

## **Appendix 5.5.WIND.3**

### **WIND - Gaz Métro Inc. Rating Reports**

- S&P Global Ratings (December 13, 2016)
- DBRS Rating Report (November 16, 2016)

## Research

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### Research Update:

# Gaz Metro Inc. Affirmed At 'A' After Change To Downside Trigger; Outlook Stable

#### Primary Credit Analyst:

Andrew Ng, Toronto (416) 507-2545; [andrew.ng@spglobal.com](mailto:andrew.ng@spglobal.com)

#### Secondary Contact:

Stephen R Goltz, Toronto (416) 507-2592; [stephen.goltz@spglobal.com](mailto:stephen.goltz@spglobal.com)

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## Research Update:

# Gaz Metro Inc. Affirmed At 'A' After Change To Downside Trigger; Outlook Stable

## Overview

- We are affirming our 'A' long-term corporate credit rating and 'A+' senior secured first mortgage bond ratings on Quebec-based regulated utility Gaz Metro Inc. (GMI).
- We are also affirming our 'A-1' global scale and 'A-1 (Mid)' Canada scale commercial paper ratings on the company.
- We are revising our downside trigger on GMI to 13% adjusted funds from operation (AFFO)-to-debt from 16% as the company moves to U.S. generally accepted accounting principles (GAAP) reporting from Canadian GAAP.
- The stable outlook reflects our assessment of the company's predictable and stable cash flows from its low-risk, regulated gas and electricity business in Quebec and Vermont.

## Rating Action

On Dec. 13, 2016, S&P Global Ratings affirmed its 'A' long-term corporate credit rating, 'A+' senior secured first mortgage bond rating, and 'A-1' global scale and 'A-1(Mid)' Canada scale commercial paper ratings on Quebec-based regulated utility Gaz Metro Inc. (GMI). The outlook is stable.

## Rationale

The affirmation follows S&P Global Ratings revising its downside trigger on the company to 13% adjusted funds from operation (AFFO)-to-debt from 16% as the company moved to U.S. generally accepted accounting principles (USGAAP) reporting from Canadian generally accepted accounting principles (CGAAP). GMI made the change starting in fiscal 2016, which has resulted in lower credit metrics; however, credit metrics are still consistent with the intermediate financial risk profile (FRP). In addition, the underlying business model is unchanged, as our business risk profile (BRP) assessment reflects. Because credit metrics presented under USGAAP are lower, we have revised our downside trigger on the company. The main impact of USGAAP on credit metrics includes the following:

- Using the equity method of consolidation instead of the proportionate method for joint ventures. This reduces debt outstanding, although decreases in cash and AFFO offset this; and
- Reclassification of deferral charges, resulting in lower adjustments to AFFO related to cost of energy.

For fiscal 2016, the net resulting impact on GMI's AFFO-to-debt is about

13.8%. During our 24-month outlook period, we forecast the company's AFFO-to-debt to be 14%-15%. We continue to use the low volatility cash flow table when assessing GMI's cash flow leverage to reflect the generally supportive regulatory regime that underpins the company's stable and predictable cash flow stream and that vast majority of GMI's operating cash flows are from the low end of the utility risk spectrum.

We continue to exclude the C\$892.8 million of non-common equity financing from Noverco Inc. provided to GMI from our leverage and coverage calculations as per our "Non-Common Equity Financing In Nonfinancial Corporate Entities" criteria, published April 29, 2014, on RatingsDirect. The notes have more than 10 years remaining, and we believe that the company intends to extend the maturity date to at least 30 days after all other debt matures. When the bonds have less than 10 years, or (while unlikely) should we no longer believe GMI intends to extend the maturity, we might include the notes in our leverage and coverage calculations.

Our assessment of GMI's business risk profile (BRP) is unchanged at excellent. There is no change to the company's fundamentals and underlying business model as a result of the accounting change. GMI continues to benefit from its stable, low-risk, regulated utilities operations. Tariff structures are generally supportive, allowing recovery of prudently incurred operational and capital expenses in a timely manner that supports the stable cash flow. Moreover, GMI's exposure to commodity input price is limited as electricity and natural gas input costs remain a pass-through to rate-payers, which we view as a credit strength.

In Quebec, which accounts for 65%-70% of the cash flow, the company can recover revenue shortfall from weather-related impacts in subsequent years, which reduces its volume risk exposure. Furthermore, key rate base parameters including return on equity (ROE) and equity thickness approved by the Regie de l'energie, regulator for Quebec, is supportive and in line with those of other regulated utilities across other jurisdictions. For 2017, approved ROEs are 8.90% for the Regie, 8.50% for the Alberta Utilities Commission (AUC), and 8.78% for the Ontario Energy Board (OEB). For the equity thickness in the deemed capital structure for 2017, the Regie approved 38.5%, the AUC 37%-41%, and the OEB 36%-40% for gas distribution companies.

GMI also operates in multiple service territories primarily in Quebec and Vermont, through its wholly owned subsidiary Green Mountain Power Corp., providing some degree of regulatory, geographic, and market diversification.

Further supporting the business risk profile is GMI's overall diverse customer base, primarily consisting of residential and small-to-medium commercial customers that are less sensitive to economic cycles. Although in Quebec, GMI has a relatively large industrial user base that contributes a material portion of the company's cash flow; however, these industrial users' gas consumption largely depends on the price of natural gas. Given that natural gas is relatively cheap compared with other fuel sources, we do not expect fuel switching among industrial users to be a concern at present.



GMI also owns and operates a renewable energy wind farm, an unregulated business, but its cash flow contribution to GMI is minimal and is immaterial to our rating on the company.

Our base-case scenario assumptions include the following:

- Population growth of about 0.8% in 2017 and 2018 in the Province of Quebec
- Real GDP growth of about 1.6% in 2017 and 2018 in Quebec
- GMI will continue to focus on regulated utility operations with unregulated energy-related and non-energy-related activities less than 10% of its total unconsolidated assets
- The company will not experience any adverse and material regulatory decisions, and the regulatory regimes in Quebec and Vermont will be stable and transparent

Based on these assumptions, we arrive at the following credit measures:

- AFFO-to-debt of 14%-15% in 2017 and 2018
- Debt-to-EBITDA of 5x-6x in 2017 and 2018

### **Liquidity**

Our view on GMI's liquidity is adequate. We expect that liquidity sources will be adequate to cover uses of about 1.4x in the next 12 months. We further expect that, in the event of a 10% EBITDA decline, the company's sources of funds would still exceed its uses. In our view, GMI has sound relationships with its banks and generally prudent financial risk management. In an unexpected financial stress situation, we believe the utility would scale back on its capital expenditures and have the flexibility to suspend dividend payments to preserve credit metrics.

