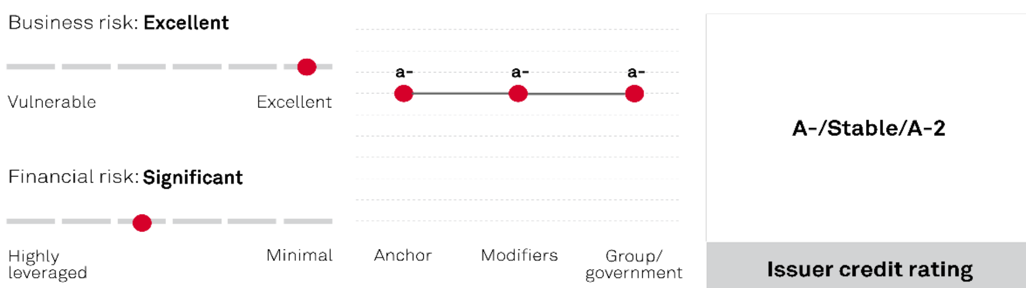
Enbridge Gas Inc.

July 14, 2023

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths	Key risks
A low-risk, rate-regulated natural gas distribution and transmission company.	Operates only in Ontario, Canada, thus it has limited geographic and regulatory diversity.
It derives about two-thirds of its distribution revenue from residential and small business customers, which provide stable cash flows.	Negative discretionary cash flow due to increasing capital expenditure (capex) activities indicates external funding needs.
It has the ability to pass commodity costs through to customers and recovers costs through a quarterly adjustment mechanism, which limits its exposure to commodity risk.	

We expect Enbridge Gas Inc. (EGI) to maintain its financial performance throughout our outlook period. This includes funds from operations (FFO) to debt of 11%-13% through 2025. We anticipate EGI's capex will remain elevated, averaging about C$1.6 billion across the outlook period, which largely reflects new customer connections and system replacement projects, such as the Lake Shore Kipling Oshawa Loop and Panhandle Regional, among other natural gas expansion projects. The company's substantial capital spending, totaling more than 2x its depreciation expense, will lead it to generate negative discretionary cash flow over our outlook period, which indicates a need for external funding. We also expect dividends to average about C$80 million across the outlook period.

EGI benefits from a credit supportive regulatory framework with the Ontario Energy Board (OEB). Through its purchase gas variance account, EGI can defer the variance between actual and forecasted natural gas prices for future recovery and is allowed to update these costs through quarterly rate adjustment applications. Furthermore, it typically recovers any under- or over-recovery experienced within a quarter over a 12-month period, limiting the regulatory lag. In addition, EGI filed its application with the OEB in October 2022 to establish a 2024-2028 Incentive Regulation (IR) rate-setting framework. The application and framework aim to obtain approval in three phases. Phase 1 is dedicated to setting the 2024 base rates on a cost-of-service basis, and Phases 2 and 3 focuses on establishing a price cap rate-setting mechanism and capital allocation for the remainder of the IR term from 2025 to 2028. EGI expects the OEB to make a decision on Phase 1 of the application in the second half of 2023.

EGI lacks geographic and regulatory diversity. The company operates only in Ontario, is the largest gas distributor in Ontario, and serves virtually all of the province's approximately 3.8 million residential, commercial, and industrial customers. However, compared with other utilities, EGI lacks geographic and regulatory diversity, which makes it reliant on the OEB's regulation to sustain its credit quality.

Outlook

The stable outlook on EGI reflects our expectation that it will continue to focus on its regulated gas distribution operations and generate stable and predictable cash flows from these. We also expect that the company will continue to benefit from modest growth in its new customers and from the timely and on-budget completion of its capital programs. As a result, we anticipate FFO to debt of 11%-13% during our 2023-2025 outlook period.

The stable outlook also reflects our view that Enbridge Inc. (Enbridge), the company's parent, will improve its S&P Global Ratings-adjusted credit metrics throughout the forecast period, with its debt to EBITDA decreasing to 4.7x and its FFO to debt increasing to about 16% by 2024.

Furthermore, the stable outlook reflects our expectation that both the utility's insulation features and Enbridge's strategy to preserve its credit strength will not change.

Downside scenario

We could lower our ratings on EGI if its financial measures deteriorate, including FFO to debt approaching 10% with no prospects for improvement.

Alternatively, we could lower our ratings on EGI if we lower our ratings on Enbridge. This could occur if Enbridge's consolidated S&P Global Ratings-adjusted FFO to debt falls below 13% or it sustains debt to EBITDA of more than 5x.

