MORNINGSTAR | DBRS

Rating Report
Énergir, L.P.

DBRS Morningstar
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Contents

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Énergir Inc.	Commercial Paper	Discontinued	Discontinued-Withdrawn	--

1 Guaranteed by Énergir, L.P.

Rating Update

On April 20, 2023, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating and the First Mortgage Bonds (the FMBs) rating of Énergir, L.P. (the Partnership) at "A" and the Commercial Paper (CP) rating at R-1 (low). DBRS Morningstar also confirmed the Issuer Rating, FMBs, and Senior Secured Notes (the Notes) ratings of Énergir Inc. at "A." All trends are Stable. Debt at Énergir Inc. (the FMBs and Notes) is guaranteed by Énergir, L.P. and ranks pari passu with the FMBs at the Partnership. Following the establishment of the CP program at Énergir, L.P., DBRS Morningstar has discontinued and withdrawn the CP rating at Énergir Inc.

The ratings of Énergir, L.P. are largely based on the Partnership's regulated natural gas distribution operations in the Province of Québec (Québec or the Province; rated AA (low) with a Stable trend by DBRS Morningstar) and the State of Vermont (Vermont), and regulated electricity generation, transmission, and distribution operations in Vermont. DBRS Morningstar continues to view the regulatory framework in Québec under the Régie de l'énergie (the Régie) to be reasonable for the current ratings. In May 2022, the Régie approved Phase 1 of a dual energy offering between Énergir, L.P and Hydro-Québec (rated AA (low) with a Stable trend by DBRS Morningstar). Under the joint offering, the Partnership will be compensated over a 15-year period by Hydro-Québec for revenue shortfalls from certain new buildings and existing customers who convert to using dual energy (e.g., using natural gas and electricity for space and water heating). DBRS Morningstar notes the joint agreement should provide earnings stability to Énergir, L.P. over the medium term.

Énergir, L.P.'s key credit metrics have remained stable and supportive of the "A" rating category. DBRS Morningstar notes, under the Partnership's trust deed, nonregulated energy activities and nonregulated activities cannot, respectively, exceed 10% and 5% of total assets (2.42% and none as at September 30, 2022), which has led to very stable earnings and cash flows. As such, barring an acquisition, DBRS Morningstar expects Énergir, L.P.'s business and financial risk assessments to remain steady. A positive rating action is unlikely given the regulatory environments and the current key credit metrics. 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				
	2022	2022	2021	2020	2019	2018
Cash flow/total debt (%)[1]	18.1	17.8	17.0	13.4	15.1	17.8
Total debt in capital structure (%)[1, 2]	67.8	68.1	65.1	68.6	66.4	65.3
EBIT gross interest coverage (times)[1, 3]	2.72	2.88	2.44	2.34	2.16	2.53

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 18.1%, an EBIT-interest coverage ratio of 2.72 times (x), and a debt-to-capital ratio of 67.8% for the last 12 months ended December 31, 2022 (LTM F2023). Énergir, L.P.'s nonconsolidated ratios also remained supportive of the current ratings (cash flow-to-debt ratio of 21.6%, debt-to-capital ratio of 57.8%, and EBIT-interest coverage ratio of 2.94x).

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) and Under Review with Negative Implications 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

