecting the following factors: (a) full recovery on gas supply costs through an automatic monthly adjustment mechanism, (b) rate stabilization accounts to mitigate revenue fluctuations due to the weather and (c) a reasonable ROE.

2. Reasonable financial profile

GMLP's consolidated financial profile has remained reasonable. The Partnership has maintained an acceptable cash flow-to-debt ratio for the current rating category. Although the consolidated debt-to-capital (67.2%) and consolidated EBIT gross interest coverage (1.82 times) were slightly weaker than the "A" rating range in F2015, respective non-consolidated ratios were reasonable (non-consolidated leverage at 53.8%, interest coverage at 1.72 times and cash flow-to-debt at 18.4%). GMLP's non-consolidated financial statements are presented from the perspective of its directly owned, flagship entity, Gaz Métro-QDA by removing the impact of consolidation of investments in subsidiaries and financial interests, including GMP, VGS, Trans Québec & Maritimes Pipeline Inc. (TQM; rated A (low) by DBRS) and wind farm projects.

3. Cash flow diversification

The Partnership benefits from a large base of regulated utility assets, including: (a) gas distribution in Québec; (b) U.S. natural gas and electricity distribution in Vermont through GMP and VGS; (c) U.S. electricity transmission in Vermont through majority ownership in Vermont Electric Power Company, Inc. and Vermont Transco LLC; (d) financial interest in three natural gas transportation enterprises, namely TQM, Portland Natural Gas Transmission System (PNGTS) and Champion Pipe Line Corporation Limited (Champion); and (e) financial interests in wind power projects.

Challenges

1. Higher risks associated with volume and energy cost in Vermont electricity distribution

There is a higher level of volume risk associated with regulated operations in Vermont than in Québec, as there is no rate stabilization mechanism for GMLP's utility subsidiaries in Vermont to mitigate against volume delivery fluctuations due to the weather. In addition, GMP (the larger of the two Vermont utility subsidiaries) faces potential exposure to rising energy costs (refer to the Regulation Update section).

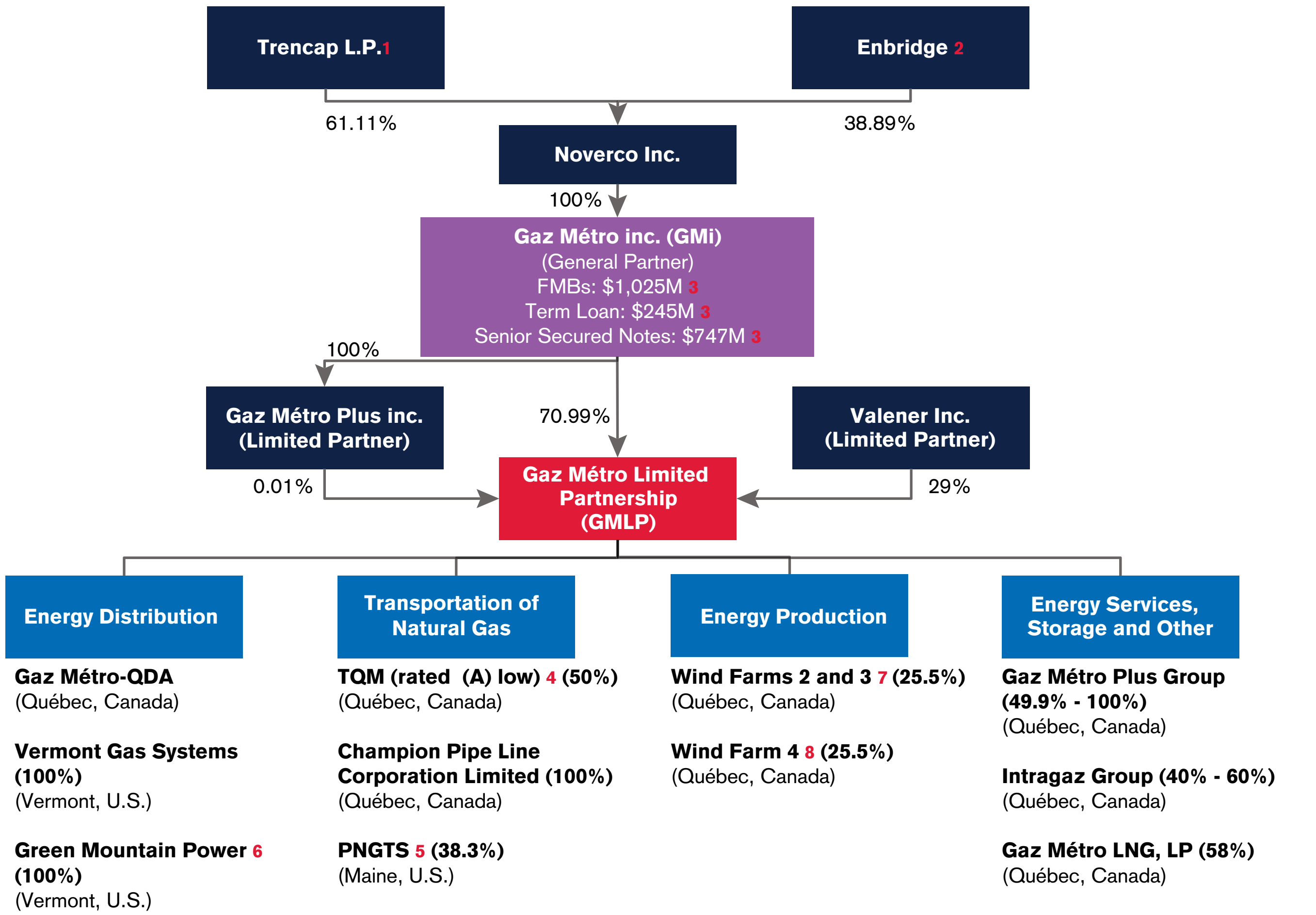
2. Project cost overrun risk associated with Addison Gas Project

