MORNINGSTAR DBRS

# Rating Report
# Énergir, L.P.

**Morningstar DBRS**
May 17, 2024

**Contents**



**Commercial Paper Limit**
$800 million

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## Credit 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 |

1 Guaranteed by Énergir, L.P.

## Credit Ratings Drivers

| Positive Credit Rating Drivers | Negative Credit Rating Drivers |
|---|---|
| DBRS Limited (Morningstar DBRS) considers a positive rating action is unlikely given the regulatory environments in which the partnership operates and the current key credit metrics. | Morningstar DBRS could consider a negative rating action if the metrics weakened to a level no longer commensurate with the "A" rating category (i.e., cash flow-to-debt below 12.5%). |

## Key Credit Rating Considerations

The credit ratings of Énergir, L.P. (the Partnership) are based on its regulated natural gas distribution operations in the Province of Québec (Québec or the Province; rated AA (low) with a Stable trend by Morningstar DBRS) and the State of Vermont (Vermont), and regulated electricity generation, transmission, and distribution operations in Vermont. Debt at Énergir Inc., which includes First Mortgage Bonds (FMBs) and Senior Notes (the Notes), is guaranteed by Énergir, L.P. and ranks pari passu with the FMBs at the Partnership.

There were no material changes to the Partnership's regulatory framework or operations in the fiscal year ending September 30, 2023 (F2023), or so far in F2024. Morningstar DBRS continues to view regulation under the Régie de l'énergie (the Régie) in Québec and the Vermont Public Utility Commission (VPUC) as reasonable for the current ratings. Énergir, L.P. has continued its strategic plan to help decarbonize the economy, such as focusing on renewable natural gas. Morningstar DBRS remains encouraged by the joint offering with Hydro-Québec, under which the Partnership will be compensated over a 15-year period 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). In May 2023, the Régie additionally approved an application for dual energy offering for commercial and institutional customers. As such, Morningstar DBRS expects Énergir, L.P.'s earnings and cash flows to remain predictable over the medium term.

**Earnings Outlook**

Earnings for the Partnership have been stable, supported by its low-risk regulated utilities and pipelines under long-term contracts. Morningstar DBRS Notes, earnings for Énergir-QDA are also predictable because of the revenue decoupling mechanism in place, with any overearnings or shortfalls in revenues to be returned or collected from customers and reducing volatility from weather. For F2024, Morningstar DBRS expects earnings to increase moderately, tracking growth in the rate base and a higher approved rate of return for the Vermont utilities.

**Financial Outlook**

Similarly, Énergir, L.P.'s key credit metrics have also remained steady and supportive of the "A" rating. Morningstar DBRS notes that 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 manages its capital expenditures (capex) through a prudent mix of debt and equity injections in order to maintain nonconsolidated leverage in line with the regulatory capital structure of 46% (including 7.50% of preferred shares; 54.9% debt as at September 30, 2023). Morningstar DBRS expects Énergir, L.P.'s key credit metrics to remain steady in F2023.

Morningstar DBRS additionally notes, under the Partnership's trust deed, nonregulated energy activities and nonregulated activities cannot, respectively, exceed 10% and 5% of total assets (2.39% and none as at September 30, 2023), which has led to very stable earnings and cash flows. As such, barring an acquisition, Morningstar DBRS expects Énergir, L.P.'s business and financial risk assessments to remain steady.

**Financial Information**

| | 12 mos. to Dec. 31 | For the year ended September 30 | | | | |
|---|---|---|---|---|---|---|
| | 2023 | 2023 | 2022 | 2021 | 2020 | 2019 |
| Cash flow/total debt (%) | 17.4 | 17.3 | 17.8 | 17.0 | 13.4 | 15.1 |
| Total debt in capital structure (%)[1] | 67.0 | 67.0 | 68.1 | 65.1 | 68.6 | 66.4 |
| EBIT gross interest coverage (times)[1, 2] | 2.7 | 2.6 | 2.9 | 2.4 | 2.3 | 2.2 |

1 Adjusted for accumulated other comprehensive income.
2 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.

**Business Risk Assessment**

*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.

*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 BBB (high) with a Stable trend by Morningstar DBRS) and Champion Pipe Line Corporation Limited (Champion); and (E) financial interests in wind power projects.

*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.