Principal liquidity sources include:

- Cash FFO of about C\$560 million over the next 12 months
- Committed credit facilities availability of about C\$530 million as of Sept. 30, 2016, maturing in 2021
- Proceeds of about C\$125 million from debt issuance in October 2016

Principal liquidity uses include:

- Capital expenditure of about C\$470 million over the next 12 months
- Dividends of about C\$170 million over the next 12 months

### **Outlook**

The stable outlook reflects S&P Global Ratings' expectation that, on a consolidated basis, GMI will continue generating stable and predictable cash flow from its low-risk regulated operations in Quebec and Vermont during our 24-month outlook horizon. The outlook also reflects our expectation that management will continue to focus on its core regulated business and that the company will not experience any adverse regulatory decisions during our outlook horizon.

### Downside scenario

We could take a negative rating action on GMI if the company's credit metrics deteriorate, with AFFO-to-debt falling to and staying below 13%. This could happen as a result of adverse regulatory decision, a material debt-financed acquisition, or if the company encountered significant operating challenges.

### Upside scenario

We could take a positive rating action if the company demonstrates long-term commitment to improve its credit metrics resulting in sustained AFFO-to-debt about 23%. However, we do not expect this to happen during our outlook period, given the company's current capital plan and strategy. In addition, the allowed return on a regulated utility such as Gaz Metro is set by the regulator with earnings sharing mechanisms to split excessive over-earnings with ratepayers, which can limit the company's ability to reach the upside threshold.

## Ratings Score Snapshot

Corporate 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

Modifiers

- 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)

## Recovery Analysis

GMI has secured utility bonds (first mortgage bonds [FMBs]) outstanding with maturities of 2017-2045. These FMBs are secured under trust deeds that contain a hypothec on GMI's assets. A first immovable hypothec on Gaz Metro L.P.'s pipelines and gas distribution system also covers creditors. We estimate that the regulated capital value at GMI is greater than 1.5x the secured utility bonds outstanding. This results in a '1+' recovery rating, and an 'A+' rating

on the FMBs.

## Related Criteria

- 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
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 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 And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

## Ratings List

### Ratings Affirmed

Gaz Metro Inc.

Gaz Metro L.P.

Corporate credit rating

A/Stable/--

### Ratings Affirmed; Recovery Rating Unchanged

Gaz Metro Inc.

Senior secured

A+

Recovery rating

1+

Commercial paper

Global scale

A-1

Canada scale

A-1 (Mid)

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such

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criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [www.spcapitaliq.com](http://www.spcapitaliq.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.



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James Jung, CFA, FRM, CPA, CMA  
+1 416 597 7577  
jjung@dbrs.com

Tom Li  
+1 416 597 7378  
tli@dbrs.com

Walid Amdouni  
+1 416 597 7358  
wamdouni@dbrs.com

Insight beyond the rating.

## Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable
First Mortgage Bonds*	A	Confirmed	Stable
Senior Secured Notes*	A	Confirmed	Stable

\* Guaranteed by Gaz Métro Limited Partnership.

## Rating Update

On November 7, 2016, DBRS Limited (DBRS) confirmed the Issuer Rating, Senior Secured Notes rating and First Mortgage Bonds (FMB) rating of Gaz Métro inc. (GMI or the Company) at "A" as well as its Commercial Paper (CP) rating at R-1 (low). All trends are Stable. The ratings of GMI are based on the credit quality of Gaz Métro Limited Partnership (GMLP or the Partnership), which guarantees GMI's First Mortgage Bonds (FMB), Senior Secured Notes and a secured credit facility that supports the CP. GMI is the general partner of GMLP and serves as its financing entity.

The Partnership's credit quality has remained relatively stable over the past year. GMLP's diverse portfolio of low-risk regulated businesses, which account for more than 95% of consolidated earnings, has continued to provide predictable earnings and cash flow. There have been no material changes in any of the Partnership's key regulatory parameters over the past three years. In May 2015, the Régie de l'énergie (the Régie) approved the authorized return on deemed equity (ROE) for 2016 and 2017 at 8.90% for GMLP's flagship entity, Gaz Métro-QDA, which is unchanged from 2015. The Régie's authorized ROE is in line with that of other comparable provinces (8.75% for British Columbia; currently 8.30% for Alberta, but will increase to 8.50% effective January 1, 2017; currently 9.19% for Ontario, but will decline to 8.78% effective January 1, 2017; 8.75% to 9.25% for Nova Scotia; and 8.50% for Newfoundland and Labrador). Gaz Métro-QDA

has a proven track record of sustaining profitability in line with its regulatory return parameters. As for Green Mountain Power Corporation (GMP), GMLP's electricity distribution utility subsidiary based in Vermont, the authorized ROE for the fiscal year ended September 30, 2016 (F2016), was reasonable at 9.44%. GMP's operating performance has proved to be resilient. GMP's actual ROE has closely tracked the approved ROE over the past five years. These two utilities combined are expected to continue to account for approximately 85% of the Partnership's consolidated earnings. GMLP's smaller gas distribution utility, Vermont Gas Systems, Inc. (VGS; less than 5% of total earnings), is exposed to construction-cost overrun risk. The capital budget of VGS's major capital project, the Addison Natural Gas Project (the Addison project), has further increased to USD 165.6 million (from its revised F2015 estimate of USD 153.6 million and F2013 initial estimate of USD 86.6 million). As a result, the Partnership took a pre-tax impairment charge of \$26.5 million for the nine months ended June 30, 2016. Negative earnings and cash flow effects from the project-cost overrun have been manageable within the current rating category.

The Partnership's financial risk assessment has remained well within the current rating category. DBRS does not expect any significant change in GMLP's financial risk profile over the next 12 months as its capital expenditure is expected to remain manageable.

## Financial Information

Gaz Métro Limited Partnership (consolidated)	9 mos. Jun. 30		12 mos. Jun. 30		For the year ended September 30			
(CAD millions)	2016	2015	2016	2015	2014	2013	2012	2011
EBIT gross interest coverage (times) <sup>1</sup>	2.71	2.52	1.92	1.82	1.85	1.83	2.11	2.42
Total debt in capital structure <sup>1, 2</sup>	63.8%	66.7%	63.8%	67.2%	67.9%	65.3%	63.7%	62.1%
Cash flow/Total debt <sup>1</sup>	21.0%	17.1%	19.7%	15.7%	14.4%	12.6%	13.0%	18.2%

<sup>1</sup> Adjusted for operating leases. <sup>2</sup> Adjusted for accumulated other comprehensive income.

## Issuer Description

GMI is a holding company with majority ownership of GMLP. GMLP owns and operates natural gas distribution in Québec and natural gas and electricity distribution in Vermont as well as financial interests in transmission, storage, gas and other underground systems enterprises. GMLP is 71% owned by GMI and 29% owned by Valener Inc. (Valener).