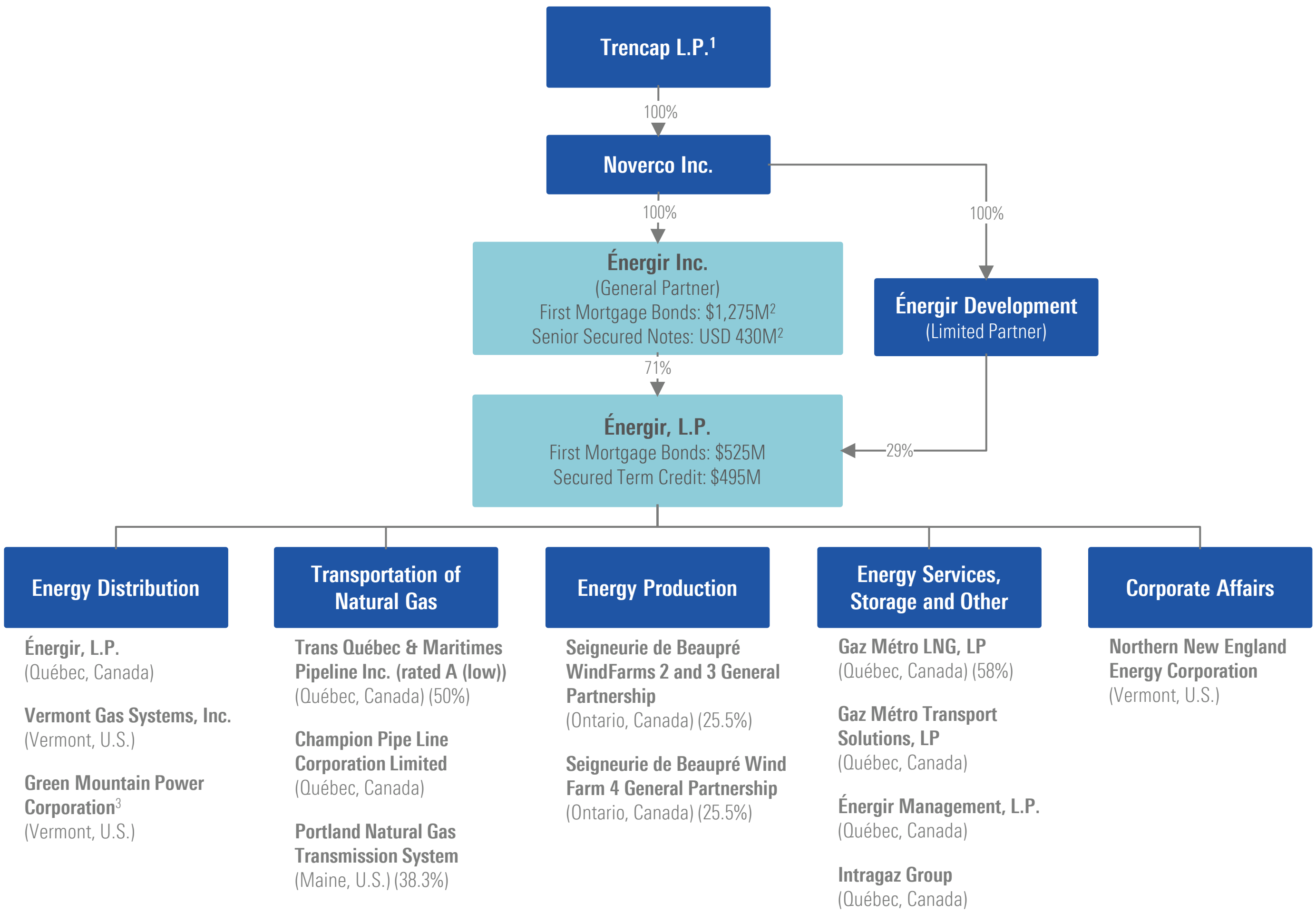
In Québec, approximately 60% of natural gas distribution is consumed by industrial customers, whose consumption is highly sensitive to economic conditions. A significant reduction in demand from these customers could affect the Partnership's distribution revenues; however, this risk is mitigated by firm 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, revenue stability from residential and commercial customers has benefitted from the revenue decoupling mechanism.

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 is Caisse de dépôt et placement du Québec which, as a limited partner of Trencap, holds 80.90% of its units. The other limited partner is Fonds de solidarité des travailleurs du Québec (F.T.Q.) (19.10%).
2 The FMBs, the Notes, and the term loan at Énergir Inc. are guaranteed by Énergir, L.P. Balances are as at December 31, 2022.
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 2022 Annual Information Form.

- Énergir Inc. was the financing vehicle for Énergir, L.P., with funds raised by Énergir Inc. 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.

- Going forward, FMBs will be issued at Énergir, L.P. In July 2022, the CP program was also moved to the Partnership. The FMBs at Énergir, L.P. ranks pari passu with the FMBs and the Notes at Énergir Inc.
- 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).

