S&P Global
Ratings

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Energir Inc. And Energir L.P.

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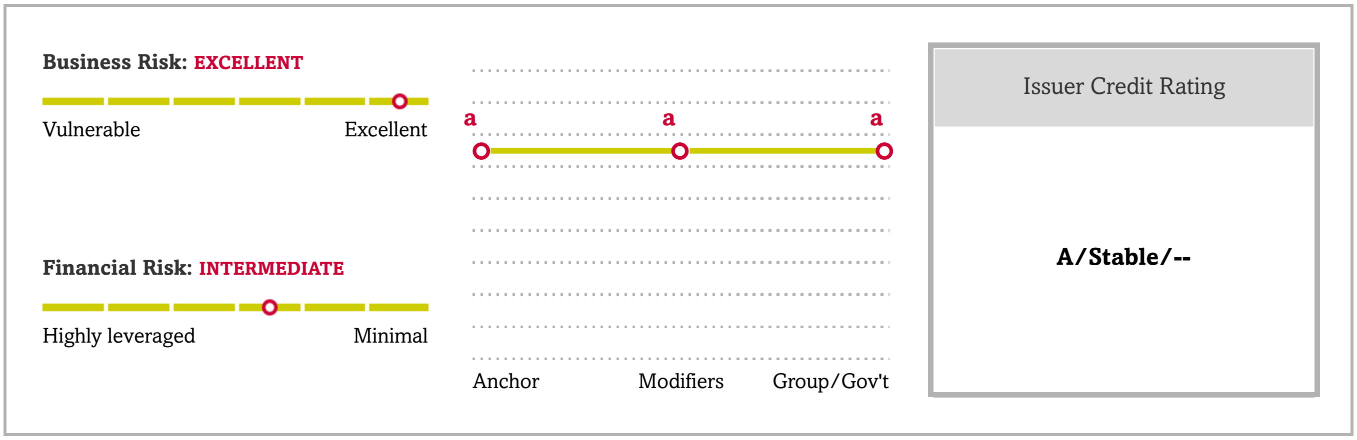
Energir Inc. And Energir L.P.



Credit Highlights

Overview

Key Strengths	Key Risks
Majority of Energir's cash flow is from regulated gas and electricity distribution operations.	Some exposure to non-utility operations that is susceptible to cash flow volatility.
Regulatory and geographic diversity with operations in Quebec and Vermont.	Weaker credit metrics in 2020 due to one-time refund of over-earnings and weather normalization variances from prior years.
Limited commodity exposure with cost of natural gas, carbon tax credits and electricity are pass through to rate-payers.	

Energir has stable utility operations with regulatory and geographic diversity, which supports its credit quality. About 85% of Energir's cash flow comes from low-risk utility operations in Quebec and Vermont, which offer regulatory and geographic diversity. In addition, these two jurisdictions are generally credit supportive, underpinning the company's stable regulated cash flows.

The company is exposed to non-utility operations. About 15% of Energir's cash flow come from non-utility businesses such as renewable generation and energy storage which have higher business risks and cash flow volatility compared with its regulated utility operations.

There is limited cushion in the company's credit metrics during our outlook period. For 2020, we forecast weak credit metrics for Energir with funds from operation (FFO) at about 14%, which is our current downside trigger for the company. The weaker financial measures are primarily related to a refund of over earnings and weather normalization variances from prior years to rate-payers. In addition, large capital spending also pressures credit metrics in 2020. We expect FFO to debt to recover beginning in 2021.

Outlook: Stable

The stable outlook reflects S&P Global Ratings' expectation that Energir will continue generating stable and predictable consolidated cash flows from its low-risk regulated utility operations in Quebec and Vermont during our two-year outlook horizon. The outlook also reflects our expectation that management will continue to focus on its core regulated business and that the company will not experience any adverse regulatory decisions during our outlook horizon

Downside scenario

We could take a negative rating action on Energir if the company's credit metrics deteriorate, with adjusted FFO to debt falling to and staying below 14% with no prospect for improvement. This could happen because of an adverse regulatory decision, a material debt-financed acquisition, or if the company encounters significant operating challenges.

Alternatively, any material weakening of Energir's business risk could also result in a downgrade. This could happen if the company materially increases its unregulated or generation operations.

Upside scenario

Although unlikely, we could raise the rating on Energir if the company demonstrates long-term sustainable low-risk growth or improved financial measures resulting in adjusted FFO to debt that is consistently near or above 20%.

Our Base-Case Scenario

Assumptions

- Energir will continue to focus on its regulated utility operations with non-regulated energy and non-energy related activities continue to comply with covenant requirements;
- The regulatory regimes remain stable, and Energir will not experience any material, adverse regulatory decisions;
- Capital expenditure of about C$780 million and C$880 million in 2020 and 2021, respectively; and
- Cash distribution averaging at about C$230 million in each of 2020 and 2021.

Key Metrics

	2018A	2019E	2020E
FFO-to-debt (%)	15.5	14.5-15.5	13-14
FFO cash interest coverage (x)	4.9	4.5-5.0	4.5-5.0

A--Actual. E--Estimate.

Company Description

Energir Inc. (Energir) provides electricity and natural gas energy services in Canada and U.S. Energir mainly holds an investment of approximately 71% in Énergir L.P. for which it acts as the General Partner and a financing vehicle. With more than C$8 billion in assets, Énergir L.P. (ELP) is a diversified energy infrastructure and services company serving more than 525,000 customers. ELP's core operation is distribution of natural gas in Quebec and Vermont. ELP also operates in energy distribution and transportation; energy production; and energy services and storage.

