MORNINGSTAR | DBRS

Rating Report
Énergir, L.P.

DBRS Morningstar
May 10, 2022

Contents

Tom Li
+1 416 597-7378
tom.li@dbrsmorningstar.com

Adam Provencher
+1 416 597-7476
adam.provencher@dbrsmorningstar.com

Ratings

Issuer	Debt	Rating	Rating Action	Trend
Énergir, L.P.	Issuer Rating	A	Confirmed	Stable
Énergir, L.P.	First Mortgage Bonds	A	Confirmed	Stable
Énergir Inc.	Issuer Rating	A	Confirmed	Stable
Énregir Inc.	First Mortgage Bonds[1]	A	Confirmed	Stable
Énergir Inc.	Senior Secured Notes[1]	A	Confirmed	Stable
Énergir Inc.	Commercial Paper	R-1 (low)	Confirmed	Stable

1 Guaranteed by Énergir, L.P.

Rating Update

On April 20, 2022, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating and the First Mortgage Bonds (the FMB) rating of Énergir, L.P. (the Partnership) at "A." DBRS Morningstar also confirmed the Issuer Rating, FMBs and Senior Secured Notes (the Notes) ratings on Énergir Inc. (Énergir) at "A" and the Commercial Paper (CP) rating at R-1 (low). All trends are Stable. The Partnership is 71% owned by Énergir which serves as the general partner and was the financing entity for Énergir, L.P. Debt at Énergir (the FMBs, the Notes, and a credit facility that backstops the CP program) is guaranteed by the Partnership and ranks pari passu with the FMBs at the Partnership. The ratings of Énergir, L.P. are based on the stability of its 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.

Since the most recent review, there have been no material changes to Énergir or the Partnership's operations. Énergir, L.P.'s business risk assessment continues to be supported by its stable regulated operations in Québec and Vermont. The Partnership's key credit metrics have also improved as expected since the last review as it had spun off in October 2020 Standard Solar Inc. (Standard Solar), a nonregulated subsidiary focused on solar generation, which immediately led to a reduction of around $235 million of debt and reduced capital expenditures (capex) needs. DBRS Morningstar additionally notes the Trust Deed governing Énergir, L.P. includes a covenant where nonregulated energy activities and nonregulated activities cannot, respectively, exceed 10% and 5% of total assets (which, as at September 30, 2021, were at 2.12% and none, respectively). As such, barring an acquisition, DBRS Morningstar expects the Partnership's business and financial risk assessments to be very stable. A positive rating action is unlikely given the regulatory environments and the current key credit metrics of Énergir, L.P. DBRS Morningstar could consider a negative rating action if the metrics weakened to a level no longer commensurate with the "A" rating category.

Financial Information

	12 mos. to Dec. 31	For the year ended September 30				
	2021	**2021**	**2020**	**2019**	**2018**	**2017**
Cash flow/total debt (%)[1]	17.6	17.0	13.4	15.1	17.8	16.0
Total debt in capital structure (%)[1, 2]	65.2	65.1	68.6	66.4	65.3	64.7
EBIT gross interest coverage (times)[1, 3]	2.59	2.44	2.34	2.16	2.53	2.32

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, L.P. 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, Green Mountain Power Corporation (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 17.6%, an EBIT-interest coverage ratio of 2.59 times (x), and a debt-to-capital ratio of 65.2% for the last 12 months ended December 31, 2021 (LTM F2022). Énergir, L.P.'s nonconsolidated ratios also remained supportive of the current ratings (cash flow-to-debt ratio of 20.4%, debt-to-capital ratio of 54.6%, and EBIT-interest coverage ratio of 2.93x).