## Rating Considerations

### Strengths

#### 1. Supportive regulation in Québec

The regulatory framework in Québec is viewed as supportive, reflecting the following factors: (a) full recovery on gas supply costs through an automatic monthly adjustment mechanism, (b) rate stabilization accounts to mitigate revenue fluctuations caused by weather and (c) reasonable authorized ROE and capital structure ratio.

#### 2. Reasonable financial profile

GMLP's consolidated financial profile has remained reasonable. The Partnership has maintained an acceptable cash flow-to-debt ratio for the current rating category. Although the consolidated debt-to-capital (63.8%) and consolidated EBIT gross interest coverage (1.92 times (x)) for the last 12 months ended June 30, 2016 (LTM 2016), were relatively weak for the current rating category, respective non-consolidated ratios were reasonable (non-consolidated leverage at 53.5%, interest coverage at 1.96x and cash flow-to-debt at 20.4%). GMLP's non-consolidated financial statements are presented from the perspective of its directly owned, flagship entity, Gaz Métro-QDA, by removing the impact of consolidation of investments in subsidiaries and financial interests, including GMP, VGS, Trans Québec & Maritimes Pipeline Inc. (TQM; rated A (low) with a Stable trend by DBRS) and wind farm projects.

#### 3. Cash flow diversification

The Partnership benefits from a large base of regulated utility assets, including: (a) gas distribution in Québec; (b) U.S. natural gas and electricity distribution in Vermont through GMP and VGS; (c) U.S. electricity transmission in Vermont through majority ownership in Vermont Electric Power Company, Inc. (Velco) and Vermont Transco LLC (Transco); (d) financial interest in three natural gas transportation enterprises, namely TQM, Portland Natural Gas Transmission System (PNGTS) and Champion Pipe Line Corporation Limited (Champion); and (e) financial interests in wind power projects.

### Challenges

#### 1. Higher risks associated with volume and energy cost in Vermont electricity distribution

There is a higher level of volume risk associated with regulated operations in Vermont than in Québec as there is no rate stabilization mechanism for GMLP's utility subsidiaries in Vermont to mitigate volume delivery fluctuations caused by weather.

#### 2. Project cost overrun risk associated with Addison Gas Project

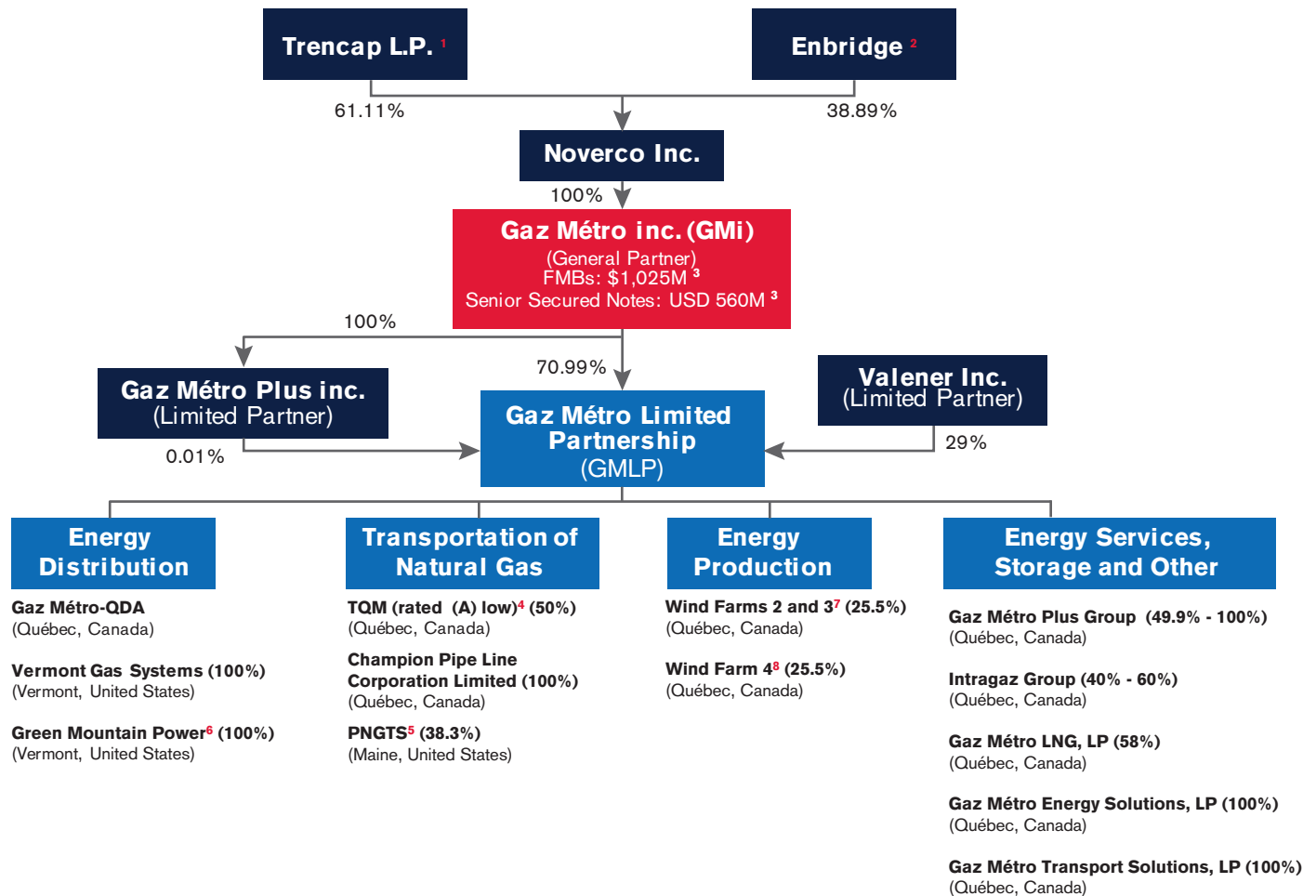
GMLP's smaller gas distribution utility in Vermont, VGS, is exposed to construction cost overrun risk. The capital budget of VGS's major capital project, the Addison project, has increased approximately 93% to USD 165.6 million from its 2013 initial estimate of USD 86.6 million. As a result, the Partnership took a pre-tax impairment charge of USD 10.3 million in F2015 (following the agreement reached with the Vermont Department of Public Service for costs of USD 134.0 million) and \$26.5 million in the nine months ended June 30, 2016.

