RAPPORT DE CRÉDIT : DBRS 2021

Rating Report
Énergir Inc.

DBRS Morningstar
May 6, 2021

Contents

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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[1]	A	Confirmed	Stable
Senior Secured Notes[1]	A	Confirmed	Stable

1 Guaranteed by Énergir, L.P.

Rating Update

On April 20, 2021, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating, First Mortgage Bonds (FMB) rating, and Senior Secured Notes (the Notes) rating on Énergir Inc. (Énergir or the Company) at "A." DBRS Morningstar also confirmed the Commercial Paper (CP) rating at R-1 (low). All trends are Stable. The FMB, the Notes, and the secured credit facility backstopping the CP program are guaranteed by Énergir, L.P. (the Partnership). The Company is the general partner of the Partnership and serves as its financing entity. The rating confirmations are based on the stability of Énergir, L.P.'s regulated businesses operating in the Province of Québec (Québec or the Province; rated AA (low) with a Stable trend by DBRS Morningstar) and the State of Vermont.

Énergir, L.P.'s business risk assessment was unchanged in 2020. While the ongoing Coronavirus Disease (COVID-19) pandemic negatively affected the Partnership's volumes and throughputs for the year, earnings remained relatively stable, benefitting from revenue decoupling mechanisms in place at Énergir-QDA, the regulated natural gas distributor operating in Québec, and Green Mountain Power Corporation (GMP), the regulated electricity distributor operating in Vermont. As such, DBRS Morningstar expects Énergir, L.P.'s earnings and cash flow to be steady and to increase in line with the growing rate base.

The Partnership's key credit metrics weakened in F2020, with the debt-to-capital ratio spiking to 68.6% from 66.4% in F2019. This increase was partly because of continued capital expenditures (capex) at Standard Solar Inc. (Standard Solar), a nonregulated subsidiary focused on solar generation (capex of around $250 million in F2020). Standard Solar was spun off from Énergir in October 2020, which led to a reduction of around $235 million of debt at Énergir, L.P. and reduced capex funding needs. As such, DBRS Morningstar expects the Partnership's key credit metrics to be stable over the medium term and to remain in line with the "A" rating category. A positive rating action for Énergir is unlikely given the regulatory environments and the current key credit metrics of Énergir, L.P. A negative rating action could occur if the metrics weakened to a level no longer commensurate with the "A" rating category.

Financial Information

Énergir, L.P.	12 mos. to Dec. 31	For the year ended September 30				
	2020	**2020**	**2019**	**2018**	**2017**	**2016**
Cash flow/total debt (%)[1]	14.5	13.4	15.1	17.8	16.0	16.8
Total debt in capital structure (%)[1, 2]	67.2	68.6	66.4	65.3	64.7	66.5
EBIT gross interest coverage (times)[1, 3]	2.41	2.34	2.16	2.53	2.32	2.44

1 Adjusted for operating leases.
2 Adjusted for accumulated other comprehensive income.
3 Includes distributions received from companies subject to significant influence.

Issuer Description

Énergir 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 and has financial interests in transmission, storage, gas, and other underground systems enterprises. Énergir, L.P. is 71% owned by Énergir Inc.

Rating Considerations

Strengths

1. Supportive regulatory frameworks

The regulatory framework in Québec is viewed as supportive, reflecting the following factors: (A) full recovery of gas supply costs through an automatic monthly adjustment mechanism, (B) rate stabilization accounts to mitigate revenue fluctuations because of the weather, (C) reasonable authorized return on equity (ROE) and capital structure ratio, and (D) a revenue decoupling mechanism. For the utilities in Vermont, GMP benefits from a revenue decoupling mechanism while Vermont Gas Systems, Inc. (VGS) has a weather normalization mechanism.

2. Reasonable financial profile

The Partnership's consolidated financial profile has remained reasonable for the current ratings, including a cash flow-to-debt ratio of 14.5% and an EBIT-interest coverage ratio of 2.41 times (x) for the last 12 months ended December 31, 2020 (LTM F2021). Although the consolidated debt-to-capital ratio of 67.2% was relatively weak for the current ratings, DBRS Morningstar expects this to improve throughout F2021. Énergir, L.P.'s nonconsolidated ratios also remained consistent with the "A" rating category (cash flow-to-debt ratio of 13.2%, debt-to-capital ratio of 56.9%, and EBIT-interest coverage ratio of 1.72x).

