Rating Report

Énergir Inc.

DBRS
Insight beyond the rating.

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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 Énergir, L.P.

Rating Update

On December 20, 2017, DBRS Limited (DBRS) confirmed the Issuer Rating, First Mortgage Bonds (FMB) and the Senior Secured Notes (the Notes) ratings of Énergir Inc. (Énergir or the Company; previously, Gaz Métro inc.) at "A" and its Commercial Paper (CP) rating at R-1 (low). All trends are Stable. The ratings of Énergir are based on the credit quality of Énergir, L.P. (the Partnership; previously Gaz Métro Limited Partnership), which guarantees the Company's FMB, the Notes and a secured credit facility that supports the CP program. Énergir is the general partner of the Partnership and serves as its financing entity.

Énergir, L.P.'s business risk profile is underpinned by its portfolio of regulated utilities, which provides stable earnings and cash flows. The Partnership's regulated natural gas distribution utility in Québec, Gaz Métro-QDA (approximately 66% of F2017 EBITDA), is regulated by the Régie de l'énergie (the Régie). Regulation under the Régie remains supportive of the "A" rating, with Gaz Métro-QDA currently operating under a cost-of-service (COS) regime with a reasonable allowed return on equity (ROE) of 8.90% and deemed equity of 46% (including 7.5% of preferred shares). Regulation for the Partnership's Vermont utilities (approximately 32% of F2017 EBITDA), which include Green Mountain Power Corporation (GMP) and Vermont Gas Systems, Inc. (VGS), have also remained reasonable with allowed ROEs of 9.02% and 8.50%, respectively. DBRS notes that Énergir, L.P. has been pursuing opportunities in non-regulated segments, particularly in energy production, services and storage. For F2018, the Partnership intends to invest about $125 million in solar projects at its wholly owned subsidiary, Standard Solar Inc. (Standard Solar), a vertically integrated power project contractor, operator, developer and owner. While earnings and cash flows from the non-regulated segment are typically more volatile because of the higher associated volume risk, DBRS notes these investments have remained relatively modest compared to capital expenditures (capex) for the Partnership's regulated operations. Additionally, under the trust deed, Énergir, L.P.'s interest in non-regulated energy-related activities and non-energy-related activities must not exceed 10% of total non-consolidated assets (3.30% as at F2017) and non-energy-related activities may not exceed 5% of total non-consolidated assets (none as at F2017). As such, regulated operations will continue to represent the large majority of the Company's activities.

The Partnership's key credit metrics remained steady in F2017, and commensurate with the "A" category. DBRS expects Énergir, L.P.'s financial risk profile to remain stable and the Partnership to continue funding any free cash flow deficits as a result of the capex program ($535 million to $560 million for F2018) prudently with a mix of debt and equity to maintain the current ratings.

Financial Information

	For the year ended September 30				
	2017	**2016**	**2015**	**2014**	**2013**
Total debt in capital structure 1, 2	64.7%	66.5%	65.1%	67.9%	65.3%
EBIT gross interest coverage (times) 1, 3	2.33	2.44	2.61	2.26	2.08
Cash flow/Total debt 1	16.0%	16.8%	16.9%	14.4%	12.6%

1 Adjusted for operating leases. 2 Common equity adjusted for accumulated other comprehensive income.
3 Numerator includes distributions received from companies subject to significant influence.

Issuer Description

Énergir Inc. (previously Gaz Métro inc.) is a holding company with majority ownership of Énergir, L.P., which 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. Énergir, L.P. is 71% owned by Énergir 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) reasonable authorized ROE and capital structure ratio.

2. Reasonable financial profile
Énergir, L.P.'s consolidated financial profile has remained reasonable. The Partnership has maintained an acceptable cash flow-to-debt ratio for the current ratings. Although the consolidated debt-to-capital (64.7%) in F2017 was relatively weak for the current ratings, the non-consolidated ratios were reasonable (non-consolidated leverage at 54.9%, interest coverage at 3.19 times (x) and cash flow-to-debt at 17.7%).

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 Trans Québec & Maritimes Pipeline Inc. (TQM; rated A (low) with Stable trends by DBRS), Portland Natural Gas Transmission System (PNGTS) and Champion Pipe Line Corporation Limited (Champion); and (e) financial interests in wind power projects.