#### 3. 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 GMLP's distribution revenues; however, this risk is mitigated by firm-service contracts of more than one year as a large number of these customers provide guaranteed payment of a significant portion of distribution services, regardless of their levels of consumption. Firm-service contracts accounted for more than 80% of all industrial volume consumption. This provides GMLP sufficient time to reallocate its revenue requirement among customer classes, if necessary.



## Simplified Organizational Chart



<sup>1</sup> The general partner of Trencap was Capital d'Amérique CDPQ inc., a subsidiary of Caisse de dépôt et placement du Québec which, as a limited partner of Trencap, held 59.64% of its units. The other limited partners were Fonds de solidarité des travailleurs du Québec (19.11%), British Columbia Investment Management Corporation (13.01%), the Régime des rentes du Mouvement Desjardins (6.87%) and the Régime de retraite de l'Université du Québec (1.37%).

<sup>2</sup> Enbridge Inc. held its shares through its subsidiary, IPL System Inc.

<sup>3</sup> FMBs, Senior Secured Notes and the term loan at GMI are guaranteed by GMLP. Balances are as at September 30, 2015.

<sup>4</sup> TQM refers to Trans Québec & Maritimes Pipeline Inc.

<sup>5</sup> PNGTS refers to Portland Natural Gas Transmission System.

<sup>6</sup> Includes Central Vermont Public Service Corporation; acquired in 2012.

<sup>7</sup> Wind Farms 2 and 3 refers to the 272 megawatt (MW) Seigneurie de Beaupré Wind Farms 2 and 3 General Partnership.

<sup>8</sup> Wind Farm 4 refers to the 69 MW Seigneurie de Beaupré Wind Farm 4 General Partnership.

### Notes

- GMI is the financing vehicle for GMLP with raised funds loaned to GMLP on similar terms and conditions as those imposed on GMI.
- Given the mirror-like structure of the financing, the only substantive difference between the two entities is the subordinated debt at GMI (intercompany debt from Noverco, Inc.; not rated by DBRS), which was \$892.8 million outstanding on September 30, 2015, and is not shown in the chart above.
- As at September 30, 2015, GMLP's interests in non-regulated energy-related activities and in non-energy-related activities were relatively limited.
  - The trust deeds stipulate that all of the Partnership's interest in non-regulated energy-related activities and non-energy-related activities must not be more than 10% of its total non-consolidated assets. As at September 30, 2015, the Partnership's assets used for such activities accounted for 3.17% of its total non-consolidated assets.
  - As for non-energy-related activities, GMLP's interest in such activities may not exceed 5% of its total non-consolidated assets. As at September 30, 2015, the Partnership had no interest in such activities.

## Consolidated Earnings and Outlook

	9 mos. Jun. 30		12 mos. Jun. 30		For the year ended September 30			
(CAD millions)	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
EBITDA	443	413	623	593	543	461	402	417
EBIT	265	253	334	322	295	258	239	242
Gross interest expense	98	101	175	177	160	142	114	100
Total share in earnings	99	94	96	92	77	62	29	23
Net income before non-recurring items	226	204	214	192	175	166	152	147
Reported net income	288	204	268	184	175	180	144	164
Return on avg. common equity	16.8%	16.8%	12.0%	11.7%	11.6%	11.3%	12.1%	14.3%

### F2015 Summary

- Net income before non-recurring items increased approximately 10% in F2015 from F2014, mainly because of the following factors:
  - A favourable exchange-rate impact on earnings generated by Vermont energy distribution activities.
  - An increase in the rate base for Gaz Métro-QDA.
  - Higher earnings from shares in earnings of entities subject to significant influence and the greater ownership in Velco and Transco (increased to 71.5% from 70.0%).
- Higher energy production activities, given favourable winds and new wind projects that came into service (Wind Farms 2 and 3 ran for a full 12 months in F2015 versus ten months in F2014, and Wind Farm 4 came in service in December 2014).
- Reported net income was lower than earnings before non-recurring items because of an impairment charge related to the Addison project following the agreement reached with the Vermont Department of Public Service.

For the year ended September 30	<u>9M 2016</u>		<u>F2015</u>		<u>F2014</u>		<u>F2013</u>	
Gaz Metro - QDA	307	68.1%	334	56.9%	314	57.1%	289	61.6%
VGS and GMP	139	30.8%	161	27.4%	171	31.0%	137	29.2%
Natural Gas Transportation	1	0.3%	28	4.8%	29	5.3%	30	6.4%
Energy Production	(1)	-0.1%	49	8.4%	28	5.1%	(2)	-0.4%
Energy Services, Storage and Other	5	1.0%	15	2.5%	9	1.6%	15	3.2%
<b>Total excl. Corporate and Other</b>	<b>450</b>	<b>100.0%</b>	<b>587</b>	<b>100.0%</b>	<b>551</b>	<b>100.0%</b>	<b>469</b>	<b>100.0%</b>
Corporate and Other*	(7)		6		(8)		(8)	
<b>Total</b>	<b>443</b>		<b>593</b>		<b>543</b>		<b>461</b>	

\* Other includes: financing costs, acquisition costs, and non-recurring items.

- Most of the Partnership's consolidated earnings were generated by low-risk regulated utilities and pipelines supported by long-term contracts.

### F2016/F2017 Outlook

- Earnings before non-recurring items are expected to remain relatively stable in F2016. The sustained growth of the Partnership's regulated activities is expected to be offset by

weaker earnings contribution from the wind farm projects caused by less favourable wind conditions. The wind farm projects' average utilization factor was lower at 35.6% in LTM 2016 from 39.7% in LTM 2015.

- Growth in regulated investments should moderately increase earnings in F2017.