3. Cash flow diversification

The Partnership benefits from a large base of regulated utility assets, including (A) gas distribution in Québec; (B) U.S. electricity and natural gas 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 (Transco); (D) financial interest in three natural gas transportation enterprises, namely Trans Québec & Maritimes Pipeline Inc. (TQM; rated A (low) with a Stable trend by DBRS Morningstar), Portland Natural Gas Transmission System (PNGTS), and Champion Pipe Line Corporation Limited (Champion); and (E) financial interests in wind power projects.

Challenges

1. Industrial customers are sensitive to economic conditions

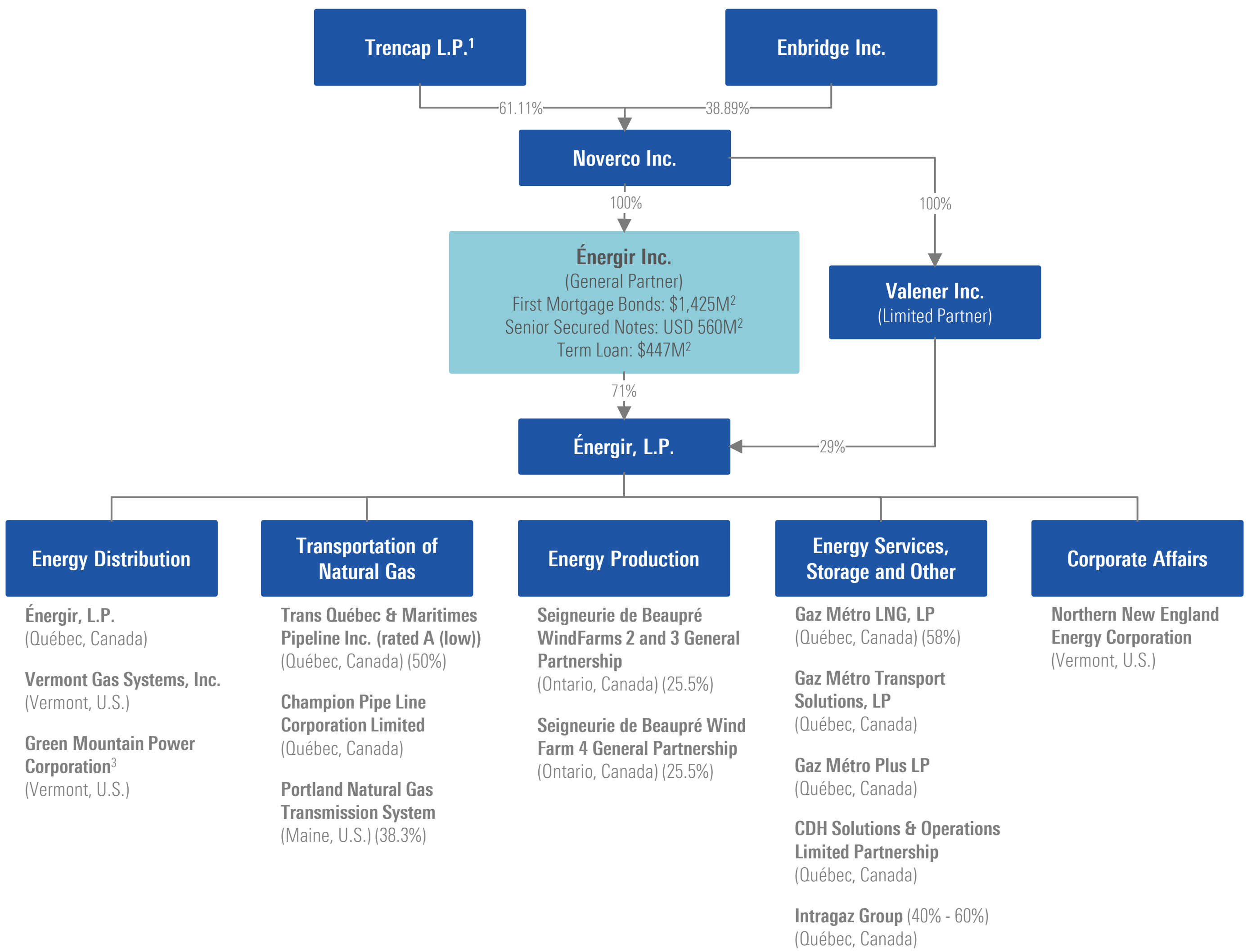
In Québec, approximately 60% of natural gas distribution is consumed by industrial customers, whose consumption is highly sensitive to economic conditions. A significant reduction in demand from these customers could affect the Partnership's distribution revenues; however, this risk is mitigated by firm service contracts of more than one year with many of these customers providing guaranteed payment of a significant portion of distribution services, regardless of their levels of consumption. Firm service contracts account for more than 80% of all industrial volume consumption, which provides the Partnership with sufficient time to reallocate its revenue requirement among customer classes if necessary. Additionally, with the introduction of a revenue decoupling mechanism for F2020, revenues should be even more stable going forward as volume risk will be significantly reduced.