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

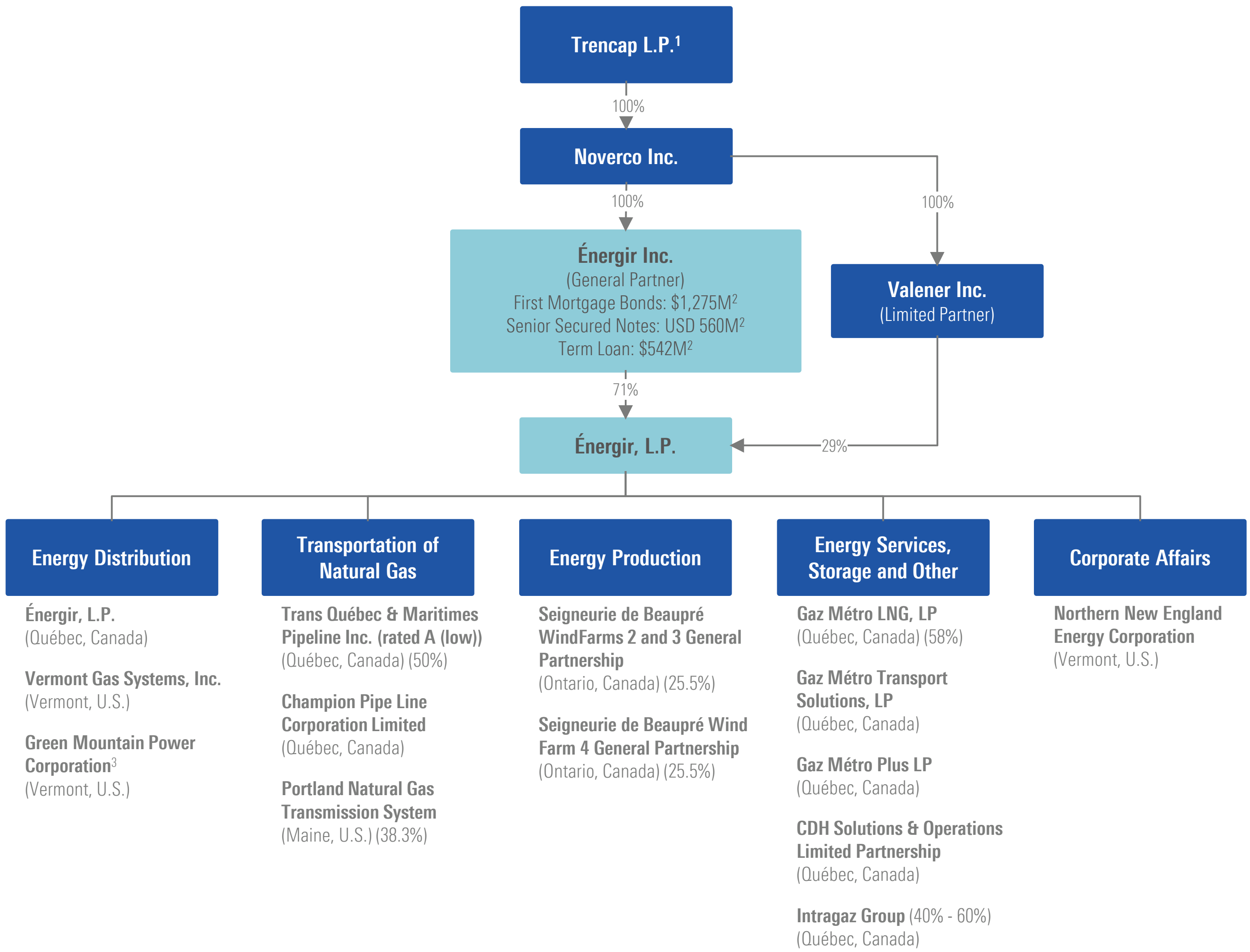
In Québec, approximately 60% of natural gas distribution is consumed by industrial customers, whose consumption is highly sensitive to economic conditions. A significant reduction in demand from these customers could affect the Partnership's distribution revenues; however, this risk is mitigated by firm 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 80.9% of its units. The other limited partner is Fonds de solidarité des travailleurs du Québec (19.1%).
2 The FMBs, the Notes, and the term loan at Énergir Inc. are guaranteed by Énergir, L.P. Balances are as at December 31, 2021.
3 Significant ownership interest in Vermont Transco LLC (direct and indirect totalling 76.8%) and Vermont Electric Power Company, Inc. (38.8% direct).
Source: Énergir Inc.'s 2021 Annual Information Form.