Upside scenario

Although unlikely, we could upgrade the company over the next 18-24 months if we also upgrade Enbridge and raise our stand-alone credit profile (SACP) on EGI.

We believe the company could warrant a higher SACP if it improves its financial measures, including FFO to debt of consistently above 13%. An upgrade at the parent level would require Enbridge to maintain FFO to debt of more than 17% and S&P Global Ratings-adjusted debt to EBITDA of about 4x while sustaining its asset mix and cash flow stability.

Our Base-Case Scenario

Assumptions

- Stable and predictable cash flows from its regulated gas distribution operations, as well as modest new customer growth;
- A stable regulatory regime in Ontario with no material adverse regulatory decisions;
- EGI will primarily operate under inflation-indexed rates throughout 2023 before starting a new rate application cycle in 2024;
- EGI will earn close to its authorized return on equity;
- All earnings exceeding 150 basis points over the OEB's approved return on equity will be shared equally between EGI and its ratepayers in 2023;
- EGI will operate at or close to its authorized capital structure across the outlook period;
- The company continues to pass through its natural gas costs to its ratepayers; and
- Annual capex of C$1.5 billion-C$1.8 billion across the outlook period.

Key metrics

Enbridge Gas Inc.--Key metrics*

	2021a	2022a	2023e	2024f	2025f
FFO to debt (%)	12.4	11.9	12.7	12.5-13.0	12.5-13.0
FFO cash interest coverage (x)	4.3	4.1	4.1	4.1-4.5	4.1-4.5
Debt to EBITDA (x)	6.2	6.4	5.9	5.6-6.0	5.6-6.0

*All figures are adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. FFO--Funds from operations.

Company Description

EGI operates as a rate-regulated natural gas distribution utility company in Ontario. The company was formed through the amalgamation of Enbridge Gas Distribution Inc. and Union Gas Ltd. in 2019. The company also owns and operates regulated and nonregulated natural gas storage facilities in Ontario. EGI's distribution rates are set under a five-year incentive regulation framework using a price cap mechanism, and it serves about 3.8 million customers.

Peer Comparison

Enbridge Gas Inc.--Peer Comparisons

	Enbridge Gas Inc.	Energir Inc.	Washington Gas Light Co.	Dominion Energy Ohio
Foreign currency issuer credit rating	A-/Stable/A-2	A/Stable/--	A-/Stable/A-2	BBB+/Negative/--
Local currency issuer credit rating	A-/Stable/A-2	A/Stable/--	A-/Stable/A-2	BBB+/Negative/--
Period	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-09-30	2022-12-31	2022-12-31
Mil.	C$	C$	C$	C$
Revenue	6,608	3,045	2,365	1,410
EBITDA	1,711	915	595	812
Funds from operations (FFO)	1,293	711	487	725
Interest	440	139	120	45
Cash interest paid	417	145	108	47
Operating cash flow (OCF)	70	671	459	436
Capital expenditure	1,506	704	718	616
Free operating cash flow (FOCF)	(1,436)	(32)	(259)	(179)
Discretionary cash flow (DCF)	(2,123)	(271)	(394)	(221)
Cash and short-term investments	10	75	0	7
Gross available cash	10	75	0	7
Debt	10,905	4,585	2,954	3,120
Equity	11,163	2,282	2,858	4,561
EBITDA margin (%)	25.9	30.0	25.1	57.6
Return on capital (%)	4.8	6.1	6.4	8.6
EBITDA interest coverage (x)	3.9	6.6	4.9	17.9
FFO cash interest coverage (x)	4.1	5.9	5.5	16.3
Debt/EBITDA (x)	6.4	5.0	5.0	3.8
FFO/debt (%)	11.9	15.5	16.5	23.3
OCF/debt (%)	0.6	14.6	15.5	14.0
FOCF/debt (%)	(13.2)	(0.7)	(8.8)	(5.7)
DCF/debt (%)	(19.5)	(5.9)	(13.3)	(7.1)

Business Risk

Our assessment of EGI's business risk reflects our view of the OEB's regulatory framework, which underpins the utility's predictable and steady cash flow. In our view, the OEB's regulatory process is transparent, consistent, and predictable. These factors collectively support the utility's timely recovery of prudently spent capital and operating expenses. In addition, the federal carbon levy flows through to EGI's customers, and it recovers its gas commodity costs through a quarterly adjustment mechanism, which limits its exposure to commodity risk.

Further supporting our view is EGI's large customer base. The company serves almost all of Ontario's gas distribution network with about 3.8 million customers, most of which are residential and small business customers. As such, we expect EGI's cash flows to remain stable. However, the demand for natural gas in the residential customer class can vary due to weather-driven fluctuations, which can lead to some cash flow volatility. Our favorable view of the company's business risk is slightly offset by its limited geographic footprint and exposure to a single regulatory regime.

