

# Credit Rating Report

## Energir LP

### Morningstar DBRS

May 6, 2025

### Contents

- 1 Credit Ratings
- 1 Credit Rating Drivers
- 1 Key Credit Rating Considerations
- 2 Earnings Outlook
- 2 Financial Outlook
- 2 Financial Information
- 2 Issuer Description
- 3 Business Risk Assessment
- 3 Financial Risk Assessment
- 4 ESG Checklist & Considerations
- 5 Ratings History
- 5 Previous Report
- 7 Appendix 1: Corporate Structure
- 8 Appendix 2: Earnings, Financial Profile, Debt, and Liquidity
- 9 Appendix 3: Regulation

Eric Eng  
Senior Vice President  
+1 416 597-7578  
eric.eng@morningstar.com

Tanmay Tyagi  
Senior Analyst  
+1 416 597-7478  
tanmay.tyagi@morningstar.com

### Credit Ratings

Issuer	Obligation	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 <sup>1</sup>	A	Confirmed	Stable
Énergir Inc.	Senior Secured Notes <sup>1</sup>	A	Confirmed	Stable

<sup>1</sup> Guaranteed by Énergir, L.P.

### Credit Ratings Drivers

Positive Credit Rating Drivers	Negative Credit Rating Drivers
A positive rating action is unlikely given the regulatory environments in which the partnership operates and the current key credit metrics.	A negative rating action could be considered Énergir's business risk profile deteriorates significantly, or its metrics sustainably weaken to a level below the "A" rating category (i.e., cash flow-to-debt below 12.5%).

We confirmed the Issuer Rating and the First Mortgage Bonds (the FMBs) rating of Énergir, L.P. (the Partnership) at "A" and the Commercial Paper rating at R-1 (low). We 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. The rating confirmations reflect the Partnership's good liquidity, solid credit metrics, as well as its stable business risk profile, including supporting regulations in all jurisdictions in which the Partnership and its subsidiaries operate. The Stable trends take into account our expectation that the Partnership's credit metrics will continue to remain solid over the medium term.

### Key Credit Ratings Considerations

The credit ratings of Énergir, L.P. are based on the supportive regulatory frameworks governing its regulated natural gas distribution operations in the Province of Québec (Québec or the Province (rated AA (low) with a Stable trend) and also the reasonably supportive regulations in the State of Vermont (Vermont), which govern its regulated electricity generation, transmission, and distribution operations in Vermont. The ratings are also based on the Partnership's strong operational efficiency and reliability, as well as its solid financial profile.

We continue to view regulation under the Régie de l'énergie (the Régie) in Québec and the Vermont Public Utility Commission as reasonable and supportive for the current ratings. In line with Energir LP's strategic focus on developing climate resilience, Noverco (Énergir's holding company) received an additional equity commitment of \$575 million from CDPQ and FSFTQ. We remain encouraged by this

development as Energir LP expands its dual energy offering for commercial and industrial customers as this shall aid in managing peak demand and reducing greenhouse gas (GHG) emissions. Furthermore, the company is able to generate sustainable profits above the allowed return on equity (ROE) levels. As such, we expect Énergir, L.P.'s earnings and cash flows to remain predictable and solid over the medium term.

### Earnings Outlook

Earnings for the Partnership has been stable, supported by its low risk regulated utilities and pipelines under long-term contracts. We note that earnings for Énergir-QDA are also predictable because of no exposure to natural gas prices and the revenue decoupling mechanism in place, with any overearnings or shortfalls in revenues to be returned or collected from customers and reducing volatility in consumption from the weather. For the fiscal year 2025 (FY2025), we expect earnings to remain solid despite higher interest rates.

### Financials Outlook

Énergir, L.P.'s key credit metrics have also remained solid, steady and supportive of the "A" rating. We note, 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 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) and 54.9% debt as at September 30, 2024. We expect Énergir, L.P.'s key credit metrics to remain solid and steady in F2025.