GMLP's smaller gas distribution utility in Vermont, VGS, is exposed to construction cost overrun risk. The capital budget of VGS's major capital project, the Addison Natural Gas Project, has increased approximately 79% to USD 154 million from its 2013 initial estimate of USD 86 million. As a result, the Partnership took a pre-tax impairment charge of USD 10.3 million in F2015 following the agreement reached with the Vermont Department of Public Service. However, negative earnings and cash flow impacts from the project cost overrun have been manageable within the current rating category.

3. Industrial customers are sensitive to economic conditions

In Québec, approximately 60% of natural gas distribution is consumed by industrial customers, whose consumption is highly sensitive to economic conditions. A significant reduction in demand from these customers could affect GMLP's distribution revenues. However, this risk is mitigated by firm service contracts, with a large number of these customers providing guaranteed payment of a significant portion of distribution services, regardless of their levels of consumption. Firm service contracts accounted for more than 80% of all industrial volume consumption.

Simplified Organizational Chart



1 The general partner of Trencap was Capital d'Amérique CDPQ inc., a subsidiary of Caisse de dépôt et placement du Québec which, as a limited partner of Trencap, held 59.64% of its units. The other limited partners were Fonds de solidarité des travailleurs du Québec (F.T.Q.) (19.11%), British Columbia Investment Management Corporation (13.01%), the Régime des rentes du Mouvement Desjardins (6.87%) and the Régime de retraite de l'Université du Québec (1.37%).
2 Enbridge Inc. held its shares through its subsidiary, IPL System Inc.
3 FMBs, Senior Secured Notes and the term loan at GMi are guaranteed by GMLP. Balances are as at September 30, 2015.
4 TQM refers to Trans Québec & Maritimes Pipeline Inc.
5 PNGTS refers to Portland Natural Gas Transmission System.
6 Includes Central Vermont Public Service Corporation; acquired in 2012.
7 Wind Farms 2 and 3 refers to the 272 megawatt (MW) Seigneurie de Beaupré Wind Farms 2 and 3 General Partnership
8 Wind Farm 4 refers to the 69 MW Seigneurie de Beaupré Wind Farm 4 General Partnership

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 $892.8 million outstanding on September 30, 2015 (not rated by DBRS), and not shown in the chart above.
- As at September 30, 2015, GMLP's interests in non-regulated energy-related activities and in non-energy-related activities were relatively limited.
  - The trust deeds stipulate that all of the Partnership's interest in non-regulated energy-related activities and non-energy-related activities must not be more than 10% of its total non-consolidated assets. As at September 30, 2015, the Partnership's assets used for such activities accounted for 3.17% of its total non-consolidated assets.
  - As for non-energy-related activities, GMLP's interest in such activities may not exceed 5% of its total non-consolidated assets. As at September 30, 2015, the Partnership had no interest in such activities.