Consolidated Earnings and Outlook

	12 mos. to Dec. 31	For the year ended September 30				
(CAD millions where applicable)	**2022**	**2022**	**2021**	**2020**	**2019**	**2018**
Net revenues	1,386	1,342	1,199	1,200	1,134	1119
EBITDA[1]	789	761	649	631	584	623
EBIT[2]	251	256	231	246	224	274
Gross interest expense	146	140	149	165	167	159
Net operating earnings after tax[2]	67	76	33	41	36	96
Equity earnings	180	168	158	163	151	137
Net income before nonrecurring items	231	232	181	213	211	235
Reported net income	237	228	178	215	256	216
ROE	10.7	11.0	8.8	10.6	10.7	12.1
Segmented Reported EBITDA[2]						
Énergir-QDA	n/a	336	323	300	335	315
VGS and GMP	n/a	211	204	231	146	195
Natural Gas Transportation	n/a	3	2	2	2	2
Energy Production	n/a	(0)	(0)	(8)	(15)	(10)
Energy Services, Storage, and Other	n/a	17	13	10	13	18
Subtotal	**n/a**	**567**	**542**	**535**	**481**	**520**
Corporate and Other	n/a	(23)	(19)	(11)	(15)	(11)
Total EBITDA	**n/a**	**545**	**523**	**524**	**467**	**508**
Regulated rate base[3]	2,619	2,383	2,287	2,196	2,157	2,118
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 to remove amortization of greenhouse gas emission allowances from direct costs.
2 Excludes earnings from equity investments.
3 For Énergir-QDA only.

F2022 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 continued to grow in F2022.

    - Earnings for Énergir-QDA increased in line with growth in the rate base. Earnings are expected to be very predictable because of the revenue decoupling mechanism in place.
    - EBITDA for GMP and VGS increased because of growth in the rate base for GMP, and higher approved ROEs.
- Overall, net income before nonrecurring items decreased because of higher depreciation from the growing rate base, partly offset by lower interest expense.

F2023 Summary and Outlook

- Earnings for LTM 2022 were relatively stable, reflecting the largely regulated nature of the Partnership's operations.
- The Partnership expects earnings in F2023 to decrease modestly because of inflationary pressure on operating expenses and higher interest expense from the increase in debt load to fund the capital expenditures (capex) programs.
    - 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)	**2022**	**2022**	**2021**	**2020**	**2019**	**2018**
Net income before nonrecurring items	231	232	181	213	211	235
Depreciation & amortization	557	524	436	403	380	373
Distributions received	146	146	131	140	135	126
Equity earnings	(180)	(168)	(158)	(163)	(151)	(137)
Deferred income taxes and other	72	69	74	(6)	20	56
Cash flow from operations	**827**	**803**	**664**	**587**	**596**	**653**
Distributions to partners	(233)	(225)	(553)	(217)	(216)	(216)
Capex	(736)	(696)	(574)	(692)	(618)	(459)
Gross free cash flow	**(141)**	**(118)**	**(463)**	**(322)**	**(238)**	**(22)**
Change in working capital	8	(77)	(23)	(38)	(1)	(20)
Change in regulatory assets	(128)	(76)	(205)	(66)	82	(9)
Net free cash flow	**(261)**	**(271)**	**(691)**	**(425)**	**(157)**	**(51)**
Acquisitions & long-term investments	(22)	(57)	272	(14)	(39)	(85)
Net change in equity	0	(1)	450	30	38	15
Net change in debt	333	391	(92)	384	231	61
Other investing and financing	(42)	(41)	12	30	(10)	5
Change in cash	**8**	**21**	**(49)**	**5**	**63**	**(55)**
Total debt	4,569	4,508	3,912	4,391	3,948	3,659
Cash flow/total debt (%)[1]	18.1	17.8	17.0	13.4	15.1	17.8
Total debt in capital structure (%)[1, 2]	67.8	68.1	65.1	68.6	66.4	65.3
EBIT gross interest coverage (x)[1, 3]	2.72	2.88	2.44	2.34	2.16	2.53
Dividend payout ratio (%)	100.6	97.0	306.1	101.8	102.3	92.2

Nonconsolidated Metrics						
Cash flow/total debt (%)[1]	21.6	20.6	19.0	13.8	18.1	18.7
Total debt in capital structure (%)[1, 2]	57.8	58.1	54.2	56.7	54.7	55.1
EBIT gross interest coverage (x)[1, 3]	2.94	3.04	2.62	1.70	1.80	2.07

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

F2022 Summary

- Key credit metrics for Énergir, L.P. remained supportive of the "A" rating in F2022.
  - The Partnership's nonconsolidated debt-to-capital ratio of 58.1% was modestly higher than the regulatory capital structure of 46% equity (including 7.50% of preferred shares).
  - The higher consolidated and consolidated debt-to-capital for F2022 was because of the timing of a $200 million FMB issuance right at fiscal year end.
- Cash flow from operations increased tracking the higher net income for the year.
- Capex increased because of higher investment for greenhouse gas emission allowances under the cap-and-trade system (C&T).
- The Partnership distributed around 97% 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 had a net free cash flow deficit for the year because of the large capex program and required distributions.
  - The deficit was funded through a $325 million FMB issuance in February.
  - Énergir, L.P. also issued $200 million of FMB in September to repay a USD 130 million maturity from May.