## Consolidated Financial Profile

### Gaz Métro Limited Partnership (consolidated)

Cash Flow Statement	9 mos. Jun. 30		12 mos. Jun. 30		For the year ended September 30			
(CAD millions)	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net income before non-recurring items	226	204	214	192	175	166	152	147
Depreciation & amortization	259	213	392	346	252	205	166	177
Distributions received	79	72	79	71	65	36	30	14
Non-cash share in earnings	(99)	(94)	(96)	(92)	(77)	(62)	(29)	(23)
Deferred income taxes/Other	41	48	44	51	45	12	8	7
<b>Cash flow from operations</b>	<b>506</b>	<b>442</b>	<b>633</b>	<b>569</b>	<b>460</b>	<b>356</b>	<b>327</b>	<b>323</b>
Distributions to partners	(144)	(132)	(198)	(187)	(169)	(165)	(141)	(106)
Capex	(459)	(585)	(653)	(779)	(471)	(475)	(471)	(215)
<b>Gross free cash flow</b>	<b>(97)</b>	<b>(275)</b>	<b>(219)</b>	<b>(396)</b>	<b>(180)</b>	<b>(284)</b>	<b>(286)</b>	<b>2</b>
Change in working capital	22	(5)	58	31	12	45	37	(5)
Change in regulatory assets & deferred charges	(39)	25	(125)	(61)	17	(84)	(81)	(27)
<b>Net free cash flow</b>	<b>(114)</b>	<b>(255)</b>	<b>(285)</b>	<b>(426)</b>	<b>(152)</b>	<b>(323)</b>	<b>(330)</b>	<b>(29)</b>
Acquisitions/Long-term investments	(3)	(35)	(4)	(36)	(26)	6	(485)	21
Net change in equity	8	158	109	259	4	56	382	106
Net change in debt	107	100	128	121	241	292	490	(96)
Other	11	12	63	64	(25)	(13)	(53)	(13)
Change in cash	9	(20)	11	(17)	42	19	5	(10)
Total debt	3,196	3,444	3,196	3,600	3,173	2,805	2,484	1,767
Total debt in capital structure <b>1, 2</b>	63.8%	66.7%	63.8%	67.2%	67.9%	65.3%	63.7%	62.1%
EBIT gross interest coverage (times) <b>1</b>	2.71	2.52	1.92	1.82	1.85	1.83	2.11	2.42
Cash flow/Total debt <b>1</b>	21.0%	17.1%	19.7%	15.7%	14.4%	12.6%	13.0%	18.2%
Distribution payout ratio	63.8%	64.7%	92.8%	97.0%	96.8%	99.7%	93.3%	72.0%

**1** Adjusted for operating leases. **2** Adjusted for accumulated other comprehensive income.

### F2015 Summary

- Overall, the Partnership's consolidated key credit metrics remained relatively stable in F2015 compared with F2014.
- Operating cash flow (OCF) increased, predominately because of additional Gaz Métro-QDA revenues attributable to the Cap and Trade System (C&T) regulation-related greenhouse gas emissions allowances. As emission costs associated with the C&T regulation is fully passed onto ratepayers, depreciation increased materially in F2015.
- Capex increased sharply in F2016, predominately because of the purchase of greenhouse gas emission allowances related to the C&T regulation (\$365 million in F2015 versus \$0 in F2014), enough to cover almost 60% of expected customer emissions for the 2015–2020 period.
- The Partnership distributed virtually 100% of its net income to its limited partners. Under the Partnership Agreement, the Partnership will not, except under extraordinary circumstances, distribute any less than 85% of its net income before non-recurring items to its partners.
- The Partnership financed cash flow deficits through a reasonable mix of debt and equity. In 2015, the Partnership completed two equity offerings for aggregated gross proceeds of \$255 million. As a result, leverage remained relatively unchanged in F2015 compared with F2014.

### F2016/2017 Outlook

- The Partnership's financial profile is expected to remain relatively stable in F2016 and F2017.
- Key financial metrics improved in LTM 2016, largely because of the transition to and implementation of U.S. Generally Accepted Accounting Principles (GAAP) from Canadian GAAP.
  - Under Canadian GAAP, interest in joint ventures (JVs) was recognized using the proportionate consolidation method. Under U.S. GAAP, these interests are recognized using the equity method. As a result, the Partnership's highly levered wind farm JVs are no longer consolidated under U.S. GAAP, improving the cash flow-to-debt and leverage ratios.
- Incremental cash flow from moderate OCF growth is expected to be used to fund higher distributions. The Partnership raised its quarterly distribution by 3.6% in January 2016.
- Capex is expected to remain manageable in 2017 and, thus, key financial metrics should remain reasonable for the current rating category.

## Liquidity

### Credit Facilities (non-consolidated)

As at Sept. 30, 2016	Maturity	Committed	Letters of Credit	Available
Secured Term Loan	March 2021	800.0	36.4	763.6
<b>Total</b>		<b>800.0</b>	<b>36.4</b>	<b>763.6</b>

- GMi's reliance on short-term borrowing is expected to remain manageable.
- GMi has an investment policy in place such that GMi should not have CP maturities in excess of an aggregate amount of \$35 million for two consecutive business days to ensure that the \$50 million swingline facility, which is available under GMi's credit facility, maintains adequate liquidity to backstop the CP program.
- The Partnership and GMi have a joint secured credit line (term loan) of \$800 million to support the CP program with GMi as the borrower. The debt issued under this term loan is guaranteed by the Partnership and will expire in March 2021.
- GMi is expected to continue to reserve capacity under its bank credit facilities for amounts outstanding under the CP program (USD18.1 million and CAD 377.5 million outstanding as at September 30, 2016).

### Long-Term Debt

The following is a table of GMLP's debt maturities on a consolidated basis:

### Consolidated Debt maturities as of Sept 30, 2016 <sup>1</sup>

(CAD millions)	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Thereafter</u>	<u>Total</u>
Gaz Métro	-	125	-	100	100	1,936	2,261
NNEEC	-	66	-	-	-	66	131
VGS	-	-	-	1	1	155	157
GMP <sup>2</sup>	10	10	10	113	102	688	932
Other <sup>3</sup>	-	0	0	7	-	11	18
<b>Sub Total</b>	<b>10</b>	<b>200</b>	<b>10</b>	<b>221</b>	<b>204</b>	<b>2,855</b>	<b>3,499</b>
Financing costs							(16)
<b>Total</b>							<b>3,483</b>

<sup>1</sup> Since the beginning of the fiscal year ended September 30, 2016, the audited consolidated annual financial statements are prepared in accordance with U.S GAAP.

<sup>2</sup> Includes Series 2010A First mortgage bonds in an amount of USD 28.6 million maturing in tranches of variable amounts on April 1 of each year (2015-2035).

<sup>3</sup> Includes Secured term loans in an amount of \$17.6 million maturing from 2018 to 2021.

- The debt maturity schedule is reasonably spread out with minimal refinancing risk over the next five years.
- The Partnership continued to have favourable access to capital markets in F2016 as it took advantage of the current low interest rate environment to repay existing indebtedness and fund its capex program. GMi issued the following bonds in 2016:
  - \$125 million of 3.28% First Mortgage Bonds due October 9, 2046 (settled on October 6, 2016).
  - \$100 million of 1.52% First Mortgage Bonds due May 25, 2020 (settled on May 24, 2016).
- If the Partnership's long-term debt-to-capitalization ratio exceeds 75% (on a non-consolidated basis), it will not make a distribution to its partners.
- As of September 30, 2015, GMLP's non-consolidated long-term debt-to-total capitalization ratio and the non-consolidated long-term debt interest ratio were 52.8% and 2.94x, respectively.
- The trust deeds stipulate that all of the Partnership's interest in non-regulated energy-related activities and non-energy-related activities must not be more than 10% of its total non-consolidated assets. As at September 30, 2015, the Partnership's assets used for such activities accounted for 3.17% of its total non-consolidated assets.
- As for non-energy-related activities, GMLP's interest in such activities may not exceed 5% of its total non-consolidated assets. As at September 30, 2015, the Partnership had no interest in such activities.

