S&P Global
Ratings

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Energir Inc.

Primary Credit Analyst:
Matthew L O'Neill, New York + 1 (212) 438 4295; matthew.oneill@spglobal.com

Secondary Contact:
Minni Zhang, New York; minni.zhang@spglobal.com

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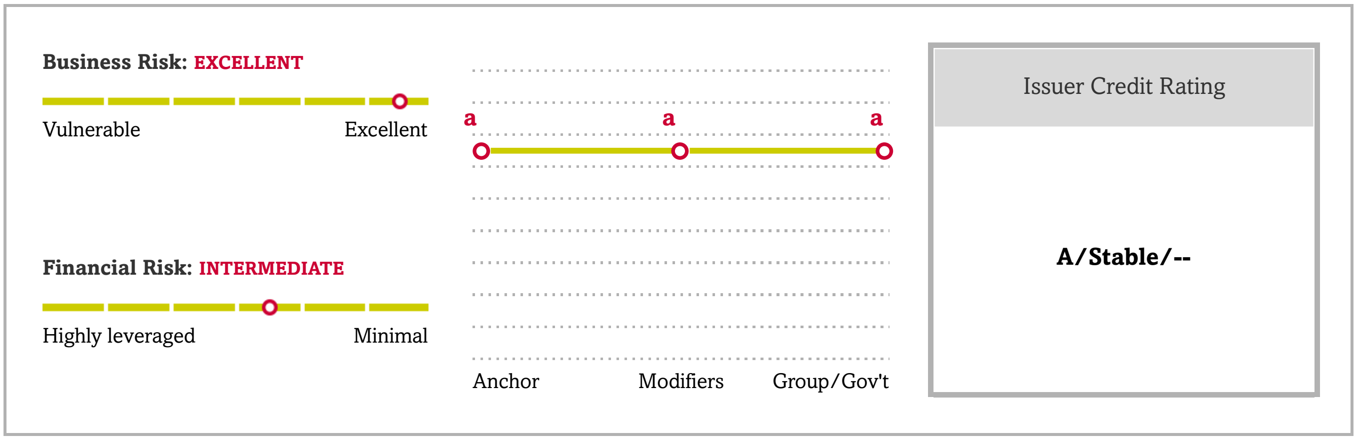

Credit Highlights

Overview

Key strengths	Key risks
Low-risk, regulated utility operations in natural gas and electricity distribution with limited commodity exposure.	Some exposure to nonutility operations that are susceptible to cash flow volatility.
Geographic and regulatory diversity with operations in multiple service territories, primarily in Quebec and Vermont.	Negative discretionary cash flow indicating external funding need.
Effective management of regulatory risk under generally supportive tariff structures and use of various regulatory mechanisms including decoupling.	

Energir Inc. continues to benefit from credit-supportive regulatory framework in Quebec and Vermont. Energir generates the majority of its cash flow from low-risk, regulated utility operations in Quebec and Vermont, which we view as credit-supportive jurisdictions. The use of regulatory mechanisms including decoupling and multiyear rate plan allows the company to recover incurred operational and capital expenses in a timely manner, which underpins the company's stable cash flows.

We expect the company has limited cushion in its credit metrics throughout our outlook period. We forecast Energir's funds from operations (FFO) to debt of about 14%-15% over our forecast period, which is in the lower end of the range for its financial risk profile category and near the current downside trigger of 14%.

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 and regulated utility operations throughout 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

We could lower Energir's rating over the next 12-24 months if:

- The company's credit metrics deteriorate, with adjusted FFO to debt weakening 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.
- The company's business risk weakens substantially. This could happen if the company materially increases its unregulated or generation operations.

Upside scenario

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 with adjusted FFO to debt consistently near or above 20%.

Our Base-Case Scenario

Assumptions

- Energir will continue using regulatory mechanisms supported by both Quebec and Vermont as well as the Federal Energy Regulatory Commission (FERC);
- Capital expenditure averaging about C$500 million throughout the outlook horizon; and
- Cash distributions (including dividends) averaging about C$290 million during the outlook period.

Key Metrics

	2021a	2022f	2023f
FFO/debt (%)	13.8	14.0-15.0	14.0-15.0
Debt/EBITDA (x)	5.2	5.0-5.5	5.0-5.5

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. FFO--Funds from operations.

Company Description

Energir provides electricity and natural gas energy services in Canada and the U.S. Energir mainly holds an investment of about 71% in Énergir L.P. (ELP), the General Partner and a financing vehicle. ELP is a diversified energy infrastructure and services company with more than C$8 billion in assets, serving over 520,000 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, its management of regulatory risk through various regulatory mechanisms including decoupling and multiyear rate plan, and its geographic and regulatory diversity with operations in multiple territories. The company operates under generally supportive tariff structures allowing recovery of prudently incurred operational and capital expenses in a timely manner, which provide stability to its cash flows. Under the credit-supportive regulatory framework in Quebec and Vermont, we expect the company continues to benefit from regulatory framework under both jurisdictions as well as FERC. Additionally, the company has limited exposure to commodity input prices because electricity and natural gas input costs remain a pass-through to ratepayers, which we view as supportive of the company's credit quality. Moreover, Energir does not have exposure to cast iron or bare steel in its pipeline infrastructure gas network, which mitigates the potential of gas leaks and explosions.

Energir's business strengths are partially offset by its investments in generation assets and nonutility operations that have higher business risk. We also believe the company's obligation to supply natural gas could lead to potential sourcing and operation risks.

Financial Risk: Intermediate

We assess Energir's financial risk profile using our low-volatility financial benchmarks, reflecting the company's lower-risk regulated electric and gas distribution operation and effective management of regulatory risk. Our base-case scenario includes continued use of regulatory mechanisms, capital spending averaging about C$500 million throughout the outlook horizon, cash distributions (including dividends) averaging about C$290 million during forecast period. We expect the company's financial measures to remain in the lower end of the benchmark range for the intermediate category, with FFO to debt of about 14%-15% throughout the outlook horizon, which is near the downgrade threshold of 14% leading to a limited cushion in its credit metrics.

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

- Cash on balance sheet of about C$46 million as of Sept. 30, 2021, excluding restricted cash and cash equivalents;
- Credit facility availability of about C$800 million; and
- Cash FFO of about C$560 million.

Principal liquidity uses

- Debt maturities of about C$290 million including both long-term and short-term debt;
- Capital expenditures of about C$600 million; and
- Cash distributions (including dividends) of about C$220 million.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have no material influence on our credit rating analysis of Energir Inc.

Issue Ratings - Recovery Analysis

Energir has secured utility bonds (first mortgage bonds [FMBs]) outstanding with maturities of 2022-2048. 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 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

	Financial Risk Profile					
Business 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 29, 2021)*

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/--

Ratings Detail (As Of December 29, 2021)*(cont.)	
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.