We additionally note, under the Partnership's trust deed, nonregulated energy activities and nonregulated activities cannot, respectively, exceed 10% and 5% of total assets (2.30% and none as at September 30, 2024), which has led to very stable earnings and cash flows. As such, barring a major acquisition, we expect Énergir, L.P.'s business and financial risk assessments to remain stable and supportive of the current ratings.

### Financials Information

	For the year ended September 30				
	2024	2023	2022	2021	2020
Cash flow/total debt (%)	15.4	17.3	17.8	17.0	13.4
Total debt in capital structure (%) <sup>1</sup>	69.0	67.0	68.1	65.1	68.6
EBIT gross interest coverage (times) <sup>1, 2</sup>	2.5	2.6	2.9	2.4	2.3

### Issuer Description

Énergir, L.P. owns and operates natural gas distribution in Québec and natural gas and electricity distribution in Vermont. The Partnership 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: (1) full recovery of gas supply costs through an automatic monthly adjustment mechanism, (2) rate stabilization accounts to mitigate revenue fluctuations because of the weather, (3) reasonable authorized ROE and capital structure ratio, and (4) 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 (1) gas distribution in Québec; (2) U.S. electricity and natural gas distribution in Vermont through GMP and VGS; (3) U.S. electricity transmission in Vermont through majority ownership in Vermont Electric Power Company, Inc. and Vermont Transco LLC (Transco); (4) financial interest in three natural gas transportation enterprises, namely Trans Québec & Maritimes Pipeline Inc. (TQM; rated BBB (high) with a Stable trend) and Champion Pipe Line Corporation Limited (Champion); and (5) 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 and solidly supportive 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 FY2024. Énergir, L.P.'s nonconsolidated ratios also remained supportive of the current ratings with strong cash flow-to-debt ratio.

## ESG Checklist and Considerations

### 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)*		
<b>Environmental</b>		<b>Overall:</b>	<b>N</b>	<b>N</b>
<b>Emissions, Effluents, and Waste</b>	Do we consider that the costs or risks for the issuer or its clients result, or could result, in changes to an issuer's financial, operational, and/or reputational standing?	N	N	N
<b>Carbon and GHG Costs</b>	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	N
<b>Resource and Energy Management</b>	Does the scarcity of sourcing key resources hinder the production or operations of the issuer, resulting in lower productivity and therefore revenues?	N	N	N
<b>Land Impact and Biodiversity</b>	Is there a financial risk to the issuer for failing to effectively manage land conversion, rehabilitation, land impact, or biodiversity activities?	N	N	N
<b>Climate and Weather Risks</b>	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	N
<b>Social</b>		<b>Overall:</b>	<b>N</b>	<b>N</b>
<b>Social Impact of Products and Services</b>	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	N
<b>Human Capital and Human Rights</b>	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	N
	Do violations of rights create a potential liability that can negatively affect the issuer's financial wellbeing or reputation?	N	N	N
	<b>Human Capital and Human Rights:</b>	N	N	N
<b>Product Governance</b>	Does failure in delivering quality products and services cause damage to customers and expose the issuer to financial and legal liability?	N	N	N
	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	N
<b>Data Privacy and Security</b>	Would the failure to address workplace hazards have a negative financial impact on the issuer?	N	N	N
<b>Occupational Health and Safety</b>	Does engagement, or lack of engagement, with local communities pose a financial or reputational risk to the issuer?	N	N	N
<b>Community Relations</b>	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	N
<b>Access to Basic Services</b>		N	N	N
<b>Governance</b>		<b>Overall:</b>	<b>N</b>	<b>N</b>
<b>Bribery, Corruption, and Political Risks</b>	Do alleged or actual illicit payments pose a financial or reputational risk to the issuer?	N	N	N
	Are there any political risks that could affect the issuer's financial position or its reputation?	N	N	N
	<b>Bribery, Corruption, and Political Risks:</b>	N	N	N
<b>Business Ethics</b>	Do general professional ethics pose a financial or reputational risk to the issuer?	N	N	N
<b>Corporate / Transaction Governance</b>	Does the issuer's corporate structure allow for appropriate board and audit independence?	N	N	N
	Have there been significant governance failures that could negatively affect the issuer's financial wellbeing or reputation?	N	N	N
	Does the board and/or management have a formal framework to assess climate-related financial risks to the issuer?	N	N	N
	<b>Corporate / Transaction Governance:</b>	N	N	N
<b>Consolidated ESG Criteria Output:</b>		<b>N</b>	<b>N</b>	<b>N</b>