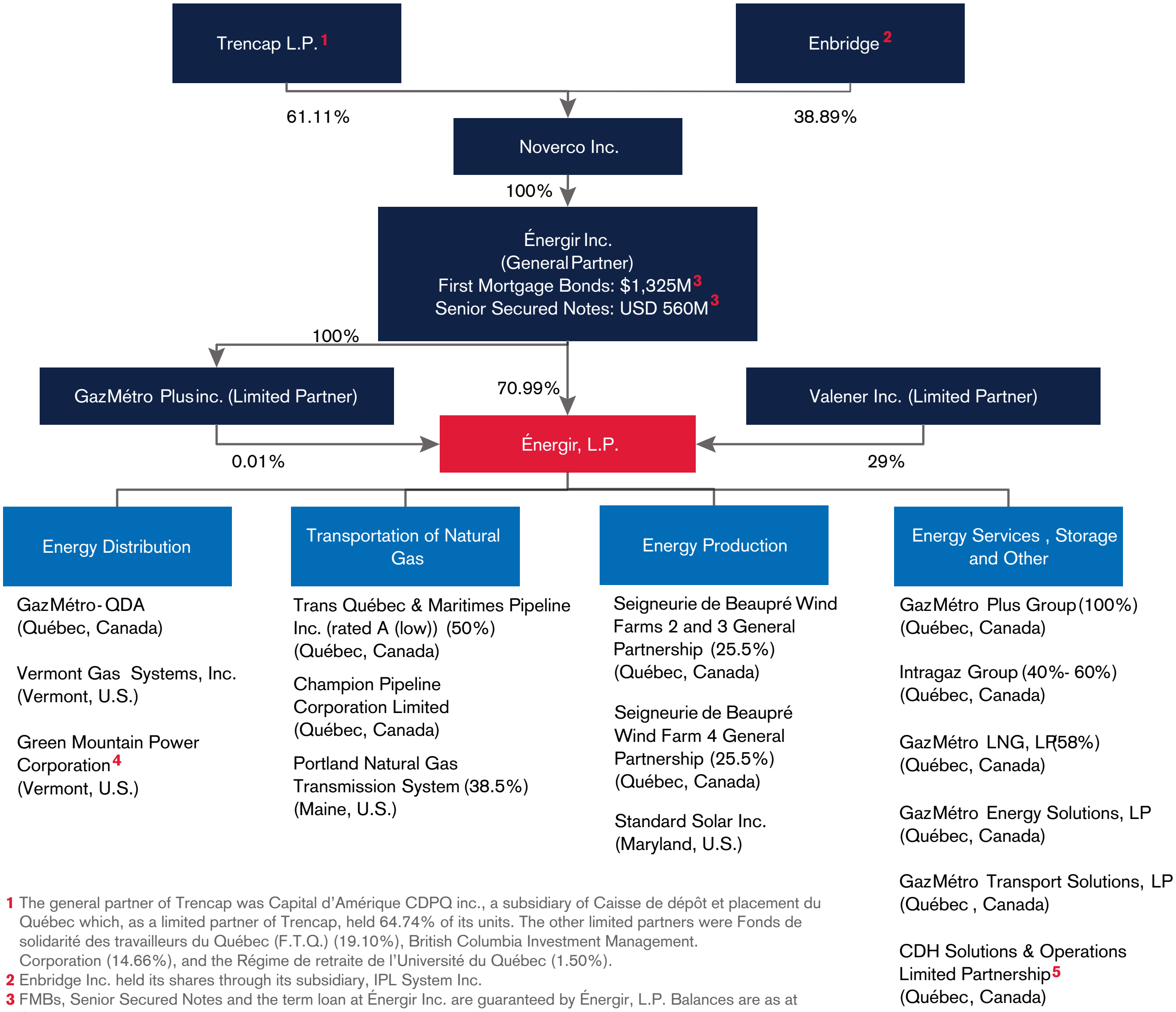
Challenges

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 Énergir, L.P.'s electricity distribution subsidiaries in Vermont to mitigate against volume delivery fluctuations due to the weather.

2. 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 Énergir, L.P.'s distribution revenues. However, this risk is mitigated by firm service contracts of more than one year, 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. This provides the Partnership sufficient time to reallocate its revenue requirement among customer classes if necessary.