Consolidated Earnings and Outlook

Gaz Métro Limited Partnership (consolidated)

	For the year ended September 30th				
(CA$ millions)	**2015**	**2014**	**2013**	**2012**	**2011**
EBITDA	593	543	461	402	417
EBIT	322	295	258	239	242
Gross interest expense	177	160	142	114	100
Total share in earnings	92	77	62	29	23
Net income before non-recurring items	192	175	166	152	147
Reported net income	184	175	180	144	164
Return on avg. common equity	11.7%	11.6%	11.3%	12.1%	14.3%

F2015 Summary

- Net income before non-recurring items increased approximately 10% in F2015 from F2014, mainly due to the following factors:
  - A favourable exchange rate impact on earnings generated by Vermont energy distribution activities.
  - An increase in rate base for Gaz Métro-QDA.
  - Higher earnings from shares in earnings of entities subject to significant influence, largely due to a favourable exchange rate and the greater ownership in Velco and Transco (increased to 71.5% from 70.0%).
  - Higher energy production activities given favourable winds and new wind projects came into service (Wind Farms 2 and 3 ran for a full 12 months in F2015 versus ten months in F2014, and Wind Farm 4 came in service in December 2014).
- Reported net income was lower than earnings before non-recurring items, because of an impairment charge related to the Addison project following the agreement reached with the Vermont Department of Public Service.

Reported Net Income Breakdown

For the year ended September 30th	FY 2015		FY 2014	
Gaz Metro - QDA	58.6%	116	61.2%	111
VGS and GMP	28.9%	57	32.1%	58
Natural Gas Transportation	8.5%	17	8.9%	16
Energy Production	2.7%	5	-0.5%	(1)
Energy Services, Storage and Other	1.2%	2	-1.6%	(3)
Total	**100.0%**	**197**	**100.0%**	**182**
Corporate Affairs		(9)		(8)
Total		**188**		**174**

- Over 95% of the Partnership's consolidated earnings were generated by low-risk regulated utilities and pipelines supported by long-term contracts in F2015.

F2016 Outlook

- Earnings are expected to grow modestly in F2016 as a result of the sustained growth of the Partnership's regulated activities and higher earnings contribution from the wind farm projects due to their full-year effects.

Consolidated Financial Profile

Gaz Métro Limited Partnership (consolidated)

Cash Flow Statement

(CA$ millions) For the year ended September 30th	2015	2014	2013	2012	2011
Net income before non-recurring items	192	175	166	152	147
Depreciation & amortization	346	252	205	166	177
Distributions received	71	65	36	30	14
Non-cash share in earnings	(92)	(77)	(62)	(29)	(23)
Deferred income taxes/Other	51	45	12	8	7
Cash flow from operations	**569**	**460**	**356**	**327**	**323**
Distributions to partners	(187)	(169)	(165)	(141)	(106)
Capex	(779)	(471)	(475)	(471)	(215)
Gross free cash flow	**(396)**	**(180)**	**(284)**	**(286)**	**2**
Change in working capital	31	12	45	37	(5)
Change in regulatory assets & deferred charges	(61)	17	(84)	(81)	(27)
Net free cash flow	**(426)**	**(152)**	**(323)**	**(330)**	**(29)**
Acquisitions/Long-term investments	(36)	(26)	6	(485)	21
Net change in equity	259	4	56	382	106
Net change in debt	121	241	292	490	(96)
Other	64	(25)	(13)	(53)	(13)
Change in cash	(17)	42	19	5	(10)
Total debt	3,600	3,173	2,805	2,484	1,767
Total debt in capital structure 1,2	67.2%	67.9%	65.3%	63.7%	62.1%
EBIT gross interest coverage (times) 1	1.82	1.85	1.83	2.11	2.42
Cash flow/Total debt 1	15.7%	14.4%	12.6%	13.0%	18.2%
Distribution payout ratio	97.0%	96.8%	99.7%	93.3%	72.0%

1 Adjusted for operating leases. 2 Adjusted for accumulated other comprehensive income.

F2015 Summary

- Overall, the Partnership's consolidated key credit metrics remained relatively stable in F2015 from F2014.
- Operating cash flow increased, predominately due to additional Gaz Métro-QDA revenues attributable to the Cap and Trade System (C&T) regulation-related greenhouse gas emissions allowances. As emission costs associated with the C&T regulation is fully passed onto ratepayers, deprecation increased materially in F2015.
- Capex increased sharply in F2016, predominately due to the purchase of greenhouse gas emission allowances related to the C&T regulation ($365 million in F2015 versus $0 in F2014), enough to cover almost 60% of expected customers emission for the 2015–2020 period.
- The Partnership distributed virtually 100% of its net income to its limited partners. Under the Partnership Agreement, the Partnership will not, except under extraordinary circumstances, distribute any less than 85% of its net income before non-recurring items to its partners.
- The Partnership financed cash flow deficits through a reasonable mix of debt and equity. In 2015, the Partnership completed two equity offerings for aggregated gross proceeds of $255 million. As a result, leverage remained relatively unchanged in F2015 from F2014.