F2023 Summary and Outlook

- Énergir, L.P.'s key credit metrics remained steady for LTM F2023.
- Cash flow from operations increased modestly.
- Capex continued to climb as the utilities invested in their networks.
  - Énergir, L.P. has forecast capex of approximately $955 million for the year ($137 million spent as of Q1 2023), with the increase largely because of higher prices associated with the C&T.
- Given the regulated nature of the Partnership's operations, DBRS Morningstar expects key credit metrics to remain stable in F2023.
  - The Partnership received an equity injection of $213 million in January 2023 in order to rebalance the capital structure.
- 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, 2022	2023	2024	2025	2026	2027	Thereafter	Total
Énergir			235		300	1,848	**2,383**
Northern New England Energy Corporation					68	68	**136**
VGS	1	1	1	35	1	117	**157**
GMP		195				1,120	**1,314**
Other	36	2	11			0	**50**
Subtotal	**38**	**198**	**248**	**35**	**369**	**3,152**	**4,039**
Financial costs							(18)
Total							**4,021**

- 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.
    - In September 2022, Énergir, L.P. issued $200 million of FMBs due September 2032.
- The FMBs and Notes issued by Énergir Inc. are guaranteed by the Partnership and are secured by a hypothec of first rank on the universality of the movable (personal) and immovable (real) property, present and future, of Énergir Inc. situated in the Province.
    - The FMBs and Notes issued by Énergir Inc. are also secured by FMBs of equivalent principal amount issued by Énergir, L.P. to the trustee of the Énergir Inc. 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 Inc.
- DBRS Morningstar notes, Énergir, L.P. intends to only issue FMBs at the Partnership level going forward.

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, 2022, the Partnership's nonconsolidated long-term debt-to-total capitalization ratio and nonconsolidated long-term debt interest ratio were 56.5% and 3.85x, 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 (2.42% at September 30, 2022), and its interest in such activities may not exceed 5% of its total nonconsolidated assets. As at September 30, 2022, the Partnership had no interest in such activities.

Credit Facility

Credit Facility

(CAD millions)—As at December 31, 2022	Maturity	Committed	Draw/CP Backstop	Letters of Credit	Available
Secured Term Loan	July-2027	800.0	493.8	22.2	**284.1**
Revolving Lines of Credit	Demand	50.0	-	-	**50.0**
Total		**850.0**	**493.8**	**22.2**	**334.1**

- Énergir, L.P. has an $800 million secured term loan facility maturing in July 2027 that supports its CP program.
    - The Partnership manages CP maturities to ensure that the $50 million swingline facility, which is available under its credit facility, maintains adequate liquidity to backstop the CP program.
- The Partnership also has an uncommitted revolving credit facility of $50 million; this facility was undrawn as at December 31, 2022.

Description of Operations

The Partnership's main business segments are described below.

1. Energy Distribution (77.0% of reported F2022 net income, excluding Corporate Affairs)

- The Partnership's regulated natural gas distribution utility in Québec, Énergir-QDA (43.6% of reported F2022 net income, excluding Corporate Affairs), delivers 97% of the Province's natural gas consumed and serves more than 210,000 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 55,000 customers and providing other energy-related services, including increased energy efficiency by renovating natural gas equipment.

2. Natural Gas Transportation (15.4% of reported F2022 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) and Under Review with Negative Implications 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 (4.6% of reported F2022 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 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 (2.9% of reported F2022 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, and (C) 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.