3. Risk associated with inaccurate cost projection
Under the current COS methodology, Gaz Métro-QDA may not recover the shortfall between allowable net income and earned net income due to its earnings sharing mechanism fixed by the Régie. This difference may arise if the projected cost of performing Gaz Métro-QDA's activities is lower than the actual cost of providing such services. If the projected cost is significantly lower than the actual cost, it could have a material impact on the Partnership's credit metrics. However, given the long operating history of this utility, DBRS believes that the probability of a materially inaccurate costs projection is very low.

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 64.74% of its units. The other limited partners were Fonds de solidarité des travailleurs du Québec (F.T.Q.) (19.10%), British Columbia Investment Management. Corporation (14.66%), and the Régime de retraite de l'Université du Québec (1.50%).
2 Enbridge Inc. held its shares through its subsidiary, IPL System Inc.
3 FMBs, Senior Secured Notes and the term loan at Énergir Inc. are guaranteed by Énergir, L.P. Balances are as at September 30, 2017.
4 Includes Central Vermont Public Service Corporation; acquired in 2012.
5 Includes Climatisation et Chauffage Urbains de Montréal, s.e.c.

- Énergir is the financing vehicle for Énergir, L.P., with funds raised loaned to the Partnership on similar terms and conditions as those imposed on the Company.
- Given the mirror-like structure of the financing, the only substantive difference between the two entities is the subordinated debt at Énergir (intercompany debt from Noverco, Inc.), which was $892.8 million outstanding on September 30, 2017 (not rated by DBRS), and not shown in the chart above.
- As at September 30, 2017, Énergir, L.P.'s interests in non-regulated energy-related activities and in non-energy-related activities were relatively limited.
  - The trust deeds stipulate that all of Énergir, L.P.'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, 2017, the Partnership's assets used for such activities accounted for 3.30% of its total non-consolidated assets.
  - As for non-energy-related activities, Énergir, L.P.'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

(CAD millions where applicable)	2017	2016	2015	2014	2013
	For the year ended September 30				
EBITDA 1	588	600	545	547	463
EBIT 1	260	273	261	295	258
Gross interest expense	156	158	147	160	142
Net earnings after tax	78	103	80	97	102
Total share in earnings of equity investments	129	124	119	77	62
Net income before non-recurring items	228	225	194	175	166
Reported net income	241	278	181	175	180
Return on avg. common equity	12.4%	13.0%	11.2%	11.6%	11.3%
Segmented EBITDA 2					
Gaz Métro-QDA	329	316	305	314	289
VGS and GMP	161	193	169	171	137
Natural Gas Transportation	2	2	2	29	30
Energy Production	(3)	(1)	(1)	28	(2)
Energy Services, Storage and Other	12	6	6	9	15
Total excl. Corporate and Other	**501**	**515**	**480**	**551**	**469**
Corporate and Other 3	(13)	(11)	(8)	(8)	(8)
Total	**489**	**505**	**472**	**543**	**461**
Regulated rate base (Gaz Métro-QDA) 4	2,044	1,956	1,940	1,792	1,772
Approved deemed common equity (Gaz Métro-QDA)	38.5%	38.5%	38.5%	38.5%	38.5%
Allowed ROE (Gaz Métro-QDA)	8.90%	8.90%	8.90%	9.69%	9.09%

1 Includes distributions received from companies subject to significant influence. 2 Excludes distributions received from companies subject to significant influence. 3 Includes financing costs, acquisition costs and non-recurring items. 4 2017 rate base subject to Régie approval.

F2017 Summary

- Most of Énergir, L.P.'s consolidated EBITDA were generated by low-risk regulated utilities and pipelines supported by long-term contracts.
- The Partnership's earnings remained stable compared to F2016.
  - Gaz Métro-QDA benefited from higher normalized natural gas deliveries for the year, and a 1.1% increase in the average distribution rates.
  - Earnings from GMP were affected by lower consumption in the year, while earnings from VGS were affected following the agreement with the Vermont Public Utilities Commission (VPUC) fixing recoverable project costs at USD 134 million, resulting in amounts that will no longer be capitalized.
  - Earnings from the energy services, storage and other segment increased following the acquisition of the remaining 50% interest in CDH Solutions & Operations Limited Partnership.
  - Earnings were also affected by a less favourable exchange rate for U.S. operations.