F2016 Outlook

- The Partnership's financial profile is expected to remain relatively stable in F2016.
- Incremental earnings are expected to be used to fund higher distributions. The Partnership announced that it would raise its quarterly distribution by 3.6%, beginning with its next distribution to be made on January 5, 2016.
- The financing of an estimated $470 million in capex for F2016 (excluding greenhouse gas emission allowance purchases) is not expected to have a material impact on the current key metrics. Key financial metrics are expected to remain relatively stable in F2016.

Liquidity

Credit facilities (non-consolidated)

As at Sept. 30, 2015	Maturity	Committed	Oustanding*	Available
Secured Term Loan	Mar-2020	800	282	518
Total		**800**	**282**	**518**

* Includes letters of credit ($37 million as at Sept. 30, 2015)

- GMi's reliance on short-term borrowing is expected to remain manageable.
- GMi has an investment policy in place such that GMi should not have CP maturities in excess of an aggregate amount of $35 million for two consecutive business days, to ensure that the $50 million swingline facility, which is available under GMi's credit facility, maintains adequate liquidity to backstop the CP program.
- The Partnership and GMi have a joint secured credit line (term loan) of $800 million to support the CP program, with GMi as the borrower. The debt issued under this term loan is guaranteed by the Partnership, and will expire in March 2020.
- GMi is expected to continue to reserve capacity under its bank credit facilities for amounts outstanding under the CP program.

Long-Term Debt

The following is a table of the debt maturities of GMLP on a consolidated basis:

Consolidated Debt maturities as of Sept 30, 2015

(CA$ millions)	2015	2016	2017	2018	2019	Thereafter	Total
Gaz Métro	-	-	125	-	100	1,792	2,017
NNEEC	-	-	67	-	-	67	133
VGS	-	-	-	-	-	73	73
GMP 1	-	-	-	29	115	742	886
Intragaz	-	-	-	-	-	42	42
TQM	-	-	50	52	-	-	102
Wind Farms 2 and 3	-	-	-	-	-	250	250
Wind Farm 4	6	-	-	-	-	70	76
Other 2	-	-	-	0	-	17	17
Sub Total	**6**	**-**	**242**	**82**	**215**	**3,053**	**3,598**
Financing costs							(33)
Total							**3,564**

1 Includes Series 2010A First mortgage bonds in an amount of US$28.6 million maturing in tranches of variable amounts on April 1 of each year (2015-2035).
2 Includes Secured term loans in an amount of $16.6 million maturing from 2016 to 2023.

- The debt maturity schedule is reasonably spread out with minimal refinancing risk over the next five years.

Covenants and Restrictions

- GMLP has restrictive covenants, in which if its long-term debt-to-total capitalization ratio exceeds 65%, and its long-term debt interest coverage ratio is less than 1.5 times (both on a non-consolidated basis), it may not issue any additional long-term debt.
- If the Partnership's long-term debt-to-capitalization ratio exceeds 75% (on a non-consolidated basis), it will not make a distribution to its partners.
- As of September 30, 2015, GMLP's non-consolidated long-term debt-to-total capitalization ratio and the non-consolidated long-term debt interest ratio were 52.8% and 2.94 times, respectively.
- The trust deeds stipulate that all of the Partnership's interest in non-regulated energy-related activities and non-energy-related activities must not be more than 10% of its total non-consolidated assets. As at September 30, 2015, the Partnership's assets used for such activities accounted for 3.17% of its total non-consolidated assets.

As for non-energy-related activities, GMLP's interest in such activities may not exceed 5% of its total non-consolidated assets. As at September 30, 2015, the Partnership had no interest in such activities.