**Financial Risk Assessment**

*Reasonable financial profile*

The Partnership's consolidated financial profile has remained reasonable for the current ratings, including a cash flow-to-debt ratio of 17.4%, an EBIT-interest coverage ratio of 2.7 times (x), and a debt-to-capital ratio of 67.0% for the last 12 months ended December 31, 2023 (LTM F2024). Énergir, L.P.'s nonconsolidated ratios also remained supportive of the current ratings (cash flow-to-debt ratio of 21.8%, debt-to-capital ratio of 55.4%, and EBIT-interest coverage ratio of 1.53x).

## Environmental, Social and Governance (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 under key IPCC climate scenarios up to a 2°C rise in temperature by 2050? | 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 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 issuer'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 affect 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 |
| | | **Consolidated ESG Criteria Output:** | N | N |

## ESG Considerations

### Environmental

There were no environmental factors that had a relevant or significant effect on the credit analysis. 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. Morningstar DBRS notes the Partnership has been investing in renewable natural gas to reduce greenhouse gas (GHG) emissions. Énergir, L.P. has also entered into an agreement with Hydro-Québec to be compensated over a 15-year term for customers who switch to using dual-energy.

### Social

There were no social factors that had a relevant or significant effect on the credit analysis. Morningstar DBRS notes that the Partnership provides an essential service in both Québec and Vermont. As such, any disruption in its operations could have significant impact on its reputation or result in financial penalties. Énergir, L.P. also patrols and monitors its network to ensure the safety of its natural gas network. The Partnership also has an Occupational Health, Safety, and Wellbeing Policy for the workplace to ensure safe and healthy working conditions.

### Governance

There were no governance factors that had a relevant or significant effect on the credit analysis. The Partnership's board is composed of at least a majority as independent directors. Énergir, L.P. also has a Corporate Governance, Ethics, and Environment Committee whose mandate is to identify risks, review and evaluate compliance with the Partnership's practices, and monitor trends and best practices.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in *Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings* at https://dbrs.morningstar.com/research/427030.

## Rating History

| | | Current | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|---|
| Énergir, L.P. | Issuer Rating | A | A | A | NR | NR | NR |
| Énergir, L.P. | First Mortgage Bonds | A | A | A | NR | NR | NR |
| Énergir, L.P. | Commercial Paper | R-1 (low) | R-1 (low) | R-1 (low) | 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 |

1 Guaranteed by Énergir, L.P.

## Previous Actions

- "DBRS Morningstar Assigns Rating of “A,” Stable, to Énergir, L.P.’s $400 Million First Mortgage Bonds Issuance," June 2, 2023.
- "DBRS Morningstar Confirms Ratings of Énergir at "A" and R-1 (low) With Stable Trends," April 20, 2023.

## Previous Report

- Energir Inc.: Rating Report, May 15, 2023.