### 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. We note the Partnership has been investing in renewable natural gas to reduce 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. We note 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 Morningstar DBRS 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/437781>.

### Ratings History

		Current	2024	2023	2022	2021	2020
Énergir, L.P.	Issuer Rating	A	A	A	A	NR	NR
Énergir, L.P.	First Mortgage Bonds	A	A	A	A	NR	NR
Énergir, L.P.	Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	NR	NR
Énergir Inc.	Issuer Rating	A	A	A	A	A	A
Énergir Inc.	First Mortgage Bonds <sup>1</sup>	A	A	A	A	A	A
Énergir Inc.	Senior Secured Notes <sup>1</sup>	A	A	A	A	A	A

<sup>1</sup> Guaranteed by Énergir, L.P.

### Previous Actions

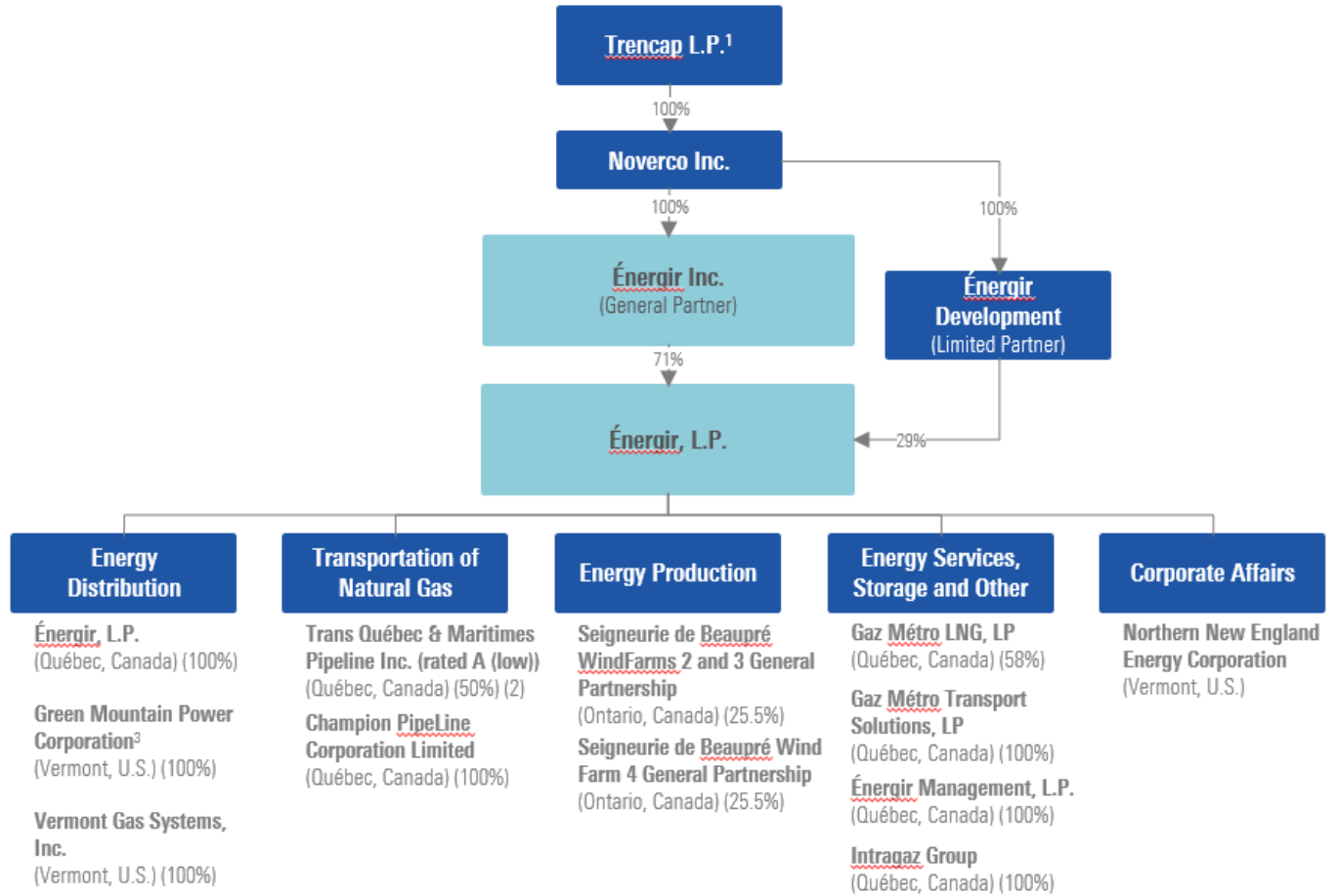
- "Morningstar DBRS Confirms Ratings of Énergir at "A" and R-1 (low) With Stable Trends," April 19, 2024

