RAPPORT DE CRÉDIT : S&P GLOBAL 2020

S&P Global Ratings

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Energir Inc.

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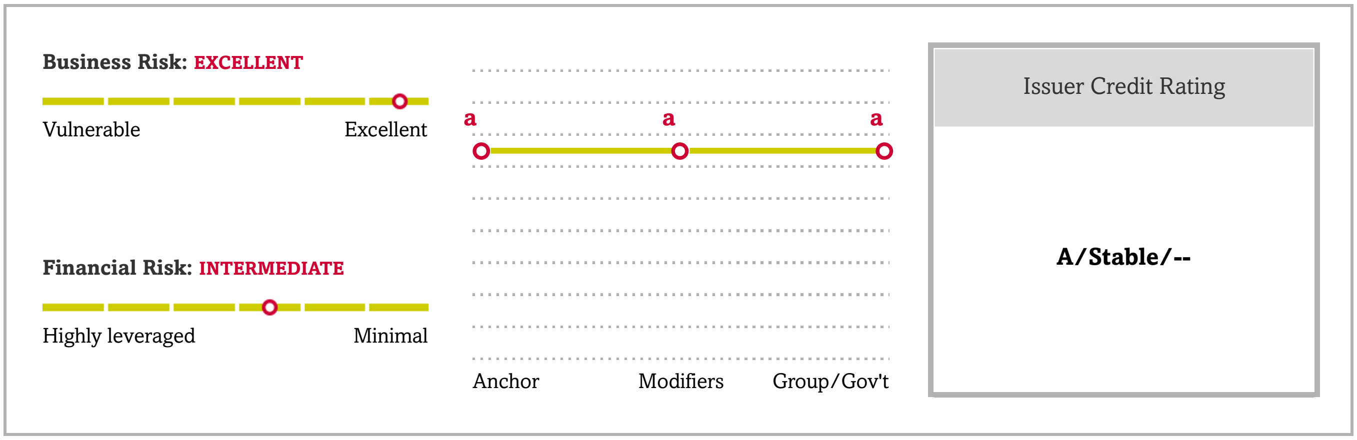
Energir Inc.



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 because of a 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 passed through to rate payers.	

We expect the impact from the COVID-19 pandemic on Energir Inc. (Energir) will be minimal. Energir benefits from regulatory mechanisms in Quebec and Vermont that help mitigate the risks associated with the pandemic, such as lower volumetric sales. Energir benefits from decoupling mechanisms in both Vermont and Quebec. Additionally, in Quebec, Energir benefits from earnings sharing mechanisms for any under or over earning from previous years.

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. These two jurisdictions are generally credit supportive, underpinning the company's stable regulated cash flows. In addition, through subsidiary Green Mountain Power Corp. (GMP), Energir also owns regulated transmission investments in Vermont that is regulated by the Federal Energy Regulatory Commission (FERC), one of the most credit supportive jurisdictions in North America.

There is limited cushion in the company's credit metrics during our outlook period. We forecast credit metrics will weaken with Energir's funds from operations (FFO) to debt of about 14%-16% over our forecast period, which is near the current downside trigger of 14%. 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, elevated capital spending also pressures credit metrics in 2021 and 2022.

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 the company will not experience any adverse regulatory decisions during the same time period.

Downside scenario

Although unlikely, we could lower the rating over the next 12-24 months 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, we could lower the rating if Energir's business risk weakens substantially. This could happen if the company materially increases its unregulated or generation operations.

Upside scenario

Although unlikely, we could raise the rating over the next 12-24 months if:

- The company demonstrates long-term sustainable low-risk growth or better 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$570 million and C$600 million in 2021 and 2022, respectively; and
- Cash distribution of about C$100 million and C$175 million in 2021 and 2022, respectively.

Key Metrics

Table 1

Energir Inc.--Key Metrics*

	2020a	2021e	2022e
FFO to debt (%)	14.7	14-16	14-16
FFO interest coverage (x)	5.3	4.2-4.7	4.5-5.0

*All figures adjusted by S&P Global Ratings. Insert here footnotes highlighting the key debt adjustments. a--Actual. e--Estimate.

Company Description

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 530,000 customers. ELP's core operations are distribution of natural gas in Quebec and Vermont and regulated electric transmission and distribution in Vermont. ELP also operates in 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. Additionally, 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.

Energir operates in multiple service territories primarily in Quebec and Vermont, through subsidiaries GMP and Vermont Gas Systems Inc., providing some degree of regulatory, geographic, and market diversity. In addition, through GMP, Energir also owns regulated transmission investments in Vermont that is regulated by the FERC and benefit from forward-looking rates and annual true-ups to recover prudently incurred costs.

In Quebec, where distribution activities account for about half of the energy distribution net income, Energir can recover revenue shortfalls 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.

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 and represent about 65% of revenues. 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. Moreover, Energir does not have exposure to cast iron or bare steel in their pipeline infrastructure gas network, which reduces the potential of gas leaks and explosions.

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

Our assessment incorporates a base-case scenario that includes adjusted FFO to debt of about 14%-16%, at the lower end of the benchmark range for the intermediate category. Our base-case scenario includes capital spending of about C$550 million-C$600 million in 2021-2022, distributions and dividends of about C$100 million-C$200 million, and continued effective management of regulatory risk. We expect continued weakened credit metrics in 2021 because of refunds to rate payers as a result of over earnings from the distribution, transportation, and load-balancing operations and weather normalization variances due to cold winters in 2019. We expect credit metrics to recover in 2022.

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. This reflects our view of Energir's steady cash flow and rate-regulated utility operations with highly supportive cost recovery.

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$154 million as of Sept. 30,2020; • Committed credit facility of about C$800 million, with more than 12 months to maturity; and • Cash FFO of about C$512 million.	• Debt maturities of about C$312 million including both long-term and short-term debt; • Capital expenditures of approximately C$570 million; and • Cash distributions (including dividends) of approximately C$100 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 2021-2048. 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
- **Entity status within group:** Core (no impact)

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, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, 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 21, 2020)*

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.