F2018 Outlook

- DBRS expects Énergir, L.P.'s earnings to modestly increase in F2018, tracking continued rate base growth in the regulated operations.
  - Earnings from the non-regulated segment is expected to modestly increase in F2018, following the in-service of a 22 megawatt (MW) solar development in Vermont in January 2017, and the acquisition of 14 MW of hydroelectric plants in New England in May 2017.

Consolidated Financial Profile

(CAD millions where applicable)	2017	2016	2015	2014	2013
	For the year ended September 30				
Net income before non-recurring items	228	225	194	175	166
Depreciation & amortization	327	327	284	252	205
Distributions received	102	112	122	65	36
Non-cash share in earnings of equity investments	(129)	(124)	(119)	(77)	(62)
Deferred income taxes/Other	39	50	53	45	12
Cash flow from operations	**567**	**590**	**534**	**460**	**356**
Distributions to partners	(204)	(197)	(187)	(169)	(165)
Capex	(573)	(691)	(742)	(471)	(475)
Gross free cash flow	**(210)**	**(298)**	**(394)**	**(180)**	**(284)**
Change in working capital	13	18	29	12	45
Change in regulatory assets & deferred charges	(20)	(79)	(39)	17	(84)
Net free cash flow	**(217)**	**(359)**	**(405)**	**(152)**	**(323)**
Acquisitions/Long-term investments	(8)	(56)	(41)	(26)	6
Net change in equity	140	15	282	4	56
Net change in debt	135	382	139	241	292
Other	(1)	(1)	12	(25)	(13)
Change in cash	**49**	**(19)**	**(14)**	**42**	**19**
Total debt	3,526	3,497	3,147	3,173	2,805
Total debt in capital structure 1, 2	64.7%	66.5%	65.1%	67.9%	65.3%
EBIT gross interest coverage (times) 1, 3	2.33	2.44	2.61	2.26	2.08
Cash flow/Total debt 1	16.0%	16.8%	16.9%	14.4%	12.6%
Distribution payout ratio	89.4%	87.7%	95.9%	96.8%	99.7%
Non-consolidated metrics					
Total debt in capital structure 1, 2	54.9%	56.7%	55.1%	55.2%	53.1%
EBIT gross interest coverage (times) 1, 3	3.19	2.93	2.71	2.21	3.09
Cash flow/Total debt 1	17.7%	16.6%	17.1%	13.9%	18.9%

1 Adjusted for operating leases. 2 Common equity adjusted for accumulated other comprehensive income.
3 Numerator includes distributions received from companies subject to significant influence.

F2017 Summary

- Énergir, L.P.'s key credit metrics remained relatively stable in F2017. The non-consolidated debt-to-capital of 54.9% was in line with the regulatory capital structure of 46% equity (including 7.50% of preferred shares).
- Cash flow from operations decreased because of the lower distributions received from equity investments.
- Capex decreased significantly in F2017, largely the result of a $100.1 million decrease in the purchase of greenhouse gas emission allowances related to the Cap and Trade System (C&T).
- The Partnership distributed virtually 90% of its net income to its limited partners. Under the Partnership Agreement, Énergir, L.P. will not, except under extraordinary circumstances, distribute any less than 85% of its net income before non-recurring items to its partners.
- The Partnership funded its free cash flow deficit through a mix of debt and equity issuance.

F2018 Outlook

- Énergir, L.P.'s financial profile is expected to remain relatively stable in F2018, with metrics remaining supportive of the current ratings.
- The Partnership has forecast capex of $535 million to $560 million in F2018, with estimated $410 million for the energy distribution systems in Québec and Vermont, and about $125 million for Standard Solar.

Liquidity

Credit facility (non-consolidated)

As at Sept. 30, 2017	Maturity	Committed	Letters of credit	CP liquidity backup availability
Secured Term Loan	Mar-2022	800.0	25.4	774.6
Total		**800.0**	**25.4**	**774.6**

- Énergir has an investment policy in place such that the Company 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 Énergir's credit facility, maintains adequate liquidity to backstop the CP program.
- Énergir, L.P. and Énergir have a joint secured credit line (term loan) of $800 million to support the CP program, with the Company as the borrower. The debt issued under this term loan is guaranteed by the Partnership and will expire in March 2022.
- Énergir is expected to continue to reserve capacity under its bank credit facility for amounts outstanding under the CP program ($256.8 million outstanding as at September 30, 2017).