### Previous Report

Energir LP: Rating Report (May 17, 2024)

# Appendix 1 — Corporate Structure

Simplified Organizational Chart



<sup>1</sup> 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%).

<sup>2</sup> In August 2024, Énergir Inc., through its indirect subsidiary NNEIC, disposed of its units in PNGTS.

<sup>3</sup> Significant ownership interest in Vermont Transco LLC (direct and indirect totaling 77.25%) and Vermont Electric Power Company, Inc. (38.8% direct).

Source: Énergir Inc.'s 2024 Annual Information Form.

## Appendix 2— Earnings, Financial Profile, Debt and Liquidity

### Earnings

(CAD millions, unless otherwise noted)	2024	2023	2022	2021	2020
Net Revenue	2,951	3,262	3,045	2,434	2,569
Gross Profit	1,480	1,439	1,342	1,199	1,200
Gross Margin	50.2%	44.1%	44.1%	49.2%	46.7%
SG&A Expenses as a % of Net Revenue	22.0%	19.3%	19.1%	22.6%	22.2%
EBITDA	830	809	761	649	631
Adjusted EBITDA	1,029	987	907	907	781
EBITDA Margin	28.1%	24.8%	25.0%	26.7%	24.5%
EBIT	294	267	256	231	246
EBIT Margin	10.0%	8.2%	8.4%	9.5%	9.6%
Net Income	249	230	232	181	213
Net Income as Reported	514	233	228	178	215
EBITDA Return on Assets	9.7%	10.1%	9.5%	8.5%	8.8%
EBIT Return on Assets	4.6%	4.6%	4.2%	4.0%	4.4%
EBITDA Return on Capital	14.4%	15.1%	14.4%	12.6%	12.5%
EBIT Return on Capital	6.9%	6.8%	6.4%	5.8%	6.2%

### Financial Profile

(CAD millions, unless otherwise noted)	2024	2023	2022	2021	2020
Net Income as Reported	514	233	228	178	215
Depreciation And Amortization	553	560	524	436	403
Distributions From Equity Investments	200	178	146	131	140
Other Operating Items	(455)	(147)	(95)	(82)	(171)
Cash Flow from Operations	811	824	803	664	587
Capital Expenditures	(917)	(890)	(696)	(574)	(692)
Common Dividends	(648)	(226)	(225)	(553)	(217)
Preferred Dividends	0	0	0	0	0
Free Cash Flow (Before Changes in Working Capital)	(754)	(293)	(118)	(463)	(322)
Changes in Working Capital	(155)	(86)	(153)	(228)	(103)
Free Cash Flow	(910)	(379)	(271)	(691)	(425)
Net Acquisitions and Investments	424	(51)	(57)	272	(14)
Net Lease Principal Payments	0	0	0	0	0
Increase in Debt	555	543	648	128	528