### Covenants and Restrictions

- GMLP has restrictive covenants, in which if its long-term debt-to-total capitalization ratio exceeds 65% and its long-term debt interest coverage ratio is less than 1.50x (both on a non-consolidated basis), it may not issue any additional long-term debt.



## Regulation Update

### (1) Gaz Métro-QDA — Regulated by the Régie

Gaz Métro-QDA expects to continue using the cost-of-service (COS) method until a new incentive mechanism is implemented. The regulatory framework in Québec is viewed as supportive with the following major features:

- All natural gas supply costs are fully passed on to customers through an automatic monthly adjustment mechanism.
- All the transportation costs charged by TransCanada PipeLines Limited (TCPL; rated A (low) with a Stable trend by DBRS) are included in the COS of Gaz Métro-QDA and are reflected in its transportation rates.

- Under the COS methodology, Gaz Métro-QDA is allowed to recover the cost of providing its service and to earn a reasonable rate of return on its rate base.
- Gaz Métro-QDA has been subject to the C&T regulation effective January 1, 2015. The compliance cost is fully passed onto ratepayers.
- The following table summarizes the key regulatory parameters for Gaz Métro-QDA.

Period	<u>FY2017</u>	<u>FY2016</u>	<u>FY2015</u>	<u>FY2014</u>
Authorized ROE (on common equity)	8.90%	8.90%	8.90%	8.90%
Deemed equity (including 7.5% of preferred shares)	46%	46%	46%	46%
Average rate base in rate case	\$2,044 million	\$1,956 million	\$1,940 million	\$1,902 million

- Gaz Métro-QDA' authorized ROE and deemed equity ratio have remained the same since FY2013. The average rate base projected in the FY2017 rate case, which is subject to Régie approval, increased moderately by \$104 million to \$2,060 million from \$1,956 million in FY2016, largely because of higher capex.

### (2) Vermont Distribution Utilities – Regulated by Vermont Public Service Board (VPSB)

GMP and VGS are regulated by the VPSB. Rates for their activities are established based on alternative regulation plans (ARPs), which are more similar to a traditional COS method than a typical longer-term performance-based regulation plan. The base rates for the Partnership's Vermont utilities are approved annually by the VPSB whereas natural gas and electricity prices are adjusted

quarterly or annually using the rate adjustment mechanism in place.

The following table summarizes the key regulatory parameters for the two Vermont utility subsidiaries in F2016, F2015 and F2014.

Period	<u>FY2016</u>			<u>F2015</u>			<u>F2014</u>		
	Deemed equity	Authorized ROE	Average rate base	Deemed equity	Authorized ROE	Average rate base	Deemed equity	Authorized ROE	Average rate base
GMP	49.60%	9.44%	USD 1,260 million	50.00%	9.60%	USD 1,165 million	49.56%	9.58%	USD 1,159 million
VGS	55.00%	10.09%	USD 200 million	55.00%	10.20%	USD 193 million	55.00%	10.26%	USD 144 million

### GMP

- GMP is a combined entity of Green Mountain (pre-merger) and Central Vermont Public Service Corporation. The merger became effective October 1, 2012.
- As part of the merger agreement, GMP agreed to the following merger-saving sharing plan during the first ten years following the close of the merger: (1) flow-through to ratepayers via a rate credit of USD 2.5 million in 2013; (2) USD 5.0 million in 2014; (3) USD 8.0 million in 2015; (4) 50% of total savings from 2016 to 2020 (estimated at USD 10.5 million in 2016, USD 12.0 million in 2017, USD 13.0 million in 2018, USD 14.0 million in 2019 and USD 14.5 million in 2020); and

(5) all savings in 2021 and 2022. GMP is required to file a savings guarantee plan with the VPSB by December 31, 2022, to compensate ratepayers if the total merger saving is less than USD 144.0 million during the ten-year period.

- In August 2014, the VPSB approved GMP's three-year ARP for the period from October 1, 2014, to September 30, 2017. The main features are:
  - Annual base rate adjustment.
  - Power supply adjustment mechanism as follows: (1) 90% of energy costs that are USD 615,000 (per quarter) higher

## Regulation Update (CONTINUED)

or lower than energy costs are included in rates and (2) a full amount of transmission and capacity costs higher or lower than the amount already included in rates.

- A formula to determine the authorized ROE on common equity.
- Sharing of revenue shortfalls when returns are less than those allowed on shareholders' equity.
- Opportunity to recover costs of exogenous factors in excess of USD 1.2 million per year.
- In August 2016, GMP filed its FY2017 rate case with the VPSB. This application provides for an authorized ROE of 9.02% and an approximate 50.3% common equity ratio. In this application, GMP is proposing a 0.93% rate increase for FY2017.

### VGS

- VGS is subject to an ARP, which includes: (1) a quarterly adjustment of gas costs sold to customers and (2) an annual rate application for other activities.
- The annual rate application includes a mechanism for productivity gains, along with an earnings-sharing mechanism when the actual ROE is outside of a 50-basis point dead band from the authorized ROE.
- In February 2016, VGS filed its FY2017 rate case with the VPSB. This application provides for an authorized ROE of 9.7% and an approximate 50% common equity ratio. In this application, GMP is proposing a 3.3% rate decrease, largely because of lower natural gas costs, which were partly offset by a 2.0% increase in base rates.

### (3) Vermont Electricity Transmission – Regulated by the Federal Energy Regulatory Commission (FERC) in the United States

- Transco, which is 71.5% indirectly owned by GMLP, owns transmission assets in Vermont.
- Transco operates under a COS framework regulated by the FERC, which allows Transco to recover all prudently incurred operating costs.
- Transco is not exposed to any volume or commodity risk.
- There have been complaints filed to the FERC regarding the New England Transmission Owner's allowed ROE, which have led to a reduction in the base ROE. Three more complaints have subsequently been filed requesting further reductions to the allowed ROE. Although the lower ROEs will reduce the revenues collected by Transco through the ISO-New England

Open Access Transmission Tariff, the shortfall will be collected through the 1991 Vermont Transmission Agreement (the 1991 Agreement) with regional electricity distribution companies in Vermont and will not have a negative impact on Transco's earnings and cash flows. Additionally, 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 does not anticipate changes to the 1991 Agreement.