Long-Term Debt

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

Consolidated Debt maturities as of September 30, 2017

(CAD millions)	2018	2019	2020	2021	2022	Thereafter	Total
Énergir	1	100	100	150	419	1,511	2,281
NNEEC	-	-	-	-	62	62	125
VGS	-	1	1	1	1	145	150
GMP 1	9	108	50	39	11	704	921
Other 2	3	0	4	-	10	-	18
Sub Total	**13**	**209**	**156**	**190**	**504**	**2,422**	**3,494**
Financing costs							(17)
Total							**3,476**

1 Includes Series 2010A First Mortgage Bonds of USD 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 $17.7 million maturing from 2018 to 2022.

- The debt maturity schedule is reasonably spread out with minimal refinancing risk over the next five years.
- Énergir continued to have favourable access to capital markets in F2017 as it took advantage of the current low interest rate environment to repay existing indebtedness and fund its capex program. The Company issued the following bonds in 2017:
  - $125 million of 3.28% First Mortgage Bonds due October 2046; and
  - $200 million of 3.53% First Mortgage Bonds due May 2047.

Covenants and Restrictions

- Énergir, L.P. 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 1.5x (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, 2017, Énergir, L.P.'s non-consolidated long-term debt-to-total capitalization ratio and the non-consolidated long-term debt interest ratio were 54.6% and 4.29x, respectively.
- The trust deeds stipulate that all of Énergir, L.P.'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, 2017, the Partnership's assets used for such activities accounted for 3.30% of its total non-consolidated assets.
- As for non-energy-related activities, Énergir, L.P.'s interest in such activities may not exceed 5% of its total non-consolidated assets. As at September 30, 2017, 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. 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.
- 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.
- Gaz Métro-QDA has been subject to the C&T regulation effective January 1, 2015. The compliance cost is fully passed onto ratepayers.
- The following table summarizes the key regulatory parameters for Gaz Métro-QDA.

	F2018	F2017	F2016	F2015
Authorized ROE (on common equity)	8.90%	8.90%	8.90%	8.90%
Deemed equity (including 7.5% of preferred shares)	46%	46%	46%	46%
Average rate base in rate case	$2,118 million	$2,044 million	$1,956 million	$1,940 million

- Gaz Métro-QDA's authorized ROE and deemed equity ratio have remained the same since F2013. On December 13, 2017, the Régie approved Gaz Métro-QDA's application requesting a renewal of the 8.90% ROE for F2019.

2. Vermont Distribution Utilities – Regulated by Vermont Public Utilities Commission (VPUC)

GMP and VGS are regulated by the VPUC. 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 Énergir, L.P.'s Vermont utilities are approved annually by the VPUC, 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

	F2018			F2017			F2016		
	Deemed equity	Authorized ROE	Average rate base (USD)	Deemed equity	Authorized ROE	Average rate base (USD)	Deemed equity	Authorized ROE	Average rate base (USD)
GMP	48.6%	9.10%	1,433 million	50.3%	9.02%	1,353 million	49.6%	9.44%	1,250 million
VGS	50%	8.50%	248 million	50%	8.50%	202 million	55%	10.09%	200 million

GMP

- Effective October 1, 2012, Green Mountain (per-merger) and Central Vermont Public Service Corporation merged to form GMP.
- As part of the merger agreement, GMP agreed to the following saving sharing plan during the first ten years following the close of the merger: (1) flow through to ratepayers via rates credit of USD 2.5 million, USD 5.0 million and USD 8.0 million in, respectively, 2013, 2014 and 2015; (2) 50% of total savings from 2016 to 2020 (USD 15.6 million in 2016, USD 16.9 million in 2017 and estimated USD 18.2 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 VPUC by December 31, 2022, to compensate ratepayers if the total merger saving is less than USD 144 million during the ten-year period.
- In August 2014, the VPUC approved GMP's three-year alternative regulation plan (ARP) for the period from October 1, 2014, to September 30, 2017. The ARP was renewed in March 2017 until December 31, 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.

Regulation Update (CONTINUED)

  - Opportunity to recover costs of exogenous factors in excess of USD 1.2 million per year.
- In April 2017, GMP filed its COS proposal for January 1, 2018, to December 31, 2018, with the VPUC. GMP reached an agreement with the Vermont Department of Public Service (VDPS) in November 2017, for an overall rate increase of 5.02% based on a ROE of 9.10% for 2018 and 9.30% for 2019, with an average rate base of USD 1,433 million. A decision from the VPUC is expected by the end of 2017. DBRS does not expect the modest decrease in the deemed equity to 48.6% from 50.3% to have a material impact on the Partnership's earnings and cash flows.

