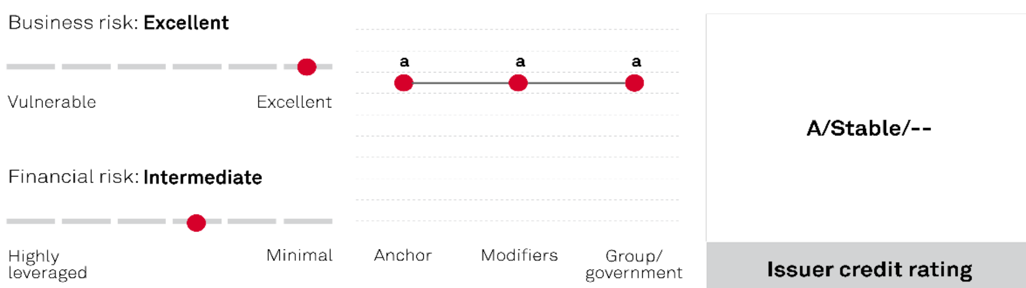
S&P Global
Ratings

RatingsDirect®

Energir Inc.

December 29, 2023

Ratings Score Snapshot



Primary contact

Omar El Gamal, CFA
Toronto
1-4165072523
omar.elgamal
@spglobal.com

Secondary contact

Matthew L O'Neill
New York
1-212-438-4295
matthew.oneill
@spglobal.com

Credit Highlights

Overview

Key strengths	Key risks
Low-risk, regulated natural gas and electricity distribution utility operations 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 Quebec and Vermont.	Negative discretionary cash flow indicates external funding needs.
Effective management of regulatory risk under generally supportive tariff structures and use of various regulatory mechanisms, including decoupling.	Commodity price may require effective management of regulatory risk.

Our rating reflects the company's credit-supportive regulatory frameworks in Quebec and Vermont. Energir generates the majority of its cash flow from its low-risk, regulated utility operations in Quebec and Vermont, which we view as credit-supportive jurisdictions. The company's use of regulatory mechanisms, including decoupling and multi-year rate plans (MYRPs), enable it to recover its incurred operational and capital expenses in a timely manner, which underpins the stability of its cash flows.

We expect the company's financial measures will remain above our downgrade trigger. We forecast Energir's funds from operations (FFO) to debt will be in the 15%-19% range through 2026. This is due to the periodic rate increases for Energir L.P. (QDA) and the MYRP increases at Green Mountain Power (GMP). We expect the company's capital expenditure (capex) will be about C$2.6 billion through 2026, largely for system maintenance and some rate-base growth.

In November 2023, the Quebec regulator Régie de l'énergie (Régie), increased QDA's rates by about C$27 million, while GMP's rates are set to increase by about $36 million effective October 2023, which will support the company's financial measures.

GMP's second-year rate increase demonstrates its effective management of regulatory risk. The Vermont Public Utility Commission (VPUC) approved GMP's request for an about $36 million increase in its rates. The requested second-year base rate increase under its four-year MYRP was considerably larger than the $15 million increase for the first year. This rate increase mainly reflects external pressures, such as rising power prices, interest rates, and inflation. Due to its limited owned generation resources, GMP's power purchase agreements (PPA) contain annual adjustments for higher costs, which have been affected by inflationary pressures. While a significant portion of the company's operational costs are locked for the term of the MYRP, some components are not fixed and are updated annually to incorporate inflation. Also, GMP was seeking to recover higher debt financing costs, which it will use to fund additional capex approved by the VPUC. We view the approval as highly supportive of the company's credit quality because its MYRP is flexible enough to incorporate inflationary pressures.

Outlook

The stable outlook reflects our expectation that Energir will maintain FFO to debt above our 14% downgrade threshold. The outlook also reflects our expectation that management will continue to focus on its core regulated business without experiencing any adverse regulatory decisions.

Downside scenario

We could lower our rating on Energir over the next 12-24 months if:

- The company's credit metrics deteriorate, including its S&P Global Ratings-adjusted FFO to debt falling below 14% and remaining at that level with no prospects for improvement. This could occur because of an adverse regulatory decision, a material debt-financed acquisition, or significant operating challenges; or
- The company's business risk weakens substantially. This could occur if it materially increases its unregulated or generation operations.