2. Risk associated with inaccurate cost projection

A shortfall between earned net income and allowed net income may arise if the actual cost for the Partnership to provide its regulated services is higher than the projected cost. If the difference between actual and projected costs is significant, there could be a material negative impact on the Partnership's credit metrics; however, given the long operating history of this utility, DBRS Morningstar believes that the probability of a materially inaccurate cost projection is low.

Organizational Chart

Simplified Organizational Chart



1 The general partner of Trencap L.P. is Caisse de dépôt et placement du Québec (rated AAA with a Stable trend by DBRS Morningstar), which, as a limited partner of Trencap L.P., holds 64.74% of its units. The other limited partners are Fonds de solidarité des travailleurs du Québec (19.10%), British Columbia Investment Management Corporation (14.66%), and the Régime de retraite de l'Université du Québec (1.50%).
2 FMBs, Senior Secured Notes, and the term loan at Énergir Inc. are guaranteed by Énergir, L.P. Balances are as at December 31, 2020.
3 Significant ownership interest in Vermont Transco LLC (direct and indirect totalling 77.0%) and Vermont Electric Power Company, Inc. (38.8% direct).
Source: Énergir Inc.'s 2020 Annual Information Form.

- Énergir Inc. is the financing vehicle for Énergir, L.P., with funds raised by the Company loaned to the Partnership on similar terms and conditions.
  - Given the mirror-like structure of the financing, the only substantive difference between the two entities is the $892.8 million of subordinated debt at Énergir (intercompany debt from Noverco Inc., not shown in the above chart).

    - Failure to pay interest or principal on the subordinated debt would not cause either acceleration of that debt or a cross default to senior debt. Consequently, the subordinated debt is treated as equity by DBRS Morningstar.
- The trust deeds stipulate that all of the Partnership's interest in nonregulated energy-related activities and non-energy-related activities must not be more than 10% of its total nonconsolidated assets (8.12% as at September 30, 2020). As for non-energy-related activities, the Partnership's interest in such activities may not exceed 5% of its total nonconsolidated assets (none as at September 30, 2020).

Consolidated Earnings and Outlook

Énergir, L.P.	12 mos. to Dec. 31	For the year ended September 30				
(CAD millions where applicable)	**2020**	**2020**	**2019**	**2018**	**2017**	**2016**
Net revenues	1,189	1,200	1,134	1,119	1,094	1075
EBITDA[1]	627	631	584	623	583	598
EBIT[2]	257	246	224	274	259	273
Gross interest expense	165	165	167	159	156	158
Net operating earnings after tax[2]	57	41	36	96	78	103
Equity earnings	164	163	151	137	129	124
Net income before nonrecurring items	210	213	211	235	228	225
Reported net income	213	215	256	216	241	278
ROE	10.4	10.6	10.7	12.1	12.4	13.0
Segmented Reported EBITDA[2]						
Énergir-QDA	n/a	300	335	315	329	316
VGS and GMP	n/a	231	146	195	164	193
Natural Gas Transportation	n/a	2	2	2	2	2
Energy Production	n/a	(8)	(15)	(10)	(4)	(1)
Energy Services, Storage, and Other	n/a	10	13	18	12	6
Subtotal	**n/a**	**535**	**481**	**520**	**503**	**515**
Corporate and Other	n/a	(11)	(15)	(11)	(15)	(11)
Total EBITDA	**n/a**	**524**	**467**	**508**	**487**	**505**
Regulated rate base[3]	2,287	2,142	2,157	2,118	2,044	1,956
Deemed common equity[3]	38.5	38.5	38.5	38.5	38.5	38.5
Allowed ROE[3]	8.90	8.90	8.90	8.90	8.90	8.90

1 Adjusted for operating leases.
2 Excludes earnings from equity investments.
3 For Énergir-QDA only.

F2020 Summary

- The vast majority of the Partnership's earnings are generated by low-risk regulated utilities and pipelines supported by long-term contracts.
- Énergir, L.P.'s EBITDA and EBIT increased in F2020.