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.
  - VGS filed its F2017 COS proposal with the VPUC in February 2016. In April 2017, the VPUC approved a settlement agreement to hold base rates at 2016 levels based on an 8.5% ROE through F2019, and to add Addison project costs in rates at an USD 134 million cost cap. The decision is currently being appealed by certain interveners.
  - VGS filed its F2018 COS proposal with the VPUC in February 2017. In October 2017, the VPUC approved a settlement agreement for an overall rate increase of 4% based on an average rate base of $248 million.

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

- Vermont Transco LLC (Transco), which is 73.5% indirectly owned by the Partnership, 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.
- There have been complaints filed to the FERC regarding the New England Transmission Owner's (NETO) allowed ROE, which have led to a reduction in the base ROE. Although the lower ROEs will reduce the revenues collected by Transco through the ISO-NE Open Access Transmission Tariff, the shortfall will be collected through the 1991 Vermont Transmission Agreement with regional electricity distribution companies in Vermont and will not have a negative impact on Transco's earnings and cash flows. Additionally, even though this will place more rate pressure on the Vermont distribution 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, DBRS does not anticipate changes to the 1991 Agreement.

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

TQM – Regulated by the NEB

- TQM (50% owned) 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 2017, TQM reached a multi-year settlement agreement with its interested parties, establishing the mechanisms for determining TQM's annual revenue requirements for 2017–2021.
- 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 20, 2017, for more details.

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 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%).

PNGTS – Regulated by the FERC

- 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).
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 F2018 and F2019. 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.
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. Stranded Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Gaz Métro-QDA has a limited history of stranded costs.
8. Rate Freeze	**Excellent** Good Satisfactory Below Average Poor	Rates have never been frozen and are not expected to be frozen in the foreseeable future.

Assessment of Regulatory Environment (CONTINUED)

Vermont electricity and gas distribution utilities — regulated by the VPUC

Criteria	Score	Analysis
1. Deemed Equity	**Excellent** Good Satisfactory Below Average Poor	The VPUC allowed GMP and VGS to have a deemed equity of 50.3% and 50%, respectively, for F2017.
2. Allowed ROE	Excellent **Good** Satisfactory Below Average Poor	The VPUC set the authorized ROE at 9.02% for GMP and 8.50% for VGS for F2017.
3. Energy Cost Recovery	Excellent Good **Satisfactory** Below Average Poor	Revenue decoupling mechanisms are not in place. However, the VPUC 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 VPUC 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 VPUC. 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 VPUC. Productivity factors and excess earning/cost-sharing mechanisms are reasonable.
6. Political Interference	Excellent Good **Satisfactory** Below Average Poor	Utilities are regulated by the VPUC, which operates as a quasi-judicial body. The board is non-partisan and members are appointed to a six-year term.
7. Stranded Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Utilities have a limited history of stranded costs.
8. Rate Freeze	**Excellent** Good Satisfactory Below Average Poor	Rates have never been frozen and are not expected to be frozen in the foreseeable future.

Description of Operations

Énergir, L.P.'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, the Partnership is not allowed to invest more than 10% of its total assets in non-regulated assets (on a non-consolidated basis).

1. Energy Distribution (91.8% of reported adjusted F2017 net income)

- Énergir, L.P.'s core business is natural gas distribution in Québec, delivering approximately 97% of the province's natural gas consumed and serving approximately 205,000 customers as of September 30, 2017.
- VGS is the sole gas distributor in Vermont, serving more than 50,000 customers as of September 30, 2017.
- GMP 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, serving close to 265,000 customers.

2. Natural Gas Transportation (6.4% of reported adjusted F2017 net income)

- TQM operates a gas pipeline in Québec that connects upstream with TCPL and downstream with PNGTS and the Gaz Métro-QDA system.
- Champion operates two gas pipelines that cross the Ontario-Québec border to supply the Partnership's distribution system in Northwestern Québec.
- PNGTS's pipeline originates at the Québec border and extends to the suburbs of Boston.