- Énergir Inc. was the financing vehicle for Énergir, L.P., with funds raised by Énergir 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, DBRS Morningstar treats the subordinated debt as equity.
- In February 2022, Énergir, L.P. issued $325 million of FMBs, with proceeds used to pay down outstanding CPs at Énergir. The FMBs at the Partnership ranks pari passu with the FMBs and the Notes at Énergir.

- 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 (2.12% as at September 30, 2021). 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, 2021).
- In December 2021, Enbridge Inc. (rated BBB (high) with a Stable trend by DBRS Morningstar) sold its 38.9% nonoperating minority interest in Noverco Inc. to Trencap L.P.

Consolidated Earnings and Outlook

	12 mos. to Dec. 31	For the year ended September 30				
(CAD millions where applicable)	**2021**	**2021**	**2020**	**2019**	**2018**	**2017**
Net revenues	1,245	1,199	1,200	1,134	1,119	1094
EBITDA[1]	693	649	631	584	623	583
EBIT[2]	243	231	246	224	274	259
Gross interest expense	146	149	165	167	159	156
Net operating earnings after tax[2]	51	33	41	36	96	78
Equity earnings	150	158	163	151	137	129
Net income before nonrecurring items	193	181	213	211	235	228
Reported net income	194	178	215	256	216	241
ROE	9.1	8.8	10.6	10.7	12.1	12.4
Segmented Reported EBITDA[2]						
Énergir-QDA	n/a	322	300	335	315	329
VGS and GMP	n/a	204	231	146	195	164
Natural Gas Transportation	n/a	2	2	2	2	2
Energy Production	n/a	(0)	(8)	(15)	(10)	(4)
Energy Services, Storage, and Other	n/a	13	10	13	18	12
Subtotal	**n/a**	**540**	**535**	**481**	**520**	**503**
Corporate and Other	n/a	(17)	(11)	(15)	(11)	(15)
Total EBITDA	**n/a**	**523**	**524**	**467**	**508**	**487**
Regulated rate base[3]	2,383	2,287	2,196	2,157	2,118	2,044
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.

F2021 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 increased in F2021.
    - Earnings for Énergir-QDA increased in line with growth in the rate base.
    - EBITDA for GMP and VGS decreased as synergies from the GMP–Central Vermont Public Service merger will now be fully accounted to customers, and a lower approved ROE.
    - 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 decreased because of higher depreciation from the growing rate base, partly offset by lower interest expense.

F2022 Summary and Outlook

- Earnings for LTM 2022 increased, benefitting from higher earnings for Énergir-QDA from the growing rate base as well as more favourable parameters for GMP and VGS. Earnings contributed by PNGTS also increased with new long-term contracts coming into place.
- The Partnership expects earnings in F2022 to increase in line with growth in the rate bases and the higher ROE for the Vermont utilities.
    - 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.