    - Earnings for Énergir-QDA decreased following the approval of less favourable parameters for the 2020 rate case, including lower income taxes recovered through rates and a lower return on non-rate base investments. Earnings in F2019 also included $10.6 million of overearnings.
    - EBITDA for GMP and VGS increased significantly because of higher rates approved for the year and because F2019 earnings were negatively affected by the U.S. tax reform that reduced collections from customers.
    - DBRS Morningstar notes that, although the coronavirus pandemic had a negative effect on volumes delivered during the year, the revenue decoupling mechanisms in place for Énergir-QDA and GMP ensured revenues were unaffected.
- Overall, net income before nonrecurring items was stable year over year.

F2021 Summary and Outlook

- Earnings for LTM 2021 were largely stable, with higher earnings for Énergir-QDA from the growing rate base offset by lower earnings from GMP, which had a lower approved ROE for the year.
    - Synergies from GMP's merger with Central Vermont Public Service (completed in 2012) will now also be fully to the account of customers rather than shared 50/50.
- DBRS Morningstar expects earnings for F2021 to be relatively stable, reflecting the regulated nature of most of the Partnership's operations.
    - Earnings for Énergir-QDA are expected to be steady as it operates under a revenue decoupling mechanism, with any overearnings or shortfalls in revenues to be returned or collected from customers and reducing volatility from weather.
    - Earnings for GMP are expected to be modestly lower because of a lower approved ROE for the year, offsetting growth in the rate base.

Consolidated Financial Profile

Énergir, L.P.	12 mos. to Dec. 31	For the year ended September 30				
(CAD millions where applicable)	**2020**	**2020**	**2019**	**2018**	**2017**	**2016**
Net income before nonrecurring items	210	213	211	235	228	225
Depreciation & amortization	388	403	380	373	327	327
Distributions received	139	140	135	126	102	112
Equity earnings	(164)	(163)	(151)	(137)	(129)	(124)
Deferred income taxes and other	22	(6)	20	56	39	50
Cash flow from operations	**596**	**587**	**596**	**653**	**567**	**590**
Distributions to partners	(304)	(217)	(216)	(216)	(204)	(197)
Capex	(617)	(675)	(618)	(459)	(573)	(691)
Gross free cash flow	**(325)**	**(305)**	**(238)**	**(22)**	**(210)**	**(298)**
Change in working capital	(26)	(55)	(1)	(20)	13	18
Change in regulatory assets	(115)	(66)	82	(9)	(20)	(79)
Net free cash flow	**(467)**	**(425)**	**(157)**	**(51)**	**(217)**	**(359)**
Acquisitions & long-term investments	30	(14)	(39)	(85)	(8)	(56)
Net change in equity	67	30	38	15	140	(5)
Net change in debt	318	384	231	61	135	382
Other investing and financing	31	30	(10)	5	(1)	19
Change in cash	**(22)**	**5**	**63**	**(55)**	**49**	**(19)**
Total debt	4,113	4,393	3,948	3,659	3,526	3,497
Cash flow/total debt (%)[1]	14.5	13.4	15.1	17.8	16.0	16.8
Total debt in capital structure (%)[1, 2]	67.2	68.6	66.4	65.3	64.7	66.5
EBIT gross interest coverage (x)[1, 3]	2.41	2.34	2.16	2.53	2.32	2.44
Dividend payout ratio (%)	144.6	101.8	102.3	92.2	89.4	87.7
Nonconsolidated Metrics						
Cash flow/total debt (%)[1]	13.2	13.8	18.1	18.7	17.7	16.6
Total debt in capital structure (%)[1, 2]	56.9	56.7	54.7	55.1	54.9	56.7
EBIT gross interest coverage (x)[1, 3]	1.72	1.68	1.80	2.07	2.31	2.11

1 Adjusted for operating leases.
2 Adjusted for accumulated other comprehensive income.
3 Includes distributions received from companies subject to significant influence.

F2020 Summary

- Key credit metrics for Énergir, L.P. weakened in F2020 because of the increase in debt load. However, the metrics continued to remain supportive of the "A" rating.
    - The Partnership's nonconsolidated debt-to-capital ratio of 56.7% was largely in line with the regulatory capital structure of 46% equity (including 7.50% of preferred shares).
- Cash flow from operations was in line with F2019 results.
- Capex remained elevated from investments made by Standard Solar for solar power projects.