3. Energy Production (-0.1% of reported adjusted F2017 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 Énergir, L.P. and the remaining 49% is owned by Valener. As a result, the Partnership owns 25.5% of the equity interest. 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 Énergir, L.P. 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, the Partnership owns 25.5% of the equity interest.
- Énergir, L.P. acquired Standard Solar in 2017. Standard Solar provides engineering, supply management and construction services for solar power developments. It also develops and owns solar projects, and provides operations and maintenance services.

4. Energy Services, Storage and Other (including non-regulated activities) (1.9% of reported adjusted F2017 net income)

- The Partnership owns an interest in the Intragaz Group, whose main activity is underground natural gas storage. This activity tallies with Énergir, L.P.'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, with rates regulated by the Régie.
- 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.

Énergir, L.P.

Balance Sheet

(CAD milllions)	September 30 2017	2016	2015		September 30 2017	2016	2015
Assets				**Liabilities & Equity**			
Cash & equivalents	101	52	71	S.T. borrowings	49	22	35
Accounts receivable	192	194	205	Current portion L.T.D.	13	10	10
Inventories	97	121	117	Accounts payable	372	379	343
Other current assets	258	264	161	Other current liab.	163	211	138
Total Current Assets	**649**	**631**	**554**	**Total Current Liabilities**	**598**	**622**	**527**
				Long-term debt (L.T.D.)	3,463	3,464	3,101
Net fixed assets	4,254	4,080	3,740	Regulatory liabilities	382	320	386
Goodwill & intangibles	827	849	797	Other L.T. liabilities	1,134	1,208	1,087
Regulatory assets	542	638	502	Minority interest	58	36	51
Investments & others	1,257	1,228	1,236	Shareholders equity	1,893	1,774	1,677
Total Assets	**7,528**	**7,426**	**6,829**	**Total Liab. & SE**	**7,528**	**7,426**	**6,829**

	For the year ended September 30 2017	2016	2015	2014	2013
Balance Sheet & Liquidity & Capital Ratios					
Current ratio	1.09	1.01	1.05	1.20	0.82
Total debt in capital structure	64.4%	65.9%	64.5%	68.2%	66.0%
Total debt in capital structure 1, 2	64.7%	66.5%	65.1%	67.9%	65.3%
Cash flow/Total debt	16.1%	16.9%	17.0%	14.5%	12.7%
Cash flow/Total debt 1	16.0%	16.8%	16.9%	14.4%	12.6%
(Cash flow - dividends)/Capex	0.63	0.57	0.47	0.62	0.40
Distribution payout ratio	89.4%	87.7%	95.9%	96.8%	99.7%
Coverage Ratios (times)					
EBIT gross interest coverage	1.67	1.73	1.78	1.84	1.81
EBIT gross interest coverage 1, 3	2.33	2.44	2.61	2.26	2.08
EBITDA gross interest coverage	3.77	3.80	3.72	3.42	3.25
Fixed-charge coverage	1.67	1.73	1.78	1.84	1.81
Debt/EBITDA	6.00	5.82	5.77	5.80	6.06
Profitability Ratios					
EBITDA margin	23.3%	23.2%	21.1%	21.6%	20.9%
EBIT margin	10.3%	10.6%	10.1%	11.6%	11.6%
Profit margin	9.0%	8.7%	7.5%	6.9%	7.5%
Return on equity	12.4%	13.0%	11.2%	11.6%	11.3%
Return on capital	6.0%	6.3%	5.7%	6.4%	6.3%

1 Adjusted for operating leases. 2 Common equity adjusted for accumulated other comprehensive income.
3 Numerator includes distributions received from companies subject to significant influence.

Rating History

	Current	2016	2015	2014	2013	2012
Issuer Rating	A	A	A	A	A	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	A	NR	NR

* Guaranteed by Énergir, L.P.

Previous Actions

- DBRS Notes Gaz Métro inc.'s Name Change, December 5, 2017.
- DBRS Confirms Gaz Métro inc. at "A" and R-1 (low), Stable Trends, November 7, 2016.

Related Research

- "DBRS Assigns Rating of "A" with a Stable Trend to Gaz Métro inc.'s $200 Million First Mortgage Bonds," May 16, 2017.

Commercial Paper Limit

- $800 million.

Previous Report

- Gaz Métro inc.: Rating Report, November 16, 2016.

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.

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