Consolidated Financial Profile

	12 mos. to Dec. 31	For the year ended September 30				
(CAD millions where applicable)	**2021**	**2021**	**2020**	**2019**	**2018**	**2017**
Net income before nonrecurring items	193	181	213	211	235	228
Depreciation & amortization	468	436	403	380	373	327
Distributions received	133	131	140	135	126	102
Equity earnings	(150)	(158)	(163)	(151)	(137)	(129)
Deferred income taxes and other	66	74	(6)	20	56	39
Cash flow from operations	**711**	**664**	**587**	**596**	**653**	**567**
Distributions to partners	(465)	(553)	(217)	(216)	(216)	(204)
Capex	(542)	(574)	(692)	(618)	(459)	(573)
Gross free cash flow	**(296)**	**(463)**	**(322)**	**(238)**	**(22)**	**(210)**
Change in working capital	(70)	(23)	(38)	(1)	(20)	13
Change in regulatory assets	(183)	(205)	(66)	82	(9)	(20)
Net free cash flow	**(549)**	**(691)**	**(425)**	**(157)**	**(51)**	**(217)**
Acquisitions & long-term investments	194	272	(14)	(39)	(85)	(8)
Net change in equity	399	450	30	38	15	140
Net change in debt	(64)	(92)	384	231	61	135
Other investing and financing	8	12	30	(10)	5	(1)
Change in cash	**(12)**	**(49)**	**5**	**63**	**(55)**	**49**
Total debt	4,034	3,913	4,391	3,948	3,659	3,526
Cash flow/total debt (%)[1]	17.6	17.0	13.4	15.1	17.8	16.0
Total debt in capital structure (%)[1, 2]	65.2	65.1	68.6	66.4	65.3	64.7
EBIT gross interest coverage (x)[1, 3]	2.59	2.44	2.34	2.16	2.53	2.32
Dividend payout ratio (%)	240.1	306.1	101.8	102.3	92.2	89.4
Nonconsolidated Metrics						
Cash flow/total debt (%)[1]	20.4	19.0	13.8	18.1	18.7	17.7
Total debt in capital structure (%)[1, 2]	54.6	54.2	56.7	54.7	55.1	54.9
EBIT gross interest coverage (x)[1, 3]	2.93	2.62	1.70	1.80	2.07	2.31

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

F2021 Summary

- Key credit metrics for Énergir, L.P. improved in F2021 following the disposition of Standard Solar in October 2020 which led to the removal of $235 million of debt from the balance sheet.
    - The Partnership's nonconsolidated debt-to-capital ratio of 54.2% was in line with the regulatory capital structure of 46% equity (including 7.50% of preferred shares).
- Cash flow from operations increased for the year.
- Capex decreased following the disposal of Standard Solar; this was partly offset by higher investment for GHG emission allowances under the Cap-and-Trade System.

- Excluding four payments totalling $288.6 million related to the disposal of Standard Solar, the Partnership distributed around 140% 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 received capital contributions totalling $450 million for the year, proceeds of which were partly used to repay a $150 million FMB maturity.

F2022 Summary and Outlook

- Énergir, L.P.'s key credit metrics were largely steady for LTM 2022.
    - The Partnership issued $115 million of term credit during the quarter to fund capex.
- Cash flow from operations increased tracking the higher net income.
- Capex decreased because of lower investments made by Énergir-QDA during the quarter.
    - Énergir, L.P. has forecast capex of approximately $589 million for the year ($97 million spent as of Q1 2022), with the majority to be used for Énergir-QDA to extend the existing network.
- Given the regulated nature of the Partnership's operations, DBRS Morningstar expects key credit metrics to remain stable in F2022.
- DBRS Morningstar continues to expect Énergir, L.P. to manage its capex through a prudent mix of debt and equity in order to maintain nonconsolidated leverage in line with the regulatory capital structure.

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, 2021	2022	2023	2024	2025	2026	Thereafter	Total
Énergir	164	0	0	226	542	1,592	**2,525**
Northern New England Energy Corporation	63	0	0	0	0	63	**126**
VGS	1	1	1	1	1	142	**148**
GMP	10	0	206	0	0	968	**1,184**
Other	0	2	0	11	0	0	**14**
Subtotal	**239**	**3**	**207**	**239**	**543**	**2,765**	**3,997**
Financial costs							(10)
Total							**3,987**

- The debt maturity schedule is reasonably spread out, with minimal refinancing risk over the next five years.
    - In February 2022, Énergir, L.P. issued $325 million of FMBs due February 2032.
- The FMBs and Notes issued by Énergir are guaranteed by the Partnership, and secured by a hypothec of first rank on the universality of the movable (personal) and immovable (real) property, present and future, of Énergir situated in the Province.
    - The FMBs and Notes issued by Énergir are also secured by FMBs of equivalent principal amount issued by Énergir, L.P. to the trustee of the Énergir trust deed.

- The FMBs issued by Énergir, L.P. are secured by a hypothec of first rank on the universality of the movable (personal) and immovable (real) property, present and future, of the Partnership situated in the Province, including Énergir, L.P.'s network of gas distribution and gas pipelines.
- As such, the FMBs issued by the Partnership rank pari passu with the FMBs and the Notes issued by Énergir.