Business Risk: Excellent

Our assessment of Energir's business risk profile largely reflects its low-risk regulated utility operations in natural gas and electricity distribution and our view of its management of regulatory risk.

Energir continues to benefit from its stable, low-risk, regulated utilities operations. Tariff structures are generally supportive, allowing for recovery of prudently incurred operational and capital expenses in a timely manner, which supports stable cash flows. Moreover, the company's exposure to commodity input prices is limited because electricity and natural gas input costs remain a pass-through to ratepayers, which we view as favorable for the company's credit quality.

In Quebec, where distribution activities account for about half of the energy distribution net income, Energir can recover revenue shortfalls from weather-related events in subsequent years, which reduces its sales volume risk exposure. Furthermore, key rate-base parameters such as return on equity and equity thickness are credit-supportive and in line with those of other jurisdictions.

Energir operates in multiple service territories primarily in Quebec and Vermont, through subsidiaries Green Mountain Power Corp. and Vermont Gas Systems Inc., providing some degree of regulatory, geographic, and market diversity.

Further supporting the business risk profile is Energir's primarily residential and small- to medium-sized commercial customers that are less sensitive to economic cycles. In Quebec, Energir has a relatively large industrial user base that contributes a material portion of the company's cash flow; however, these users' gas consumption largely depends on the price of natural gas. Given that natural gas is relatively cheap compared with other fuel sources, we do not expect fuel switching among industrial users to be a credit risk.

Offsetting factors include its investment in generation assets and non-utility operations which have higher business risk. Furthermore, the company has an obligation to supply natural gas, creating some sourcing and operation risk.

Financial Risk: Intermediate

We assess Energir's financial risk profile using the low-volatility financial benchmark table, reflecting the company's lower-risk regulated electric and gas distribution operation and effective management of regulatory risk.

We expect weak credit metrics in 2020 due to a one-time refund to rate-payers as a result of over earnings in 2018 from the distribution, transportation, and load-balancing operations and weather normalization variances due to cold winters in 2018 and 2019. We expect credit metrics to recover in 2021.

Under our base-case scenario, which includes capital spending of about C$800 million-C$900 million in 2020-2021 and distributions and dividends of about C$230 million. We forecast adjusted FFO to debt of about 13%-14% in 2020 before recovering to about 15% in 2021.

Liquidity: Adequate

In our assessment, Energir's liquidity is adequate. We expect liquidity sources to exceed uses by more than 1.1x over the next 12 months. In the event of a 10% decline in EBITDA, we expect liquidity sources will cover uses. In our view, the company has sound relationships with banks and a generally satisfactory standing in the credit markets. In the unlikely event of liquidity distress, we expect Energir to scale back its capital spending and cash distributions to preserve its liquidity position.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash of about C$100 million as of Sept. 30,2019; • Committed credit facility availability of about C$530 million, with more than 12 months to maturity; and • Cash FFO of about C$412 million.	• Debt maturities of about C$230 million including both long-term and short-term debt; • Maintenance capital expenditures of approximately C$360 million; and • Cash distributions (including dividends) of approximately C$240 million.

Environmental, Social, And Governance

We view Energir's exposure to environmental, social, and governance-related risks as similar to the broader industry. The company is primarily a gas distributor but also owns an electric regulated transmission and distribution network. For natural gas network operators, environmental risks include gas leaks and explosions and emission of greenhouse gases (GHG), which can affect biodiversity. We believe Energir's environmental risk is consistent with the broader industry because the company's gas network is fairly new and does not contain cast iron or bare steel pipes which reduces the potential of gas leaks and explosions. In addition, the company also participates in the Quebec's cap-and-trade system, to offset its GHG footprint in its gas distribution operations.

From a social perspective, regulated networks typically face challenges such as affordability, safety, and reliability because they provide an essential service to their communities. Energir has a history of providing affordable, safe, and reliable gas and electric utility services to its customers, consistent with the broader industry.

From a governance perspective, Energir has an independent board of directors which, in our view, is capably engaged in risk oversight on behalf of all stakeholders, consistent with the broader industry.

Issue Ratings - Recovery Analysis

Energir has secured utility bonds (first mortgage bonds [FMBs]) outstanding with maturities of 2020-2048. These FMBs are secured under trust deeds that contain a hypothec on Energir's assets. A first immovable hypothec on Energir L.P.'s pipelines and gas distribution system also covers creditors. We estimate the regulated capital value at Energir is between 1.0x-1.5x of the secured utility bonds outstanding. This corresponds to a '1' recovery rating, and an 'A' rating on the FMBs, same as the issuer credit rating on Energir.

Ratings Score Snapshot

Issuer 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)

Stand-alone credit profile : a

- **Group credit profile:** a

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

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-

Ratings Detail (As Of December 18, 2019)*

Energir Inc.	
Issuer Credit Rating	A/Stable/--
Commercial Paper	
Local Currency	A-1
Canada National Scale Commercial Paper	A-1(MID)
Issuer Credit Ratings History	
17-Dec-2013	A/Stable/--
26-Nov-2013	A-/Watch Pos/--
26-Aug-2011	A-/Stable/--
Related Entities	
Energir, L.P.	
Issuer Credit Rating	A/Stable/--
Green Mountain Power Corp.	
Issuer Credit Rating	A-/Stable/--
Senior Secured	A

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.