- The Partnership distributed more than 90% of net income to its limited partners. Under the Partnership Agreement, Énergir, L.P. will not distribute any less than 85% of its net income before nonrecurring items to its partners, except under extraordinary circumstances.
- The Partnership funded its net free cash flow deficit mainly through debt issuances.

F2021 Summary and Outlook

- Énergir, L.P.'s key credit metrics improved for LTM 2021 because of the lower debt load for the period.
    - In October 2020, the Partnership disposed of Standard Solar to an entity under common control. As part of the disposition, approximately $235 million of debt was removed from the balance sheet.
    - The Partnership also received a $50 million capital contribution in December 2020.
- Cash flow from operations were stable for the period.
- Capex decreased as Q1 2020 included $72 million of investments made by Standard Solar.
    - Énergir, L.P. has forecast capex of approximately $400 million for the year ($129 million spent as of Q1 2021), with the majority to be used for Énergir-QDA to extend the existing network.
- DBRS Morningstar expects the Partnership's key credit metrics to improve for F2021.
    - Énergir, L.P.'s leverage should return to more normalized levels following an additional $50 million capital contribution received in January 2021.

Debt and Liquidity

Long-Term Debt

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

Consolidated Debt Maturities

As at December 31, 2020	2021	2022	2023	2024	2025	Thereafter	Total
Énergir	150	165	0	448	227	1,595	**2,585**
Northern New England Energy Corporation	0	64	0	0	0	64	**128**
VGS	1	1	1	1	1	144	**149**
GMP	2	175	1	22	0	994	**1,194**
Other	0	0	1	0	12	0	**13**
Subtotal	**153**	**405**	**3**	**471**	**240**	**2,797**	**4,069**
Financial costs							(16)
Total							**4,053**

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

Covenants and Restrictions

- The Partnership’s long-term trust deeds and other agreements contain covenants that restrict its issuance of any long-term debt if such issuance would result in its long-term debt-to-total capitalization ratio exceeding 65% and its long-term debt interest coverage ratio being less than 1.5x (both on a nonconsolidated basis).

- If the Partnership's long-term debt-to-capitalization ratio exceeds 75% (on a nonconsolidated basis), it will not make a distribution to its partners.
- As of September 30, 2020, the Partnership's nonconsolidated long-term debt-to-total capitalization ratio and nonconsolidated long-term debt interest ratio were 54.4% and 3.36x, respectively.
- The Partnership's interests in nonregulated energy-related activities and non-energy-related activities must not be more than 10% of its total nonconsolidated assets (8.1% at September 30, 2020), and its interest in such activities may not exceed 5% of its total nonconsolidated assets. As at December 31, 2020, the Partnership had no interest in such activities.

Credit Facility

Credit Facility (Nonconsolidated)

(CAD millions)—As at December 31, 2020	Maturity	Committed	Draw/CP Backstop	Letters of Credit	Available
Secured Term Loan	March 2024	800.0	447.8	29.3	**322.9**

- Énergir has an $800 million secured term loan facility maturing in March 2024 that supports the Company's CP program.
  - Énergir has an investment policy in place such that CP maturities will not exceed an aggregate amount of $35 million for two consecutive business days to ensure that the $50 million swingline facility, which is available under its credit facility, maintains adequate liquidity to backstop the CP program.
  - The debt issued under the term loan facility is guaranteed by the Partnership.

Description of Operations

The Partnership's main business segments are described below.

1. Energy Distribution (87.0% of reported adjusted F2020 net income, excluding Corporate Affairs)

- The Partnership's regulated natural gas distribution utility in Québec, Énergir-QDA (38.4% of reported adjusted F2020 net income, excluding Corporate Affairs), delivers 97% of the Province's natural gas consumed and serves more than 209,000 customers.
- GMP is the largest electricity distributor in Vermont, serving more than 266,000 customers. GMP generates, transports, distributes, purchases, and sells electricity as well as provides electric network construction services in Vermont. GMP also transports electricity in New Hampshire and generates relatively small amounts of electricity in New York, Maine, and Connecticut.
- VGS is the sole gas distributor in Vermont, serving more than 50,000 customers and providing other energy-related services, including increased energy efficiency by renovating natural gas equipment.

2. Natural Gas Transportation (11.6% of reported adjusted F2020 net income, excluding Corporate Affairs)

- TQM (50% owned) operates a gas pipeline in Québec that connects upstream with TransCanada PipeLines Limited (TCPL; rated A (low) with a Stable trend by DBRS Morningstar) and downstream with PNGTS and the Énergir-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 (38% owned) originates at the Québec border and extends to the suburbs of Boston.