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, 2021, the Partnership's nonconsolidated long-term debt-to-total capitalization ratio and nonconsolidated long-term debt interest ratio were 51.9% and 3.03x, 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 (2.12% at September 30, 2021), and its interest in such activities may not exceed 5% of its total nonconsolidated assets. As at September 30, 2021, the Partnership had no interest in such activities.

Credit Facility

Credit Facility

(CAD millions)—As at December 31, 2021	Maturity	Committed	Draw/CP Backstop	Letters of Credit	Available
Énergir Inc. Secured Term Loan	Jun-2026	800.0	542.2	27.3	**230.5**
Énergir, L.P. Revolving Lines of Credit	-	50.0	-	-	**50.0**
Total		**850.0**	**542.2**	**27.3**	**280.5**

- Énergir has an $800 million secured term loan facility maturing in June 2026 that supports its 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.
- The Partnership also has a uncommitted revolving credit facility of $50 million; this facility was undrawn as at December 31, 2021.

Description of Operations

The Partnership's main business segments are described below.

1. Energy Distribution (87.9% of reported adjusted F2021 net income, excluding Corporate Affairs)

- The Partnership's regulated natural gas distribution utility in Québec, Énergir-QDA (50.1% of reported adjusted F2021 net income, excluding Corporate Affairs), delivers 97% of the Province's natural gas consumed and serves more than 216,000 customers.
- GMP is the largest electricity distributor in Vermont, serving more than 270,000 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 around 54,000 customers and providing other energy-related services, including increased energy efficiency by renovating natural gas equipment.

2. Natural Gas Transportation (11.7% of reported adjusted F2021 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 (5.4% of reported adjusted F2021 net income, excluding Corporate Affairs)

- This segment consists of nonregulated energy production activities related to Wind Farms 2, 3, and 4.
- 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.

4. Energy Services, Storage, and Other (-5.0% of reported adjusted F2021 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	F2022	F2021	F2020	F2019
Average rate base (CAD millions)	2,383	2,287	2,196	2,157
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 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%.
- In November 2021, the Régie approved Énergir-QDA's 2022 rate case, approving a 13.6% increase in base rates based on an average rate base of $2,383 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:

	F2022			F2021			F2020		
	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	50.4	8.57	1,664 million	49.9	8.20	1,631 million	49.5	9.06	1,622 million
VGS	50	8.80	263 million	50	8.65	264 million	50	9.20	265 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 F2021, rates were unchanged based on ROE of 8.20% and deemed equity of 49.9%.
    - For F2022, rates increased by 4.69% based on ROE of 8.57% and deemed equity of 50.4%.
- In September 2021, GMP filed a proposal to adopt a four-year regulation plan effective October 1, 2022.
    - The new multiyear regulation plan is largely modelled under the current plan with modifications to include transformative energy programs.

VGS

- VGS was subject to an Alternative Regulation Plan for F2019, which included a natural gas cost quarterly adjustment mechanism.
- In August 2021, the VPUC approved a new multiyear plan where natural gas costs will continue to be adjusted quarterly as well as the normalization mechanism for temperature-related impacts.
- 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%.
- In October 2021, the VPUC approved VGS's application for rates effective November 1, 2021.
    - Distribution rates increased by 1.95% based on an average rate base of USD 262.8 million, allowed ROE of 8.80%, and deemed equity of 50%.

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

- Transco, which is 76.8% 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 November 2021, TQM (50% owned) filed a new multiyear settlement agreement with its interested parties to establish the mechanisms for determining TQM's annual revenue requirements for 2022–23. A final decision is expected by end of 2022.

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 F2022).

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 - Énergir-QDA under the Régie

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.