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.
    - Énergir-QDA has been subject to the C&T 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	F2023	F2022	F2021	F2020
Average rate base (CAD millions)	2,619	2,383	2,287	2,196
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 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%.
- In March 2022, the Régie approved Phase 1 of Énergir-QDA's F2023 to F2025 rate case.
    - Énergir-QDA had submitted a proposal to renew the multiyear treatment of certain rate-setting parameters, the revenue decoupling mechanism, and the earnings-sharing mechanism.
    - Operating expense will be subject to an indexation formula comprising a price index (75% provincial hourly wages and earnings index subject to a 4% cap, 25% provincial consumer price index) and customer growth, adjusted by a discount factor of 0.75.
    - Under the revenue decoupling mechanism, all variances between approved and actual revenues will be returned or collected from customers, 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 October 2022, the Régie renewed the authorized ROE of 8.9% and deemed equity of 46% for F2023.
- In November 2022, the Régie approved Énergir-QDA's 2023 rate case, approving a 6.52% increase in base rates based on an average rate base of $2,619 million.
- In May 2022, the Régie approved Phase 1 of a joint dual energy offering between the Partnership and Hydro-Québec.
    - Under the joint offering, Énergir, L.P. will be compensated by Hydro-Québec for shortfalls arising from lower natural gas deliveries over a 15-year period after converting customers or for new buildings to dual energy (e.g., use natural gas and electricity for space and water heating).
    - This agreement follows the Province's 2030 Plan for a Green Economy and has been recognized by a Québec government decree.

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:

	F2023			F2022			F2021		
	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	8.57	1,770 million	50.4	8.57	1,664 million	49.9	8.20	1,631 million
VGS	50	8.92	262 million	50	8.80	263 million	50	8.65	264 million

GMP

- In August 2022, the VPUC approved GMP's four-year regulation plan effective October 1, 2022.

- The multiyear regulation plan is largely modelled under the previous plan with modifications to include transformative energy programs.
- Base rates are based on a four-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 F2022, rates increased 4.69% based on ROE of 8.57% and deemed equity of 50.4%.
- For F2023, rates increased 2.18% based on ROE of 8.57% and deemed equity of 50%.

VGS

- In August 2021, the VPUC approved a multiyear plan where natural gas costs are adjusted quarterly as well as a normalization mechanism for temperature-related impacts.
- 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%.
- In October 2022, the VPUC approved VGS's application for rates effective November 1, 2022.
  - Distribution rates increased by 6.18% based on an average rate base of USD 261.7 million, allowed ROE of 8.92%, and deemed equity of 50%.
- In November 2022, VGS filed a revised multiyear plan with the VPUC for F2024 to F2026.
  - The plan is largely modelled under the previous plan with requests to include a temperature normalizing mechanism and an earnings-sharing mechanism.

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 February 2022, a new multiyear settlement agreement was approved to establish the mechanisms for determining TQM's (50% owned) annual revenue requirements for 2022–23.

Champion—Regulated by the NEB

- Champion (100% owned) operates two natural gas pipelines that cross the Ontario border and supply Énergir-QDA'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 F2023).

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 F2023 to F2025, unchanged since F2013.
2. Allowed ROE	Excellent Good **Satisfactory** Below Average Poor	The Régie set the ROE at 8.90% for F2023 to F2025, 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	Énergir-QDA operates under a three-year regulatory framework.
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% for F2023.
2. Allowed ROE	Excellent Good **Satisfactory** Below Average Poor	The VPUC set the authorized ROE at 8.57% for GMP and 8.92% for VGS for F2023. 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 nonpartisan 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.

Environmental, Social, and Governance (ESG) Credit Risk Considerations

Environmental

There were no environmental factors that had a relevant or significant effect on the credit analysis. For more details about which environmental factors could have an effect on the credit analysis, please refer to the following checklist. Énergir, L.P.'s business primarily involves the transportation and distribution of natural gas. The burning of natural gas results in carbon dioxide emissions. Over the long term, increasing restrictions on carbon dioxide emissions could result in decreased demand for natural gas.

Social

There were no social factors that had a relevant or significant effect on the credit analysis. For more details about which social factors could have an effect on the credit analysis, please refer to the following checklist.

Governance

There were no governance factors that had a relevant or significant effect on the credit analysis. For more details about which governance factors could have an effect on the credit analysis, please refer to the following checklist.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in *DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings* at https://www.dbrsmorningstar.com/research/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings.