3. Electricity Production (0.0% of reported adjusted F2020 net income, excluding Corporate Affairs)

- This segment consists of nonregulated energy production activities related to Wind Farms 2, 3, and 4 as well as Standard Solar activities.
- Wind Farms 2 and 3 are an equal-share joint venture (JV) of Boralex Inc. and Beaupré Éole General Partnership. Beaupré Éole General Partnership is 51% owned by the Partnership, and the remaining 49% is owned by Valener Inc. As a result, the Partnership owns 25.5% of the equity interest in Wind Farms 2 and 3. The JV's core business includes owning and operating wind farms with an installed capacity of 272 megawatts (MW). All electricity generated is sold to Hydro-Québec (rated AA (low)/R-1 (middle) with Stable trends by DBRS Morningstar) under an agreement that expires in 2033.
- Wind Farm 4 is an equal-share JV of Boralex Inc. and Beaupré Éole 4. Beaupré Éole 4 is 51% owned by Énergir, L.P., and the remaining 49% is owned by Valener Inc. As a result, Énergir, L.P. owns 25.5% of the equity interest. Wind Farm 4 owns and operates a wind farm with an installed capacity of 68 MW. All electricity generated is sold to Hydro-Québec under an agreement that expires in 2034.
- The Partnership acquired Standard Solar in April 2017. Standard Solar develops and owns solar power systems, the power from which is sold to customers under long-term power purchase agreements. Standard Solar also provides contractor and operating services.
    - On October 1, 2020, Énergir Inc. disposed of Standard Solar to a company under common control.

4. Energy Services, Storage, and Other (1.4% of reported adjusted F2020 net income, excluding Corporate Affairs)

- Through subsidiaries, the Partnership (A) sells natural gas as fuel for transportation; (B) develops liquefied natural gas marketing and production activities to market compressed natural gas; (C) offers natural gas-powered appliance sales, leases, and maintenance services; and (D) operates the Montréal Thermal Plant that supplies heat and air conditioning to the downtown area. The activities related to energy services are not regulated.
- The Partnership owns an indirect interest in Intragaz Ltd., whose main activity is underground natural gas storage and is regulated on a cost-of-service (COS) basis by the Régie de l'énergie (the Régie).

Regulation

1. Énergir-QDA—Regulated by the Régie

- DBRS Morningstar considers the regulatory framework in Québec as supportive:
    - Natural gas supply costs are fully passed on to customers through an automatic monthly adjustment mechanism;
    - All transportation costs charged by TCPL are included in the costs of Énergir-QDA and are reflected in its transportation rates;

    - Énergir-QDA is allowed to recover the cost of providing its service and to earn a reasonable rate of return on its rate base; and
    - Énergir-QDA has been subject to the Cap-and-Trade System regulation effective January 1, 2015. The compliance cost is fully passed on to ratepayers.

- The following table summarizes the key regulatory parameters for Énergir-QDA:

Énergir-QDA	F2021	F2020	F2019	F2018
Average rate base (CAD millions)	2,287	2,196	2,157	2,118
Deemed equity (including 7.5% of preferred shares) (%)	46	46	46	46
Authorized ROE (on common equity) (%)	8.90	8.90	8.90	8.90

- In March 2019, the Régie approved Phase I of Énergir-QDA's F2020 rate case.
    - Énergir-QDA had submitted a proposal that would ease the regulatory process by introducing multiyear treatments of certain rate-setting parameters.
    - The Régie approved operating expenses for F2020 to F2022 to be subject to an indexation formula comprising a price index (75% provincial hourly wages and earnings index, 25% provincial consumer price index) and customer growth, adjusted by a discount factor of 0.75.
    - The Régie also renewed the authorized ROE of 8.9% for F2020.
- In November 2019, the Régie issued its decisions on Phase 2 of the F2020 rate case.
    - The Régie renewed the authorized ROE of 8.9% for F2020 to F2022 and rate base of $2.2 billion for F2020 for a total revenue requirement of $790.9 million.
    - The decision led to a 14.6% decrease in rates for customers through (1) reimbursement of balances in regulatory deferral accounts, (2) return of overearnings from previous years, and (3) lower TCPL rates.
    - The Régie also approved a revenue decoupling mechanism, with all variances between approved and actual revenues to be returned or collected from customers. DBRS Morningstar expects the revenue decoupling mechanism to provide more stable revenues for Énergir-QDA, reducing volume risk.
    - The earnings sharing mechanism was also updated, with overearnings and underearnings shared 75% to Énergir-QDA and 25% to customers for the first 50 basis points (bps), and 50%/50% beyond the first 50 bps.
- In November 2020, the Régie approved Énergir-QDA's 2021 rate case, approving a 2% increase in base rates based on an average rate base of $2,287 million and an ROE of 8.9%.