Assessment of Regulatory Framework - GMP and VGS under 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 50.4% and 50%, respectively, for F2022.
2. Allowed ROE	Excellent Good **Satisfactory** Below Average Poor	The VPUC set the authorized ROE at 8.57% for GMP and 8.80% for VGS for F2022. The ROE is adjusted annually based on changes in the U.S. treasury rates.
3. Energy Cost Recovery	Excellent Good **Satisfactory** Below Average Poor	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. Effective F2020, there is a revenue decoupling mechanism for GMP that should reduce volatility in revenues, such as weather-related volatility, reducing volume risk.
5. COS versus Incentive Rate Mechanism	Excellent **Good** Satisfactory Below Average Poor	Rates for GMP and VGS are established based on multiyear 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 six-year terms.
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.

ESG Checklist

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		**Overall:**	**N**	**N**
	Emissions, Effluents, and Waste	Do we consider that the costs or risks for the issuer or its clients result, or could result, in changes to an issuerÆs financial, operational, and/or reputational standing?	N	N
	Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs and/or will such costs increase over time affecting the long term credit profile?	N	N
	Resource and Energy Management	Does the scarcity of sourcing key resources hinder the production or operations of the issuer, resulting in lower productivity and therefore revenues?	N	N
	Land Impact and Biodiversity	Is there a financial risk to the issuer for failing to effectively manage land conversion, rehabilitation, land impact, or biodiversity activities?	N	N
	Climate and Weather Risks	In the near term, will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact? In the long term, will the issuer's or client's business activities and infrastructure be materially affected financially by a 2C rise in temperature?	N	N
Social		**Overall:**	**N**	**N**
	Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services could pose a financial or regulatory risk to the issuer?	N	N
	Human Capital and Human Rights	Is the issuer exposed to staffing risks, such as the scarcity of skilled labour, uncompetitive wages, or frequent labour relations conflicts that could result in a material financial or operational impact?	N	N
		Do violations of rights create a potential liability that can negatively affect the issue's financial wellbeing or reputation?	N	N
		Human Capital and Human Rights	**N**	**N**
	Product Governance	Does failure in delivering quality products and services cause damage to customers and expose the issuer to financial and legal liability?	N	N
	Data Privacy and Security	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could it result, in financial penalties or client attrition to the issuer?	N	N
	Occupational Health and Safety	Would the failure to address workplace hazards have a negative financial impact on the issuer?	N	N
	Community Relations	Does engagement, or lack of engagement, with local communities pose a financial or reputational risk to the issuer?	N	N
	Access to Basic Services	Does a failure to provide or protect with respect to essential products or services have the potential to result in any significant negative financial impact on the issuer?	N	N
Governance		**Overall:**	**N**	**N**
	Bribery, Corruption, and Political Risks	Do alleged or actual illicit payments pose a financial or reputational risk to the issuer?	N	N
		Are there any political risks that could impact the issuer's financial position or its reputation?	N	N
		Bribery, Corruption, and Political Risks	**N**	**N**
	Business Ethics	Do general professional ethics pose a financial or reputational risk to the issuer?	N	N
	Corporate / Transaction Governance	Does the issuer's corporate structure allow for appropriate board and audit independence?	N	N
		Have there been significant governance failures that could negatively affect the issuer's financial wellbeing or reputation?	N	N
		Does the Board and/or management have a formal framework to assess climate-related financial risks to the issuer?	N	N
		Corporate / Transaction Governance	**N**	**N**
	Institutional Strength, Governance, and Transparency (Governments Only)	Compared with other governments, do institutional arrangements provide a similar degree of accountability, transparency, and effectiveness?	N	N
		Are regulatory and oversight bodies protected from inappropriate political influence?	N	N
		Are government officials exposed to public scrutiny and held to high ethical standards of conduct?	N	N
		Institutional Strength, Governance, and Transparency (Governments Only)	**N**	**N**
		Consolidated ESG Criteria Output:	**N**	**N**

Balance Sheet.