Upside scenario

We could raise our rating on Energir over the next 12-24 months if it demonstrates long-term, sustainable, and low-risk growth or improved financial measures, including S&P Global Ratings-adjusted FFO to debt of consistently near or above 20%.

Our Base-Case Scenario

Assumptions

- Energir continues to use the regulatory mechanisms provided by the regulators in both Quebec and Vermont;
- Capex of about C$850 million per year;
- Negative discretionary cash flows; and,
- All debt maturities are refinanced,

Key metrics

Energir Inc.--Forecast summary

Period ending	Sep-30-2020	Sep-30-2021	Sep-30-2022	Sep-30-2023	Sep-30-2024	Sep-30-2025	Sep-30-2026
(Mil. CAD)	2020a	2021a	2022a	2023a	2024e	2025f	2026f
Gross profit	1,200	1,199	1,342	1,439	1,650-1,700	1,700-1,750	1,700-1,750
EBITDA (reported)	630	649	752	808	950-1,00	950-1,00	950-1,00
EBITDA	786	797	915	1,024	1,150-1,200	1,150-1,200	1,150-1,200
Funds from operations (FFO)	624	628	758	830	900-950	900-950	900-950
Discretionary cash flow (DCF)	(872)	(668)	(271)	(378)	(350)-(300)	(300)-(250)	(300)-(250)
Adjusted ratios							
Debt/EBITDA (x)	6.0	5.2	5.0	4.8	4.0-4.5	4.5-5.0	4.5-5.0
FFO/debt (%)	13.3	15.0	16.5	16.8	17.0-19.0	16.0-18.0	15.0-17.0
FFO cash interest coverage (x)	4.8	5.4	6.2	5.3	4.5-5.0	4.5-5.0	4.5-5.0

Company Description

Energir provides electricity and natural gas energy services in Canada and the U.S. The company mainly holds an ownership stake of about 71% in Energir L.P. (ELP), the General Partner and a financing vehicle. ELP is a diversified energy infrastructure and services company with more than C$10 billion in assets serving over 520,000 customers. ELP's core operations are the distribution of natural gas in Quebec and Vermont and regulated electric transmission and distribution in Vermont. ELP also operates in the energy production and energy services and storage sectors.

Business Risk

Our assessment of Energir's business risk profile largely reflects its low-risk, regulated natural gas and electricity distribution utility operations, its management of its regulatory risk through the use of various regulatory mechanisms, including decoupling and MYRPs, and the geographic and regulatory diversity stemming from its operations in multiple territories. The company operates under generally supportive tariff structures that allow for the recovery of prudently incurred operational and capital expenses in a timely manner, which provide stability to its cash flows. We expect Energir will continue to benefit from the supportive regulatory frameworks in both Quebec and Vermont. Additionally, the company has a limited exposure to commodity input prices because it passes through its electricity and natural gas input costs to its ratepayers, which we view as supportive of its credit quality. Moreover, the company is not exposed to cast iron or bare steel in its pipeline infrastructure gas network, which mitigates the potential for gas leaks and explosions.

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

Financial Risk

We assess Energir's financial risk profile using our low-volatility financial benchmarks, which reflect its lower-risk, regulated electric and gas distribution operations and effective management of regulatory risk. Our base-case scenario assumes its continued use of regulatory mechanisms and capital spending of about C$2.6 billion through 2026. We expect the company's financial measures will remain in the middle of our benchmark range for the intermediate category, with FFO to debt of about 15%-19% throughout our outlook horizon.