Regulation Update

1. Gaz Métro-QDA — Regulated by the Régie

Gaz Métro-QDA expects to continue using the cost-of-service (COS) method until a new incentive mechanism is implemented, which is expected for F2018. The regulatory framework in Québec is viewed as supportive, with major features as follows:

- All natural gas supply costs are fully passed on to customers through an automatic monthly adjustment mechanism.
- All the transportation costs charged by TransCanada PipeLines Limited (TCPL; rated A (low) with a Stable trend by DBRS) are included in the COS of Gaz Métro-QDA and are reflected in its transportation rates. These costs include TCPL's rate adjustments based on the recent approval by the NEB of agreement-in-principle among TCPL, Gaz Métro-QDA and Ontario natural gas distributors (effective January 1, 2015).
- Under the COS methodology, Gaz Métro-QDA is allowed to recover the cost of providing its service and to earn a reasonable rate of return on its rate base.

Main Features of the F2016–F2017 Rate Cases versus F2015:

- Gaz Métro-QDA's capital structure remains the same at 54.0% 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 return on deemed common equity also remains the same at 8.90%.
- Gaz Métro-QDA has been subject to the C&T regulation effective January 1, 2015. The compliance cost is fully passed onto ratepayers.

2. Vermont Distribution Utilities – Regulated by Vermont Public Service Board (VPSB)

GMP and VGS are regulated by the VPSB. Rates for their activities are established based on alternative regulation plans, which is more similar to a traditional COS method than a typical longer-term performance-based regulation plan. The base rates for the Partnership's Vermont utilities are approved annually by the VPSB, whereas natural gas and electricity prices are adjusted quarterly or annually using the rate adjustment mechanism in place.

The following table summarizes the key regulatory parameters for the two Vermont utility subsidiaries in F2015 and F2014.

	F2015		F2014	
	Deemed equity	Authorized ROE	Deemed equity	Authorized ROE
GMP	50.00%	9.60%	49.56%	9.58%
VGS	55.00%	10.20%	55.00%	10.26%

GMP

- GMP is a combined entity of Green Mountain (pre-merger) and Central Vermont Public Service Corporation. The merger became effective October 1, 2012.
- As part of the merger agreement, GMP agreed to the following merger saving sharing plan during the first ten years following the close of the merger: (1) flow through to ratepayers via a rate credit USD 2.5 million in 2013; (2) USD 5 million in 2014; (3) USD 8 million in 2015; (4) 50% of total savings from 2016 to 2020 (estimated at USD 10.5 million in 2016, USD 12 million in 2017, USD 13 million in 2018, USD 14 million in 2019 and USD 14.5 million in 2020); and (5) all savings in 2021 and 2022. GMP is required to file a savings guarantee plan with the VPSB by December 31, 2022, to compensate ratepayers if the total merger saving is less than USD 144 million during the ten-year period.
- Normally the rate adjustment mechanism for electricity generation costs is conducted quarterly. However, for F2015 this adjustment mechanism is applied annually.
- In August 2014, the VPSB approved GMP's three-year alternative regulation plan (ARP) for the period from October 1, 2014, to September 30, 2017. The main features are as follows:
  - Annual base rate adjustment.
  - Power supply adjustment mechanism as follows: (1) 90% of energy costs that are USD 615,000 (per quarter) higher or lower than energy costs are included in rates and (2) a full amount of transmission and capacity costs higher or lower than the amount already included in rates.
  - A formula to determine the authorized ROE on common equity.
  - Sharing of revenue shortfalls when returns are less than those allowed on shareholders' equity.
  - Opportunity to recover costs of exogenous factors in excess of USD 1.2 million per year.

VGS

- VGS is subject to an ARP, which includes: (1) a quarterly adjustment of gas costs sold to customers and (2) an annual rate application for other activities.
- 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 basis point dead band from the authorized ROE.

Regulation Update (CONTINUED)

3. Vermont Electricity Transmission – Regulated by the Federal Energy Regulatory Commission (FERC) in the U.S.

- Vermont Transco LLC (Transco), which is 71.5% indirectly owned by GMLP, owns transmission assets in Vermont.
- Transco operates under a COS framework regulated by the FERC, which allows Transco to recover all prudently incurred operating costs.
- Transco is not exposed to any volume or commodity risk.
- In October 2014, the FERC issued its order in response to a complaint regarding the base ROE that New England electricity transmission owners are allowed to earn. The FERC reduced the base ROE to 10.57% effective October 16, 2014, down from the previous 11.14%. Although the lower ROE has reduced the revenues Transco collects through the ISO-NE Open Access Transmission Tariff, Transco's total revenue requirement will not be affected, as the reduction will instead be collected from Vermont utilities. However, this will place some rate pressure on the Vermont utilities and their customers, as they will have to contribute a larger portion of the 11.8% weighted-average return allowed for Transco's membership units.