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

- GMP and VGS are regulated by the VPUC.
    - Electricity prices for GMP are adjusted annually using a rate-adjustment mechanism.
    - Natural gas prices for VGS are adjusted quarterly using a rate-adjustment mechanism.

- The following table summarizes the key regulatory parameters for the two Vermont utility subsidiaries:

	F2021			F2020			F2019		
	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	49.5	8.20	1,631 million	49.5	9.06	1,622 million	49.9	9.30	1,558 million
VGS	49	8.65	264 million	50	9.20	265 million	50	8.50	255 million

GMP

- In June 2018, GMP filed a proposal to adopt a new multiyear regulation plan.
    - In May 2019, the VPUC approved a three-year regulation plan for GMP for F2020 to F2022, effective October 1, 2019.
    - Under the three-year plan, base rates are based on a three-year forecast of all costs with increases to be smoothed based on the average rate for each fiscal year.
    - Rates will be adjusted annually for power supply costs and revenue forecasts and their corresponding impact on taxes.
    - The allowed ROE will be adjusted annually based on 50% of the change in the 10-year U.S. Treasury bond yield.
    - For F2020, rates will increase by 2.72% based on ROE of 9.06% and deemed equity of 49.5%.
    - For F2021, rates were unchanged based on ROE of 8.20% and deemed equity of 49.9%.

VGS

- VGS was subject to an Alternative Regulation Plan for F2019, which included a natural gas cost quarterly adjustment mechanism. A new multiyear plan was filed for F2021 but was delayed because of uncertainty related to the ongoing coronavirus pandemic.
- In October 2019, the VPUC approved VGS's application for rates effective November 1, 2019.
    - Distribution rates increased by 5.0% based on an average rate base of USD 264.7 million, allowed ROE of 9.20%, and deemed equity of 50%.
- In September 2020, the VPUC approved VGS's application for rates effective November 1, 2020.
    - Distribution rates increased by 2.9% based on an average rate base of USD 263.9 million, allowed ROE of 8.65%, and deemed equity of 50%.

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

- Transco, which is 77.0% indirectly owned by the Partnership, owns transmission assets in Vermont.
- Transco operates under a COS framework regulated by the FERC that allows it to recover all prudently incurred operating costs. Transco is not exposed to any volume or commodity risk.
    - Complaints filed to the FERC about the New England Transmission Owner’s allowed ROE led to a reduction in the base ROE.
    - Although the lower ROE will reduce the revenues collected by Transco through the ISO New England Inc. Transmission, Markets, and Services 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.
- 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 Morningstar does not anticipate changes to the 1991 Vermont Transmission Agreement.

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

TQM—Regulated by the NEB

- In April 2017, TQM (50% owned) reached a multiyear settlement agreement with its interested parties, establishing the mechanisms for determining TQM's annual revenue requirements for 2017–21.
  - 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 rating report dated November 13, 2020, for more details).

Champion—Regulated by the NEB

- Champion (100% owned) operates two natural gas pipelines that cross the Ontario border and supply Énergir's distribution system in northwestern Québec.
- Its activities are regulated by the NEB with tolls based on an annual COS methodology.
  - Champion uses an ROE and capital structure equivalent to those approved by the Régie for Énergir-QDA (the deemed equity component was set at 46% and the authorized ROE was set at 8.90% for F2021).

PNGTS—Regulated by the FERC

- PNGTS (38.3% owned) originates at the Québec border and extends to the suburbs of Boston.
- PNGTS is regulated by the FERC on a COS basis.

Assessment of Regulatory Framework

Criteria	Score	Analysis
1. Deemed Equity	Excellent **Good** Satisfactory Below Average Poor	Énergir-QDA has a deemed equity thickness of 46% (38.5% in common equity, 7.5% in preferred stock) for F2020 to F2022, unchanged since F2013.
2. Allowed ROE	Excellent Good **Satisfactory** Below Average Poor	The Régie set the ROE at 8.90% for F2020 to F2022, unchanged since F2013.
3. Energy Cost Recovery	**Excellent** Good Satisfactory Below Average Poor	There is no natural gas price risk for Énergir-QDA as purchase costs are passed on to ratepayers at rates set by the Régie. Énergir-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 preapproved 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. Effective F2020, there is a revenue decoupling mechanism that would further reduce volatility in revenues, such as weather-related volatility, reducing volume risk. DBRS Morningstar considers the inflation factor to be reasonable.
5. COS versus Incentive Rate Mechanism	Excellent **Good** Satisfactory Below Average Poor	Effective F2020, the Régie approved a three-year regulatory framework. DBRS Morningstar does not expect the change from a COS framework to have a material impact on the financial performance of the Partnership.
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	Énergir-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.