### (4) Pipelines – Regulated by the National Energy Board (NEB) in Canada and by the FERC

#### TQM – Regulated by the NEB

- TQM (50% owned; rated A (low) with a Stable trend by DBRS) was under a multi-year rate agreement in which annual rates were calculated using a formula that includes a fixed-cost component along with a cost-operating component that was fully recovered from or refunded to customers.
- In February 2014, TQM reached a multi-year settlement agreement with its interested parties, establishing the mechanisms for determining TQM's annual revenue requirements for 2014–2016.
- Under this agreement, annual rates are calculated using a formula that includes a fixed-cost component and a component that is fully recoverable from or payable to customers.
- Refer to the DBRS TQM report dated November 13, 2015, for more details.

#### Champion – Regulated by the NEB

- This pipeline runs cross the Ontario border and supplies Gaz Métro's distribution system in Northern Québec.
- Champion (100.0% owned) is regulated by the NEB with tolls based on an annual COS methodology.
- Champion uses a ROE and a capital structure equivalent to those approved by the Régie for Gaz Métro-QDA (the deemed equity component set at 46% and the authorized ROE at 8.9%).

#### Portland Natural Gas Transmission System (PNGTS)

- PNGTS (38.3% owned) originates at the Québec border and extends to the suburbs of Boston.
- PNGTS is regulated by the FERC. The objective of the FERC is to ensure the recovery of costs expected to be incurred and a reasonable base ROE.

## Assessment of Regulatory Environment

### Gaz Métro-QDA — Regulated by the Régie

Criteria	Score	Analysis
(1) Deemed Equity	Excellent <b>Good</b> Satisfactory Below Average Poor	Gaz Métro-QDA has a deemed equity of 46% (38.5% in common equity, 7.5% in preferred stock). With equity injections in F2015, Gaz Métro-QDA's actual capital structure is in line with its regulatory target (54% debt and 46% equity).
(2) Allowed ROE	Excellent Good <b>Satisfactory</b> Below Average Poor	The Régie agreed to not apply the automatic ROE adjustment formula and to set the ROE at 8.90% for F2016 and F2017 as it had done for F2014 and F2015. Gaz Métro-QDA has achieved its actual ROE close to the deemed ROE over the past several years.
(3) Energy Cost Recovery	<b>Excellent</b> Good Satisfactory Below Average Poor	There is no natural gas price risk for Gaz Métro-QDA as it is not responsible for purchasing natural gas from suppliers. Natural gas purchase costs are passed on to ratepayers at rates set by the Régie. Gaz Métro-QDA collects the payments from its customers on a monthly basis.
(4) Capital and Operating Cost Recovery	<b>Excellent</b> Good Satisfactory Below Average Poor	Major capital and operating costs are pre-approved 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.
(5) COS versus IRM	<b>Excellent</b> Good Satisfactory Below Average Poor	Gaz Métro-QDA expects to continue using the COS method until a new incentive mechanism is implemented, which is expected for F2018.
(6) Political Interference	Excellent <b>Good</b> Satisfactory Below Average Poor	There has been no adverse legislation in the regulated natural gas utility sector in Québec.
(7) Stranded Cost Recovery	Excellent <b>Good</b> Satisfactory Below Average Poor	Gaz Métro-QDA has a limited history of stranded costs.
(8) Rate Freeze	<b>Excellent</b> Good Satisfactory Below Average Poor	Rates have never been frozen and are not expected to be frozen in the foreseeable future.

## Assessment of Regulatory Environment (CONTINUED)

### Vermont Electricity and Gas Distribution Utilities - Regulated by the VPSB

Criteria	Score	Analysis
(1) Deemed Equity	<b>Excellent</b> Good Satisfactory Below Average Poor	The VPSB allowed GMP and CVS to have a deemed equity of approximately 50% and 55%, respectively, for FY2016.
(2) Allowed ROE	Excellent <b>Good</b> Satisfactory Below Average Poor	The VPSB set the authorized ROE at 9.44% for GMP and 10.09% for VGS for FY2016. With the cost overrun risk challenge facing VGS, its actual ROE is expected to be below that of the authorized ROE in the near future; however, GMP has an opportunity to earn a higher actual ROE than that of the authorized ROE if GMP achieves its target merger savings.
(3) Energy Cost Recovery	Excellent Good <b>Satisfactory</b> Below Average Poor	Revenue decoupling mechanisms are not in place; however, the VPSB allows power cost and purchased gas adjustments under an ARP. 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 <b>Satisfactory</b> Below Average Poor	Major capital and operating costs are pre-approved by the VPSB 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 project in 2015.
(5) COS versus IRM	Excellent <b>Good</b> Satisfactory Below Average Poor	GMP and VGS are regulated by the VPSB. Rates for their activities are established based on ARPs, which are more similar to a traditional COS method than a typical longer-term performance-based regulation plan. The base rates are approved annually by the VPSB. Productivity factors and excess earning/cost-sharing mechanisms are reasonable.
(6) Political Interference	Excellent Good <b>Satisfactory</b> Below Average Poor	Utilities are regulated by the VPSB, which operates as a quasi-judicial body. The Board is non-partisan and members are appointed to a six-year term.
(7) Stranded Cost Recovery	Excellent <b>Good</b> Satisfactory Below Average Poor	Utilities have a limited history of stranded costs.
(8) Rate Freeze	<b>Excellent</b> Good Satisfactory Below Average Poor	Rates have never been frozen and are not expected to be frozen in the foreseeable future.



## Description of Operations

GMLP's operations are divided into the following sectors: Energy Distribution, Transportation of Natural Gas, Energy Production and Energy Services, Storage and Other. Under the Partnership Agreement, GMLP is not allowed to invest more than 10% of its total assets in non-regulated assets (on a non-consolidated basis).

### 1. Energy Distribution (87.5% of reported F2015 net income)

- GMLP's core business is natural gas distribution in Québec, delivering approximately 97% of the province's natural gas consumed and serving approximately 195,000 customers as of September 30, 2015.
- VGS is the sole gas distributor in Vermont.
- Green Mountain transports, distributes and sells electricity and provides electric network construction services in Vermont. Following the acquisition and merger of Central Vermont Public Service Corporation, GMP is the largest electricity distributor in Vermont.

### 2. Natural Gas Transportation (8.5% of reported F2015 net income)

- TQM operates a gas pipeline in Québec that connects upstream with TCPL and downstream with PNGTS and the Gaz Métro-QDA system.
- In August 2015, GMLP signed an agreement with TCPL that ensures that natural gas consumers in Eastern Canada will have sufficient capacity and reduce natural gas transmission costs should the Energy East Pipeline project (the 4,600-kilometre pipeline that will carry 1.1 million barrels of crude oil per day from Alberta and Saskatchewan to refineries in Eastern Canada) proceed.
- Champion operates two gas pipelines that cross the Ontario-Québec border to supply GMLP's distribution system in Northwestern Québec.
- PNGTS's pipeline originates at the Québec border and extends to the suburbs of Boston.