Decrease in Debt	(26)	(293)	(257)	(219)	(144)
Share Issuances	150	214	0	450	31
Share Buybacks	0	0	(1)	0	(0)
Other	(46)	(29)	(41)	12	30
Change in Cash & Cash Equivalents	147	5	21	(49)	5

### Debt

- 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.
- We note that Énergir, L.P. intends to issue FMBs only at the Partnership level going forward.

## Appendix 3—Regulation

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

- We consider 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	F2025	F2024	F2023	F2022	F2021
Average rate base (CAD millions)	2,862	2,672	2,619	2,383	2,287
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

- 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) million	Deemed equity (%)	Authorized ROE (%)	Average rate base (USD) million	Deemed equity (%)	Authorized ROE (%)	Average rate base (USD) million
<b>GMP</b>	49.8	9.97	1,967	50	9.58	1,853	50.0	8.57	1,770
<b>VGS</b>	50	9.66	272	50	9.24	271	50	8.92	262

### 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
<b>1. Deemed Equity</b>	<p>Excellent</p> <p><b>Good</b></p> <p>Satisfactory</p> <p>Below Average</p> <p>Poor</p>	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.
<b>2. Allowed ROE</b>	<p>Excellent</p> <p>Good</p> <p><b>Satisfactory</b></p> <p>Below Average</p> <p>Poor</p>	The Régie set the ROE at 8.90% for F2023 to F2025, unchanged since F2013.
<b>3. Energy Cost Recovery</b>	<p><b>Excellent</b></p> <p>Good</p> <p>Satisfactory</p> <p>Below Average</p> <p>Poor</p>	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.
<b>4. Capital and Operating Cost Recovery</b>	<p><b>Excellent</b></p> <p>Good</p> <p>Satisfactory</p> <p>Below Average</p> <p>Poor</p>	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. We consider the inflation factor to be reasonable.
<b>5. COS versus Incentive Rate Mechanism</b>	<p>Excellent</p> <p><b>Good</b></p> <p>Satisfactory</p> <p>Below Average</p> <p>Poor</p>	Énergir-QDA operates under a three-year regulatory framework.
<b>6. Political Interference</b>	<p>Excellent</p> <p><b>Good</b></p> <p>Satisfactory</p> <p>Below Average</p> <p>Poor</p>	There has been no adverse legislation in the regulated natural gas utility sector in Québec.
<b>7. Stranded Cost Recovery</b>	<p>Excellent</p> <p><b>Good</b></p> <p>Satisfactory</p> <p>Below Average</p> <p>Poor</p>	Énergir-QDA has a limited history of stranded costs.
<b>8. Rate Freeze</b>	<p><b>Excellent</b></p> <p>Good</p> <p>Satisfactory</p> <p>Below Average</p> <p>Poor</p>	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
<b>1. Deemed Equity</b>	<b>Excellent</b>	The VPUC allowed GMP and VGS to have a deemed equity of 50% for F2024.
	Good	
	Satisfactory	
	Below Average	
	Poor	
<b>2. Allowed ROE</b>	Excellent	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.
	Good	
	<b>Satisfactory</b>	
	Below Average	
	Poor	
<b>3. Energy Cost Recovery</b>	Excellent	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.
	Good	
	<b>Satisfactory</b>	
	Below Average	
	Poor	
<b>4. Capital and Operating Cost Recovery</b>	Excellent	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.
	Good	
	<b>Satisfactory</b>	
	Below Average	
	Poor	
<b>5. COS versus Incentive Rate Mechanism</b>	Excellent	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.
	<b>Good</b>	
	Satisfactory	
	Below Average	
	Poor	
<b>6. Political Interference</b>	Excellent	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.
	Good	
	<b>Satisfactory</b>	
	Below Average	
	Poor	
<b>7. Stranded Cost Recovery</b>	Excellent	Utilities have a limited history of stranded costs.
	<b>Good</b>	
	Satisfactory	
	Below Average	
	Poor	
<b>8. Rate Freeze</b>	<b>Excellent</b>	Rates have never been frozen and are not expected to be frozen in the foreseeable future.
	Good	
	Satisfactory	
	Below Average	
	Poor	

---

**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.

Morningstar DBRS 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 Morningstar DBRS is the next generation of credit ratings.