Energir Inc.--Financial Summary

Period ending	Sep-30-2018	Sep-30-2019	Sep-30-2020	Sep-30-2021	Sep-30-2022	Sep-30-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	C$	C$	C$	C$	C$	C$
Revenues	2,554	2,720	2,569	2,434	3,045	3,262
EBITDA	788	737	786	797	915	1,024
Funds from operations (FFO)	625	557	624	628	758	830
Interest expense	135	156	164	146	139	183
Cash interest paid	155	165	164	144	145	193
Operating cash flow (OCF)	642	687	278	439	671	768
Capital expenditure	468	627	680	581	704	911
Free operating cash flow (FOCF)	174	60	(402)	(143)	(32)	(143)
Discretionary cash flow (DCF)	(65)	(176)	(872)	(668)	(271)	(378)
Cash and short-term investments	58	101	154	47	75	97
Gross available cash	58	101	154	47	75	97
Debt	3,880	4,268	4,702	4,179	4,585	4,942
Common equity	2,246	2,347	2,170	2,152	2,282	2,485
Adjusted ratios						
EBITDA margin (%)	30.9	27.1	30.6	32.7	30.0	31.4
Return on capital (%)	7.2	6.3	6.4	6.1	6.1	6.4
EBITDA interest coverage (x)	5.8	4.7	4.8	5.5	6.6	5.6
FFO cash interest coverage (x)	5.0	4.4	4.8	5.4	6.2	5.3
Debt/EBITDA (x)	4.9	5.8	6.0	5.2	5.0	4.8
FFO/debt (%)	16.1	13.0	13.3	15.0	16.5	16.8
OCF/debt (%)	16.5	16.1	5.9	10.5	14.6	15.6
FOCF/debt (%)	4.5	1.4	(8.6)	(3.4)	(0.7)	(2.9)
DCF/debt (%)	(1.7)	(4.1)	(18.6)	(16.0)	(5.9)	(7.7)

Reconciliation Of Energir Inc. Reported Amounts With S&P Global Adjusted Amounts (Mil. C$)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Sep-30-2023									
Company reported amounts	5,633	826	3,262	808	267	238	1,024	675	163	890
Cash taxes paid	-	-	-	-	-	-	(1)	-	-	-
Cash interest paid	-	-	-	-	-	-	(249)	-	-	-
Lease liabilities	12	-	-	-	-	-	-	-	-	-
Equity-like hybrids	(893)	893	-	-	-	(72)	72	72	72	-
Postretirement benefit obligations/ deferred compensation	42	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(97)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	2	(2)	(2)	-	(2)
Dividends from equity investments	-	-	-	178	-	-	-	-	-	-
Power purchase agreements	317	-	-	38	15	15	(15)	23	-	23
Nonoperating income (expense)	-	-	-	-	177	-	-	-	-	-
Noncontrolling/ minority interest	-	767	-	-	-	-	-	-	-	-
Debt: Debt serviced by third parties	(74)	-	-	-	-	-	-	-	-	-
Total adjustments	(691)	1,659	-	216	192	(55)	(195)	93	72	21

S&P Global Ratings adjusted	Debt	Equity	Revenue	EBITDA	EBIT	Interest expense	Funds from Operations	Operating cash flow	Dividends	Capital expenditure
	4,942	2,485	3,262	1,024	459	183	830	768	235	911

Liquidity

As of Sept. 30, 2023, we assess Energir's liquidity as adequate. We expect the company's sources of liquidity will be more than 1.1x its uses over the next 12 months and anticipate its net sources would remain positive even if its EBITDA declined by 10%. In our view, Energir has sound relationships with its banks and a generally satisfactory standing in the credit markets. In the unlikely event of liquidity distress, we expect the company would scale back its capital spending and cash distributions to preserve its liquidity position.

Principal liquidity sources

- Cash of about C$100 million
- Credit facility availability of about C$800 million; and
- Cash FFO of about C$830 million.

Principal liquidity uses

- Debt maturities of about C$30 million;
- Capex of about C$900 million; and
- Cash distributions (including dividends) of about C$250 million.

Environmental, Social, And Governance

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

Issue Ratings--Recovery Analysis

Key analytical factors

Energir has outstanding secured utility bonds (first-mortgage bonds [FMBs]). These FMBs are secured under trust deeds that contain a hypothec on Energir's assets. A first immovable hypothec on ELP's pipelines and gas distribution system also covers its creditors. We estimate the regulated capital value at Energir is 1.0x-1.5x of the secured utility bonds outstanding. This corresponds with a '1' recovery rating and an 'A' issue-level rating, which is the same level as our issuer credit rating on Energir.

Rating Component Scores

Foreign currency issuer credit rating	A/Stable/--
Local currency 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
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

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
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- ARCHIVE | Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- ARCHIVE | General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, 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, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (as of December 29, 2023)*

Energir Inc.	
Issuer Credit Rating	A/Stable/--
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/--
Commercial Paper	
Local Currency	A-1
Canada National Scale Commercial Paper	A-1(MID)
Green Mountain Power Corp.	
Issuer Credit Rating	A/Stable/--

Ratings Detail (as of December 29, 2023)*

*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.