### 3. Energy Production (2.7% of reported F2015 net income)

- This segment consists of non-regulated energy production activities related to Wind Farms 2 and 3 and Wind Farm 4.
- Wind Farms 2 and 3 (total capital investment of \$750 million including financing costs) are an equal-share JV of Boralex et Beauré Éole, 51% of which is owned by the Partnership and the remaining 49% of which is owned by Valener. As a result, GMLP owns 25.5% of the equity interest. GMLP received distributions in February 2015 and August 2015 for \$40.6 million in aggregate.
- The JV's core business includes owning and operating wind farms with an installed capacity of 272 megawatts (MW), which were commissioned in November 2013 and December 2013.
- Wind Farm 4 (total capital investment of \$190 million including financing costs) is an equal-share JV of Boralex et Beauré Éole 4, 51% of which is owned by the Partnership and the remaining 49% of which is owned by Valener. Wind Farm 4 owns and operates a wind farm with an installed capacity of 68 MW, which has been in service since December 2014. As a result, GMLP owns 25.5% of the equity interest.

### 4. Energy Services, Storage and Other (including non-regulated activities) (1.2% of reported adjusted F2015 net income)

- The Partnership owns an interest in the Intragaz Group, whose main activity is underground natural gas storage.
- This activity tallies with GMLP's mission as the storage of natural gas in Québec is part of its supply chain.
- The Intragaz Group operates the only two underground storage facilities in Gaz Métro-QDA's service territory in Québec. GMLP is also its only customer. On May 17, 2013, the Régie approved COS as the method for setting rates whereas the avoided-cost method had previously been used.
- Energy-related activities are focused on the maintenance and repair of residential, commercial and industrial equipment, the heating and cooling of large buildings, the sale of natural gas for heavy transport and the sale of liquefied natural gas.

## Gaz Métro Limited Partnership

## Consolidated Balance Sheet

(CAD millions)	Jun. 30	Sept. 30			Jun. 30	Sept. 30	
Assets	<u>2016</u>	<u>2015</u>	<u>2014</u>	Liabilities & Equity	<u>2016</u>	<u>2015</u>	<u>2014</u>
Cash & equivalents	83	87	104	S.T. borrowings	9	35	5
Accounts receivable	199	223	212	Current portion L.T.D.	206	33	27
Inventories	62	118	115	Accounts payable	290	356	341
Others	218	73	83	Deferred tax	0	2	0
<b>Total Current Assets</b>	<b>562</b>	<b>500</b>	<b>514</b>	Others	169	50	55
Net fixed assets	3,861	4,440	3,971	<b>Total Current Liabilities</b>	<b>674</b>	<b>476</b>	<b>428</b>
Goodwill & intangibles	821	805	430	Long-term debt (L.T.D.)	2,981	3,531	3,141
Deferred charges	0	407	395	Other L.T. liabilities	1,372	1,005	788
Investments & others	1,643	1,065	834	Deferred credits	0	376	305
<b>Total Assets</b>	<b>6,887</b>	<b>7,218</b>	<b>6,144</b>	Minority interest	35	29	41
				Shareholders equity	1,825	1,801	1,442
				<b>Total Liab. &amp; SE</b>	<b>6,887</b>	<b>7,218</b>	<b>6,144</b>

## Gaz Métro Limited Partnership (consolidated)

Balance Sheet & Liquidity & Capital Ratios	9 mos. Jun. 30		12 mos. Jun. 30		For the year ended September 30			
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current ratio	0.83	1.37	0.83	1.05	1.20	0.82	0.70	0.76
Net debt in capital structure	62.6%	65.6%	62.6%	65.7%	67.4%	65.5%	64.6%	63.0%
Total debt in capital structure	63.2%	66.2%	63.2%	66.3%	68.2%	66.0%	65.0%	63.5%
Total debt in capital structure <b>1, 2</b>	63.8%	66.7%	63.8%	67.2%	67.9%	65.3%	63.7%	62.1%
Cash flow/Net debt	21.7%	17.6%	20.3%	16.2%	15.0%	13.0%	13.4%	18.6%
Cash flow/Total debt	21.1%	17.1%	19.8%	15.8%	14.5%	12.7%	13.1%	18.3%
Cash flow/Total debt <b>1</b>	21.0%	17.1%	19.7%	15.7%	14.4%	12.6%	13.0%	18.2%
Cash flow-interest coverage	6.17	5.39	4.63	4.21	3.87	3.50	3.87	4.23
(Cash flow - dividends)/Capex	0.79	0.53	0.67	0.49	0.62	0.40	0.39	1.01
Distribution payout ratio	63.8%	64.7%	92.8%	97.0%	96.8%	99.7%	93.3%	72.0%

## Coverage Ratios (times)

EBIT gross interest coverage	2.71	2.51	1.91	1.81	1.84	1.81	2.10	2.42
EBITDA gross interest coverage	4.53	4.10	3.57	3.34	3.39	3.24	3.53	4.18
Fixed-charge coverage	2.71	2.51	1.91	1.81	1.84	1.81	2.10	2.42
Debt/EBITDA	7.21	8.34	5.13	6.07	5.85	6.09	6.19	4.24
EBIT gross interest coverage <b>1</b>	2.71	2.52	1.92	1.82	1.85	1.83	2.11	2.42

## Profitability Ratios

Return on equity	16.8%	16.8%	12.0%	11.7%	11.6%	11.3%	12.1%	14.3%
Return on capital	7.6%	7.8%	6.6%	6.3%	6.4%	6.3%	6.8%	7.6%

**1** Adjusted for operating leases. **2** Adjusted for accumulated other comprehensive income.

## Rating History

	Current	2015	2014	2013	2012	2011
Issuer Rating	A	A	A	A	NR	NR
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
First Mortgage Bonds*	A	A	A	A	A	A
Senior Secured Notes*	A	A	A	NR	NR	NR

\* Guaranteed by Gaz Métro Limited Partnership.

## Previous Action

- Confirmed, November 7, 2016.

## Related Research

- “DBRS Rates Gaz Métro inc.’s CAD 125 million First Mortgage Bonds at ‘A,’ Stable,” October 6, 2016.
- “DBRS Rates Gaz Métro inc.’s CAD 100 million First Mortgage Bonds at ‘A,’ Stable,” May 24, 2016.
- “DBRS Confirms Gaz Métro inc. at R-1 (low), Stable Trend, with CP Limit Increase”, December 2, 2015.

## Commercial Paper Limit

- \$800 million.

## Previous Report

- Gaz Métro inc.: Rating Report, December 21, 2015.

### 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.dbrs.com](http://www.dbrs.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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