4. Pipelines — Regulated by the National Energy Board (NEB) in Canada and by the FERC

Trans Québec Maritime Pipeline Inc. (TQM) — Regulated by the NEB

- TQM (50% owned; rated A (low) by DBRS) was under a multi-year rate agreement in which annual rates were calculated using a formula that includes a fixed-cost component, along with a cost-operating component that was fully recovered from or refunded to customers.
- In February 2014, TQM reached a multi-year settlement agreement with its interested parties, establishing the mechanisms for determining TQM's annual revenue requirements for 2014–2016.
- Under this agreement, annual rates are calculated, using a formula that includes a fixed-cost component and a component that is fully recoverable from or payable to customers.
- Refer to the TQM report dated November 13, 2015, for more details.

Champion Pipe Line Corporation Limited (Champion) — Regulated by the NEB

- This pipeline runs cross the Ontario border and supplies Gaz Métro's distribution system in Northern Québec.
- Champion (100% owned) is regulated by the NEB, with tolls based on an annual COS methodology.
- Champion uses a ROE and a capital structure equivalent to those approved by the Régie for Gaz Métro-QDA (the deemed equity component set at 46% and the authorized ROE at 8.9%).

Portland Natural Gas Transmission System (PNGTS)

- PNGTS (38.3% owned) originates at the Québec border and extends to suburbs of Boston.
- PNGTS 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 ROE.

Assessment of Regulatory Environment

Gaz Métro-QDA — regulated by the Régie

Criteria	Score	Analysis
(1) Deemed Equity	Excellent **Good** Satisfactory Below Average Poor	Gaz Métro-QDA has a deemed equity of 46% (38.5% in common equity, 7.5% in preferred stock). With equity injections in F2015, Gaz Métro-QDA's actual capital structure is in line with its regulatory target (54% debt and 46% equity).
(2) Allowed ROE	Excellent Good **Satisfactory** Below Average Poor	The Régie agreed to not apply the automatic ROE adjustment formula and to set the ROE at 8.90% for F2016 and F2017 as it had done for F2014 and F2015. Gaz Métro-QDA has achieved its actual ROE close to the deemed ROE over the past several years.
(3) Energy Cost Recovery	**Excellent** Good Satisfactory Below Average Poor	There is no natural gas price risk for Gaz Métro-QDA as it is not responsible for purchasing natural gas from suppliers. Natural gas purchase costs are passed on to ratepayers at rates set by the Régie. Gaz Métro-QDA collects the payments from its customers on a monthly basis.
(4) Capital and Operating Cost Recovery	**Excellent** Good Satisfactory Below Average Poor	Major capital and operating costs are pre-approved by the Régie and recovered through distribution rates. Interim base-rate increases have been frequently authorized. Future test periods are fully incorporated for rate-case decisions.
(5) COS versus IRM	**Excellent** Good Satisfactory Below Average Poor	Gaz Métro-QDA expects to continue using the COS method until a new incentive mechanism is implemented, which is expected for F2018.
(6) Political Interference	Excellent **Good** Satisfactory Below Average Poor	There has been no adverse legislation in the regulated natural gas utility sector in Québec.
(7) Retail Rate	Excellent Good Satisfactory Below Average Poor	N/A
(8) Stranded Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Gaz Métro-QDA has a limited history of stranded costs.
(9) Rate Freeze	**Excellent** Good Satisfactory Below Average Poor	Rates have never been frozen and are not expected to be frozen in the foreseeable future.
(10) Market Structure (Deregulation)	**Excellent** Satisfactory Poor	The gas utility business has remained fully regulated under the Régie.