Balance Sheet—Énergir, L.P.

(CAD millions)	Dec. 31	Sep. 30	Sep. 30		Dec. 31	Sep. 30	Sep. 30
Assets	**2020**	**2020**	**2019**	**Liabilities & Equity**	**2020**	**2020**	**2019**
Cash & equivalents	36	64	96	Short-term borrowings	60	113	114
Accounts receivable	619	253	222	Current portion long-term debt	153	202	117
Inventories	100	105	91	Accounts payable	290	386	352
Other current assets	192	212	214	Other current liabilities	206	224	213
Total current assets	**947**	**634**	**623**	**Total current liabilities**	**708**	**925**	**797**
Net fixed assets	4,842	5,459	5,013	Long-term debt	3,900	4,078	3,716
Goodwill & intangibles	527	580	670	Regulatory liabilities	691	664	684
Regulatory assets	752	720	600	Other long-term liabilities	1,112	1,112	1,174
Investments & others	1,370	1,456	1,531	Minority interest	51	71	73
				Shareholders' equity	1,975	1,999	1,992
Total assets	**8,438**	**8,849**	**8,437**	**Total liabilities & equity**	**8,438**	**8,849**	**8,437**

Ratios—Énergir, L.P.

	12 mos. to Dec. 31	For the year ended September 30				
Balance Sheet & Liquidity & Capital Ratios	**2020**	**2020**	**2019**	**2018**	**2017**	**2016**
Current ratio	1.34	0.69	0.78	0.78	1.09	1.01
Total debt in capital structure (%)	67.0	68.0	65.6	64.7	64.4	65.9
Total debt in capital structure (%)[1, 2]	67.2	68.6	66.4	65.3	64.7	66.5
Cash flow/total debt (%)	14.5	13.4	15.1	17.9	16.1	16.9
Cash flow/total debt (%)[1]	14.5	13.4	15.1	17.8	16.0	16.8
(Cash flow—dividends)/capex	0.47	0.55	0.61	0.95	0.63	0.57
Dividend payout ratio (%)	144.6	101.8	102.3	92.2	89.4	87.7
Coverage Ratios (x)						
EBIT gross interest coverage	1.56	1.49	1.34	1.73	1.66	1.73
EBIT gross interest coverage[1, 3]	2.41	2.34	2.16	2.53	2.32	2.44
EBITDA gross interest coverage	3.80	3.82	3.50	3.93	3.74	3.79
Fixed-charge coverage	1.56	1.49	1.34	1.73	1.66	1.73
Debt/EBITDA	6.56	6.97	6.76	5.87	6.05	5.84
Profitability Ratios						
ROE (%)	10.4	10.6	10.7	12.1	12.4	23.1
Return on capital (%)[2]	5.4	5.4	5.6	6.1	6.0	10.6
EBITDA margin (%)	24.7	24.5	21.5	24.6	23.1	8.7
EBIT margin (%)	10.2	9.6	8.2	10.8	10.3	13.0
Profit margin (%)	8.3	8.3	7.8	9.3	9.0	6.3

1 Adjusted for operating leases.
2 Adjusted for accumulated other comprehensive income.
3 Includes distributions received from companies subject to significant influence.

Rating History

	Current	2020	2019	2018	2017	2016
Issuer Rating	A	A	A	A	A	A
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
First Mortgage Bonds[1]	A	A	A	A	A	A
Senior Secured Notes[1]	A	A	A	A	A	A

1 Guaranteed by Énergir, L.P.

Commercial Paper Limit

- $800 million.

Previous Actions

- "DBRS Morningstar Confirms Énergir Inc. at “A” and R-1 (low), Stable Trends," April 17, 2020.
- "DBRS Morningstar Assigns Rating of “A” with a Stable Trend to Énergir Inc.’s $300 Million First Mortgage Bonds," April 16, 2020.

Previous Report

Énergir Inc.: Rating Report, April 30, 2020.

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.dbrsmorningstar.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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