(CAD millions)	Dec. 31	Sep. 30	Sep. 30		Dec. 31	Sep. 30	Sep. 30
Assets	**2021**	**2021**	**2020**	**Liabilities & Equity**	**2021**	**2021**	**2020**
Cash & equivalents	29	46	64	Short-term borrowings	52	54	113
Accounts receivable	446	226	253	Current portion long-term debt	239	240	200
Inventories	126	125	88	Accounts payable	365	338	386
Other current assets	242	332	212	Other current liabilities	155	584	530
Total current assets	**844**	**729**	**616**	**Total current liabilities**	**811**	**1,216**	**1,229**
Net fixed assets	4,909	4,908	5,459	Long-term debt	3,743	3,619	4,078
Goodwill & intangibles	750	1,084	902	Regulatory liabilities	800	776	664
Regulatory assets	900	937	720	Other long-term liabilities	1,457	1,445	1,112
Investments & others	1,593	1,532	1,456	Minority interest	55	55	71
				Shareholders' equity	2,129	2,080	1,999
Total assets	**8,996**	**9,191**	**9,153**	**Total liabilities & equity**	**8,996**	**9,191**	**9,153**

Ratios

	12 mos. to Dec. 31	For the year ended September 30				
Balance Sheet & Liquidity & Capital Ratios	**2021**	**2021**	**2020**	**2019**	**2018**	**2017**
Current ratio	1.04	0.60	0.50	0.78	0.78	1.09
Total debt in capital structure (%)	64.9	64.7	68.0	65.6	64.7	64.4
Total debt in capital structure (%)[1, 2]	65.2	65.1	68.6	66.4	65.3	64.7
Cash flow/total debt (%)	17.6	17.0	13.4	15.1	17.9	16.1
Cash flow/total debt (%)[1]	17.6	17.0	13.4	15.1	17.8	16.0
(Cash flow—dividends)/capex	0.45	0.19	0.53	0.61	0.95	0.63
Dividend payout ratio (%)	240.1	306.1	101.8	102.3	92.2	89.4
Coverage Ratios (x)						
EBIT gross interest coverage	1.67	1.55	1.49	1.34	1.73	1.66
EBIT gross interest coverage[1, 3]	2.59	2.44	2.34	2.16	2.53	2.32
EBITDA gross interest coverage	4.76	4.37	3.82	3.50	3.93	3.74
Fixed-charge coverage	1.67	1.55	1.49	1.34	1.73	1.66
Debt/EBITDA	5.82	6.03	6.96	6.76	5.87	6.05
Profitability Ratios						
ROE (%)	9.1	8.8	10.6	10.7	12.1	23.1
Return on capital (%)[2]	4.9	4.7	5.4	5.6	6.1	10.3
EBITDA margin (%)	27.3	26.7	24.5	21.5	24.6	9.0
EBIT margin (%)	9.6	9.5	9.6	8.2	10.8	12.4
Profit margin (%)	7.6	7.4	8.3	7.8	9.3	6.0

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	2021	2020	2019	2018	2017
Énergir, L.P.	Issuer Rating	A	NR	NR	NR	NR	NR
Énergir, L.P.	First Mortgage Bonds	A	NR	NR	NR	NR	NR
Énergir Inc.	Issuer Rating	A	A	A	A	A	A
Énergir Inc.	First Mortgage Bonds[1]	A	A	A	A	A	A
Énergir Inc.	Senior Secured Notes[1]	A	A	A	A	A	A
Énergir Inc.	Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

1 Guaranteed by Énergir, L.P.

Commercial Paper Limit

- Énergir Inc.: $800 million.

Previous Actions

- "DBRS Morningstar Assigns Rating of "A" With a Stable Trend to Énergir, L.P. and Its $325 Million First Mortgage Bonds," February 9, 2022.
- "DBRS Morningstar Confirms Énergir Inc. at "A" and R-1 (low) With Stable Trends," April 20, 2021.

Previous Report

Énergir Inc.: Rating Report, May 6, 2021.

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.

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 3,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why DBRS Morningstar is the next generation of credit ratings.

Learn more at dbrsmorningstar.com.

MORNINGSTAR | DBRS

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: https://www.dbrsmorningstar.com/research/225752/highlights.pdf.

The DBRS Morningstar group of companies are wholly-owned subsidiaries of Morningstar, Inc.