Learn more at [dbrs.morningstar.com](https://dbrs.morningstar.com).



The Morningstar DBRS 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). Morningstar DBRS does not hold an Australian financial services license. Morningstar DBRS credit ratings, and other types of credit opinions and reports, are not intended for Australian residents or entities. Morningstar DBRS does not authorize their distribution to Australian resident individuals or entities, and accepts no responsibility or liability whatsoever for the actions of third parties in this respect. For more information on regulatory registrations, recognitions and approvals of the Morningstar DBRS group of companies please see: <https://dbrs.morningstar.com/research/highlights.pdf>.

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

© 2025 Morningstar DBRS. All Rights Reserved. The information upon which Morningstar DBRS credit ratings and other types of credit opinions and reports are based is obtained by Morningstar DBRS from sources Morningstar DBRS believes to be reliable. Morningstar DBRS does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. Morningstar DBRS credit ratings, other types of credit opinions, reports and any other information provided by Morningstar DBRS are provided "as is" and without representation or warranty of any kind and Morningstar DBRS assumes no obligation to update any such credit ratings, opinions, reports or other information. Morningstar DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall Morningstar DBRS or its directors, officers, employees, independent contractors, agents, affiliates and representatives (collectively, Morningstar DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of credit ratings, other types of credit opinions and reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of Morningstar DBRS or any Morningstar DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. IN ANY EVENT, TO THE EXTENT PERMITTED BY LAW, THE AGGREGATE LIABILITY OF MORNINGSTAR DBRS AND THE MORNINGSTAR DBRS REPRESENTATIVES FOR ANY REASON WHATSOEVER SHALL NOT EXCEED THE GREATER OF (A) THE TOTAL AMOUNT PAID BY THE USER FOR SERVICES PROVIDED BY MORNINGSTAR DBRS DURING THE TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO LIABILITY, AND (B) U.S. \$100. Morningstar DBRS does not act as a fiduciary or an investment advisor. Morningstar DBRS does not provide investment, financial or other advice. Credit ratings, other types of credit opinions and other analysis and research issued by Morningstar DBRS (a) are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities; (b) do not take into account your personal objectives, financial situations or needs; (c) should be weighed, if at all, solely as one factor in any investment or credit decision; (d) are not intended for use by retail investors; and (e) address only credit risk and do not address other investment risks, such as liquidity risk or market volatility risk. Accordingly, credit ratings, other types of credit opinions and other analysis and research issued by Morningstar DBRS are not a substitute for due care and the study and evaluation of each investment decision, security or credit that one may consider making, purchasing, holding, selling, or providing, as applicable. A report with respect to a Morningstar DBRS credit rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Morningstar DBRS may receive compensation for its credit ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of Morningstar DBRS. ALL MORNINGSTAR DBRS CREDIT RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DEFINITIONS, LIMITATIONS, POLICIES AND METHODOLOGIES THAT ARE AVAILABLE ON [HTTPS://DBRS.MORNINGSTAR.COM](https://dbrs.morningstar.com). Users may, through hypertext or other computer links, gain access to or from websites operated by persons other than Morningstar DBRS. Such hyperlinks or other computer links are provided for convenience only. Morningstar DBRS does not endorse the content, the operator or operations of third party websites. Morningstar DBRS is not responsible for the content or operation of such third party websites and Morningstar DBRS shall have no liability to you or any other person or entity for the use of third party websites.