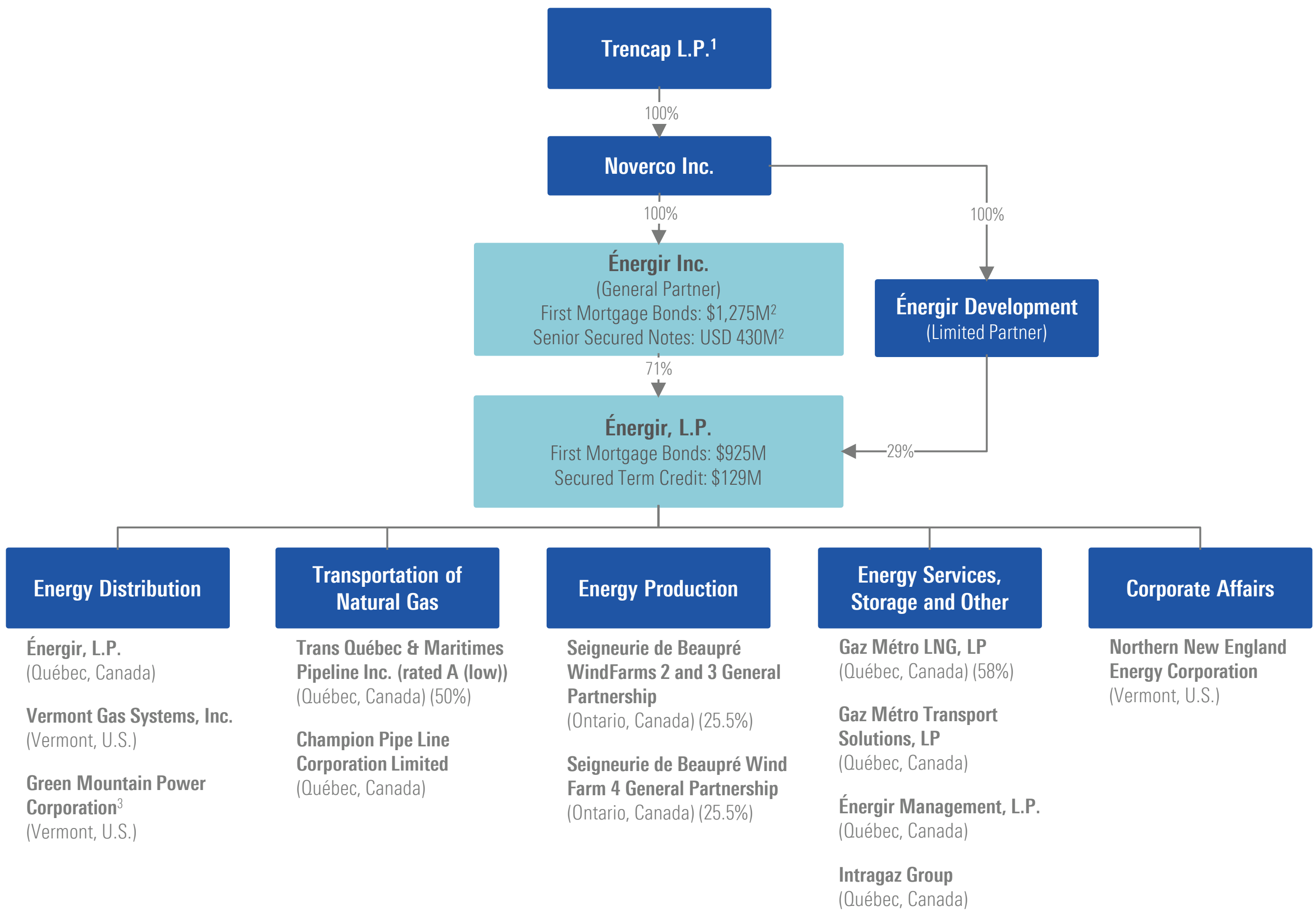
Notes:
All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on dbrs.morningstar.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.

# Appendix 1—Corporate Structure

**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, 2023.
3 Significant ownership interest in Vermont Transco LLC (direct and indirect totalling 77.25%) and Vermont Electric Power Company, Inc. (38.8% direct).
Source: Énergir Inc.'s 2023 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, Morningstar DBRS treats the subordinated debt as equity.

  - Going forward, FMBs will be issued at Énergir, L.P. 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 (2.39% as at September 30, 2023). 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, 2023).

**Description of Operations**

- **Energy Distribution:** (1) Énergir-QDA is a regulated natural gas distribution utility in Québec, delivering 97% of the Province's natural gas consumed and serves more than 210,000 customers; (2) GMP is the largest electricity distributor in Vermont, serving more than 270,000 customers; and (3) VGS is the sole gas distributor in Vermont, serving around 55,000 customers.
- **Natural Gas Transportation**: (1) TQM (50% owned) operates a gas pipeline in Québec that connects upstream with TransCanada PipeLines Limited (TCPL; rated BBB (high) with a Stable trend by Morningstar DBRS), and downstream with the Énergir-QDA system; and (2) Champion operates two gas pipelines that cross the Ontario-Québec border to supply the Partnership's distribution system in northwestern Québec. The Partnership announced in March 2024 it would be selling its minority interest in the Portland Natural Gas Transmission System to BlackRock.
- **Electricity Production**: This segment consists of nonregulated energy production activities related to Wind Farms 2, 3, and 4.
- **Energy Services, Storage and Other**: 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.

# Appendix 2—Debt and Liquidity

**Consolidated Debt Maturities**

| As at December 31, 2023 | 2023 | 2024 | 2025 | 2026 | 2027 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Énergir | | | | | | | |
| Northern New England Energy Corporation | | | | | | | |
| VGS | | | | | | | |
| GMP | | | | | | | |
| Other | | | | | | | |
| **Subtotal** | | | | | | | |
| Financial costs | | | | | | | |
| **Total** | | | | | | | |

- 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.
- Morningstar DBRS notes that Énergir, L.P. intends to issue FMBs only 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, 2023, the Partnership's nonconsolidated long-term debt-to-total capitalization ratio and nonconsolidated long-term debt interest ratio were 54.9% and 3.33x, 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 (2.39% at September 30, 2023), and its interest in such activities may not exceed 5% of its total nonconsolidated assets. As at September 30, 2023, the Partnership had no interest in such activities.