Vermont electricity and gas distribution utilities — regulated by the VPSB

Criteria	Score	Analysis
(1) Deemed Equity	**Excellent** Good Satisfactory Below Average Poor	The VPSB allowed GMP and CVS to have a deemed equity of 50% and 55%, respectively for the 2015 period.
(2) Allowed ROE	Excellent **Good** Satisfactory Below Average Poor	The VPSB set the authorized ROE at 9.6% for GMP and 10.20% for VGS for the 2015 period. With the cost overrun risk challenge facing VGS, its actual ROE is expected to below that of the authorized ROE in the near future. However, GMP has an opportunity to earn a higher actual ROE than that of the authorized ROE if GMP achieves its target merger savings.
(3) Energy Cost Recovery	Excellent Good **Satisfactory** Below Average Poor	Revenue decoupling mechanisms are not in place. However, the VPSB allows power cost and purchased gas adjustments under an alternative regulation plan. GMP is allowed to recover 90% of the generation costs in excess of those included in rates on an annual basis. VGS is allowed to recover all purchased gas costs on a quarterly basis.
(4) Capital and Operating Cost Recovery	Excellent Good **Satisfactory** Below Average Poor	Major capital and operating costs are pre-approved by the VPSB and recovered through rates. Interim base-rate increases are permitted; however, they have been rarely requested by utilities. Historical test periods are incorporated for rate-case decisions, resulting in regulatory lag. There is a reasonable mechanism to deal with cost overruns; however, utilities would share cost overrun risk with ratepayers, as evidenced by the Addison Natural Gas project in 2015.
(5) COS versus IRM	Excellent **Good** Satisfactory Below Average Poor	GMP and VGS are regulated by the VPSB. Rates for their activities are established based on alternative regulation plans which is more similar to a traditional COS method than a typical longer-term performance-based regulation plan. The base rates are approved annually by the VPSB. Productivity factors and excess earning/cost-sharing mechanisms are reasonable.
(6) Political Interference	Excellent Good **Satisfactory** Below Average Poor	Utilities are regulated by the VPSB, which operates as a quasi-judicial body. The Board is non-partisan and members are appointed to a six-year term
(7) Retail Rate	Excellent Good Satisfactory **Below Average** Poor	Average retail electricity rates were high at USD 17.12 cents/kWh (but the lowest in the New England region) in August 2015 (source: U.S. Energy Information Administration). However, natural gas purchase costs have remained low due to excess supply market conditions.
(8) Stranded Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Utilities have a limited history of stranded costs.
(9) Rate Freeze	**Excellent** Good Satisfactory Below Average Poor	Rates have never been frozen and are not expected to be frozen in the foreseeable future.
(10) Market Structure (Deregulation)	**Excellent** Satisfactory Poor	The electricity and natural gas sectors have remained fully regulated.

Description of Operations

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

1. Energy Distribution (87.5% of reported F2015 net income)

- GMLP's core business is natural gas distribution in Québec, delivering approximately 97% of the province's natural gas consumed and serving approximately 195,000 customers as of September 30, 2015.
- VGS is the sole gas distributor in Vermont.
- Green Mountain transports, distributes and sells electricity and provides electric network construction services in the State of Vermont. Following the acquisition and merger of Central Vermont Public Service Corporation, GMP is the largest electricity distributor in Vermont.

2. Natural Gas Transportation (8.5% of reported F2015 net income)

- TQM operates a gas pipeline in Québec that connects upstream with TCPL and downstream with PNGTS and the Gaz Métro-QDA system.
- In August 2015, GMLP signed an agreement with TCPL that ensures natural gas consumers in Eastern Canada will have sufficient capacity and reduce natural gas transmission costs should the Energy East Pipeline project (the 4,600-kilometre pipeline that will carry 1.1 million barrels of crude oil per day from Alberta and Saskatchewan to refineries in Eastern Canada) proceed.
- Champion 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. Energy Production (2.7% of reported F2015 net income)

- This segment consists of non-regulated energy production activities related to Wind Farms 2 and 3 and Wind Farm 4.
- Wind Farms 2 and 3 (total capital investment of $750 million including financing costs) are an equal-share joint venture of Boralex and Beaupré Éole, in which 51% is owned by the Partnership and the remaining 49% owned by Valener. As a result, GMLP owns 25.5% of the equity interest. GMLP received distributions in February 2015 and August 2015 for $40.6 million in aggregates.
- The joint venture's core business includes owning and operating wind farms with an installed capacity of 272 megawatts, which were commissioned in November 2013 and December 2013.
- Wind Farm 4 (total capital investment of $190 million including financing costs) is an equal share joint venture of Boralex and Beaupré Éole 4, in which 51% is owned by the Partnership and the remaining 49% owned by Valener. Wind Farm 4 owns and operates a wind farm with an installed capacity of 68 megawatts, which has been in service since December 2014. As a result, GMLP owns 25.5% of the equity interest. GMLP received its first distribution of $17.6 million in the fourth quarter of F2015.