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 the costs or risks result, or could result in changes to an issuer's 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?	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	Will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact?	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 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 limit 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
		Corporate / Transaction Governance:	**N**	**N**
	Institutional Strength, Governance, and Transparency (Governments Only)s	Compared with other governments, do institutional arrangements provide a higher or lesser degree of accountability, transparency, and effectiveness?	N	N
		Are regulatory and oversight bodies insufficiently protected from inappropriate political influence?	N	N
		Are government officials insufficiently exposed to public scrutiny or held to insufficiently high ethical standards of conduct?	N	N
		Institutional Strength, Governance, and Transparency (Governments Only)s:	**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	**2022**	**2022**	**2021**	**Liabilities & Equity**	**2022**	**2022**	**2021**
Cash & equivalents	35	73	46	Short-term borrowings	63	42	54
Accounts receivable	514	284	226	Current portion long-term debt	52	1	240
Inventories	151	190	125	Accounts payable	514	414	338
Other current assets	347	525	332	Other current liabilities	252	407	584
Total current assets	**1,047**	**1,073**	**729**	**Total current liabilities**	**882**	**864**	**1,216**
Net fixed assets	5,398	5,242	4,908	Long-term debt	4,453	4,464	3,619
Goodwill & intangibles	1,077	1,050	1,084	Regulatory liabilities	1,163	1,070	776
Regulatory assets	533	392	937	Other long-term liabilities	1,192	1,127	1,446
Investments & others	1,927	2,022	1,532	Minority interest	73	69	55
				Shareholders' equity	2,217	2,185	2,080
Total assets	**9,982**	**9,779**	**9,191**	**Total liabilities & equity**	**9,982**	**9,779**	**9,191**

Ratios

	12 mos. to Dec. 31	For the year ended September 30				
Balance Sheet & Liquidity & Capital Ratios	**2022**	**2022**	**2021**	**2020**	**2019**	**2018**
Current ratio	1.19	1.24	0.60	0.50	0.78	0.78
Total debt in capital structure (%)	66.6	66.7	64.7	68.0	65.6	64.7
Total debt in capital structure (%)[1, 2]	67.8	68.1	65.1	68.6	66.4	65.3
Cash flow/total debt (%)	18.1	17.8	17.0	13.4	15.1	17.9
Cash flow/total debt (%)[1]	18.1	17.8	17.0	13.4	15.1	17.8
(Cash flow—dividends)/capex	0.81	0.83	0.19	0.53	0.61	0.95
Dividend payout ratio (%)	100.6	97.0	306.1	101.8	102.3	92.2
Coverage Ratios (x)						
EBIT gross interest coverage	1.72	1.83	1.55	1.49	1.34	1.73
EBIT gross interest coverage[1, 3]	2.72	2.88	2.44	2.34	2.16	2.53
EBITDA gross interest coverage	5.41	5.45	4.37	3.82	3.50	3.93
Fixed-charge coverage	1.72	1.83	1.55	1.49	1.34	1.73
Debt/EBITDA	5.79	5.92	6.02	6.96	6.76	5.87
Profitability Ratios						
ROE (%)	N/A	11.0	8.8	10.6	10.7	24.6
Return on capital (%)[2]	N/A	5.3	4.7	5.4	5.6	10.8
EBITDA margin (%)	24.5	25.0	26.7	24.5	21.5	9.3
EBIT margin (%)	7.8	8.4	9.5	9.6	8.2	12.1
Profit margin (%)	7.2	7.6	7.4	8.3	7.8	6.1

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	2022	2021	2020	2019	2018
Énergir, L.P.	Issuer Rating	A	A	NR	NR	NR	NR
Énergir, L.P.	First Mortgage Bonds	A	A	NR	NR	NR	NR
Énergir, L.P.	Commercial Paper	R-1 (low)	R-1 (low)	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	Discontinued	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, L.P.: $800 million.

Previous Actions

- "DBRS Morningstar Assigns Rating of “A,” Stable, to Énergir, L.P.’s $200 Million First Mortgage Bonds Issuance," September 27, 2022.
- "DBRS Morningstar Assigns Rating of R-1 (low) with a Stable Trend to Énergir, L.P.’s Commercial Paper Program," July 13, 2022.
- "DBRS Morningstar Confirms Ratings of Énergir at "A" and R-1 (low) With Stable Trends," April 20, 2022.

Previous Report

Énergir Inc.: Rating Report, May 10, 2022.

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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