**Credit Facility**

| (CAD millions) - As at September 30, 2023 | Maturity | Committed | Draw/CP Backstop | Letters of Credit | Available |
|---|---|---|---|---|---|
| Secured term loan | Jul-2027 | 800.0 | 129.4 | 22.2 | 648.4 |
| Revolving lines of credit | Demand | 50.0 | - | - | 50.0 |
| **Total** | | **850.0** | **129.4** | **22.2** | **698.4** |

- Énergir, L.P. has an $800 million secured term loan facility maturing in July 2027 that supports its Commercial Paper (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, 2023.

# Appendix 3 — Regulation

### 1. Énergir-QDA — Regulated by the Régie

- Morningstar DBRS 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 cap and trade regulation effective January 1, 2015. The compliance cost is fully passed on to ratepayers.
  - There is a revenue decoupling mechanism, by which any overearnings or shortfalls in revenues are returned or collected from customers.
- The following table summarizes the key regulatory parameters for Énergir-QDA:

| Énergir-QDA | F2024 | F2023 | F2022 | F2021 | F2020 |
|---|---|---|---|---|---|
| Average rate base (CAD millions) | 2,672 | 2,619 | 2,383 | 2,287 | 2,196 |
| Deemed equity (including 7.5% of preferred shares) (%) | 46 | 46 | 46 | 46 | 46 |
| Authorized ROE (on common equity) (%) | 8.90 | 8.90 | 8.90 | 8.90 | 8.90 |

- 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 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:

| | F2024 | | | F2023 | | | F2022 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **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 | 9.58 | 1,853 million | 50 | 8.57 | 1,770 million | 50.4 | 8.57 | 1,664 million |
| **VGS** | 50 | 9.24 | 271 million | 50 | 8.92 | 262 million | 50 | 8.80 | 263 million |

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

- Transco, which is 77.25% 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.

### 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. TQM is currently negotiating a new agreement for 2024–25.

*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 F2024).

## Assessment of Regulatory Framework—Énergir-QDA Under the Régie

| Criteria | Score | Analysis |
|---|---|---|
| **1. Deemed Equity** | Excellent<br>**Good**<br>Satisfactory<br>Below Average<br>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<br>Good<br>**Satisfactory**<br>Below Average<br>Poor | The Régie set the ROE at 8.90% for F2023 to F2025, unchanged since F2013. |
| **3. Energy Cost Recovery** | **Excellent**<br>Good<br>Satisfactory<br>Below Average<br>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**<br>Good<br>Satisfactory<br>Below Average<br>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. Morningstar DBRS considers the inflation factor to be reasonable. |
| **5. COS versus Incentive Rate Mechanism** | Excellent<br>**Good**<br>Satisfactory<br>Below Average<br>Poor | Énergir-QDA operates under a three-year regulatory framework. |
| **6. Political Interference** | Excellent<br>**Good**<br>Satisfactory<br>Below Average<br>Poor | There has been no adverse legislation in the regulated natural gas utility sector in Québec. |
| **7. Stranded Cost Recovery** | Excellent<br>**Good**<br>Satisfactory<br>Below Average<br>Poor | Énergir-QDA has a limited history of stranded costs. |
| **8. Rate Freeze** | **Excellent**<br>Good<br>Satisfactory<br>Below Average<br>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**<br>Good<br>Satisfactory<br>Below Average<br>Poor | The VPUC allowed GMP and VGS to have a deemed equity of 50% for F2024. |
| **2. Allowed ROE** | Excellent<br>Good<br>**Satisfactory**<br>Below Average<br>Poor | The VPUC set the authorized ROE at 9.58% for GMP and 9.24% for VGS for F2023. The ROE is adjusted annually based on changes in the U.S. treasury rates. |
| **3. Energy Cost Recovery** | Excellent<br>Good<br>**Satisfactory**<br>Below Average<br>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<br>Good<br>**Satisfactory**<br>Below Average<br>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<br>**Good**<br>Satisfactory<br>Below Average<br>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<br>Good<br>**Satisfactory**<br>Below Average<br>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<br>**Good**<br>Satisfactory<br>Below Average<br>Poor | Utilities have a limited history of stranded costs. |
| **8. Rate Freeze** | **Excellent**<br>Good<br>Satisfactory<br>Below Average<br>Poor | Rates have never been frozen and are not expected to be frozen in the foreseeable future. |

**About Morningstar DBRS**

Morningstar DBRS 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 4,000 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.

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