4. Energy Services, Storage and Other (including non-regulated activities) (1.2% of reported adjusted F2015 net income)

- 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. On May 17, 2013, the Régie approved COS as the method for setting rates, whereas previously the avoided-cost method had been used.
- Energy-related activities are focused on the maintenance and repair of residential, commercial and industrial equipment, the heating and cooling of large buildings, the sale of natural gas for heavy transport and the sale of LNG.

Gaz Métro Limited Partnership

Consolidated Balance Sheet

(CA$ millions)

	Sept. 30				Sept. 30		
Assets	**2015**	**2014**	**2013**	**Liabilities & Equity**	**2015**	**2014**	**2013**
				S.T. borrowings	35	5	23
Cash & equivalents	87	104	59	Current portion L.T.D.	33	27	90
Accounts receivable	223	212	223	Accounts payable	356	341	314
Inventories	118	115	93	Deferred tax	2	0	2
Others	73	83	35	Others	50	55	69
Total Current Assets	**500**	**514**	**410**	**Total Current Liabilities**	**476**	**428**	**499**
				Long-term debt (L.T.D.)	3,531	3,141	2,692
Net fixed assets	4,440	3,971	3,584	Other L.T. liabilities	1,005	788	684
Goodwill & intangibles	805	430	389	Deferred credits	376	305	264
Deferred charges	407	395	473	Minority interest	29	41	41
Investments & others	1,065	834	726	Shareholders equity	1,801	1,442	1,403
Total Assets	**7,218**	**6,144**	**5,583**	**Total Liab. & SE**	**7,218**	**6,144**	**5,583**

Gaz Métro Limited Partnership (consolidated)

Balance Sheet & Liquidity & Capital Ratios	For the year ended September 30th				
	2015	**2014**	**2013**	**2012**	**2011**
Current ratio	1.05	1.20	0.82	0.70	0.76
Net debt in capital structure	65.7%	67.4%	65.5%	64.6%	63.0%
Total debt in capital structure	66.3%	68.2%	66.0%	65.0%	63.5%
Total debt in capital structure 1, 2	67.2%	67.9%	65.3%	63.7%	62.1%
Cash flow/Net debt	16.2%	15.0%	13.0%	13.4%	18.6%
Cash flow/Total debt	15.8%	14.5%	12.7%	13.1%	18.3%
Cash flow/Total debt 1	15.7%	14.4%	12.6%	13.0%	18.2%
Cash flow-interest coverage	4.21	3.87	3.50	3.87	4.23
(Cash flow - dividends)/Capex	0.49	0.62	0.40	0.39	1.01
Distribution payout ratio	97.0%	96.8%	99.7%	93.3%	72.0%
Coverage Ratios (times)					
EBIT gross interest coverage	1.81	1.84	1.81	2.10	2.42
EBITDA gross interest coverage	3.34	3.39	3.24	3.53	4.18
Fixed-charge coverage	1.81	1.84	1.81	2.10	2.42
Debt/EBITDA	6.07	5.85	6.09	6.19	4.24
EBIT gross interest coverage 1	1.82	1.85	1.83	2.11	2.42
Profitability Ratios					
Return on equity	11.7%	11.6%	11.3%	12.1%	14.3%
Return on capital	6.3%	6.4%	6.3%	6.8%	7.6%
Deemed common equity (Gaz Métro-QDA)	38.5%	38.5%	38.5%	38.5%	38.5%
Allowed base ROE (Gaz Métro-QDA)	8.90%	8.90%	8.90%	9.69%	9.09%

1 Adjusted for operating leases. 2 Adjusted for accumulated other comprehensive income.

Rating History

	Current	2014	2013	2012	2011	2010
Issuer Rating	A	A	A	A	NR	NR
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
Senior Secured Notes*	A	A	A	NR	NR	NR

* Guaranteed by Gaz Métro Limited Partnership

Previous Action

- DBRS Confirms Gaz Métro inc. at "A," Stable, January 23, 2015

Related Research

- DBRS Confirms Gaz Métro inc. at R-1 (low), Stable Trend, with CP Limit Increase, December 2, 2015
- DBRS Rates Gaz Métro inc.'s CAD 100 million First Mortgage Bonds at "A," Stable, March 31, 2015

Commercial Paper Limited

- $800 million

Previous Report

- Gaz Métro inc., January 30, 2015

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

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on **www.dbrs.com**.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.