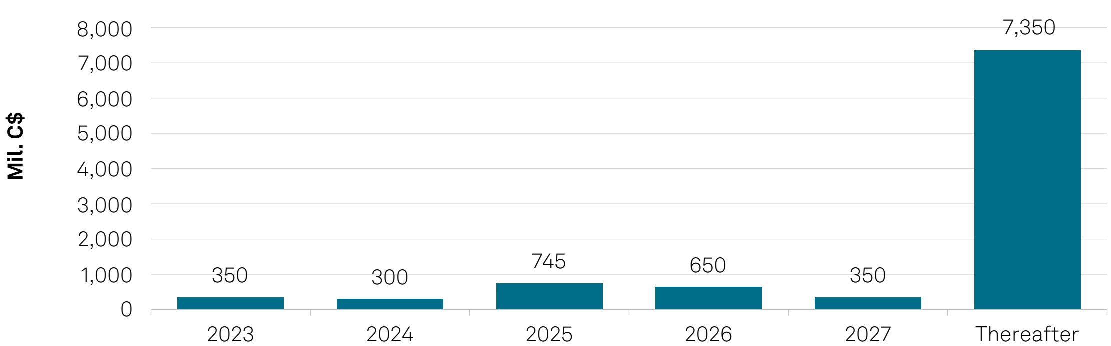
Financial Risk

We assess EGI's financial measures using our low volatility financial benchmark table rather than the benchmark we use for typical industrial issuers. This reflects the company's lower-risk regulated gas distribution operations and effective management of regulatory risk. EGI has a large capital program--about 2x its depreciation expense--that will cause it to generate negative discretionary cash flow and require it to rely on external financing to fund its capital programs.

Under our base-case scenario, which includes a stable regulatory environment with no material adverse regulatory decisions, we expect annual capital spending of C$1.5 billion-C$1.8 billion, dividend payments to average about C$80 million annually, and FFO to debt of 11%-13% between 2023 and 2025.

Debt maturities

Enbridge Gas Inc.--Debt maturities
As of December 2022



Source: Enbridge Gas Annual Report 2022. C$--Canadian dollars.

Enbridge Gas Inc.--Financial Summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a

Enbridge Gas Inc.--Financial Summary

Display currency (mil.)	C$	C$	C$	C$	C$	C$
Revenues	3,292	5,297	5,075	4,515	4,893	6,608
EBITDA	750	1,551	1,639	1,575	1,650	1,711
Funds from operations (FFO)	532	1,190	1,239	1,117	1,272	1,293
Interest expense	220	391	395	405	385	440
Cash interest paid	214	394	388	392	383	417
Operating cash flow (OCF)	558	1,725	1,277	1,204	739	70
Capital expenditure	794	1,288	1,104	1,180	1,373	1,506
Free operating cash flow (FOCF)	(236)	437	173	24	(634)	(1,436)
Discretionary cash flow (DCF)	(896)	(996)	(1,077)	(1,226)	(1,884)	(2,123)
Cash and short-term investments	20	17	77	9	9	10
Gross available cash	20	17	77	9	9	10
Debt	4,790	9,121	9,435	9,912	10,245	10,905
Common equity	3,309	9,893	10,004	10,017	10,348	11,163
Adjusted ratios						
EBITDA margin (%)	22.8	29.3	32.3	34.9	33.7	25.9
Return on capital (%)	5.6	7.5	5.3	4.7	4.7	4.8
EBITDA interest coverage (x)	3.4	4.0	4.2	3.9	4.3	3.9
FFO cash interest coverage (x)	3.5	4.0	4.2	3.9	4.3	4.1
Debt/EBITDA (x)	6.4	5.9	5.8	6.3	6.2	6.4
FFO/debt (%)	11.1	13.0	13.1	11.3	12.4	11.9
OCF/debt (%)	11.6	18.9	13.5	12.2	7.2	0.6
FOCF/debt (%)	(4.9)	4.8	1.8	0.2	(6.2)	(13.2)
DCF/debt (%)	(18.7)	(10.9)	(11.4)	(12.4)	(18.4)	(19.5)

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

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2022									
Company reported amounts	12,291	11,163	6,608	1,702	1,012	423	1,711	78	104	1,521
Cash taxes paid	-	-	-	-	-	-	(1)	-	-	-
Cash interest paid	-	-	-	-	-	-	(400)	-	-	-
Lease liabilities	48	-	-	-	-	-	-	-	-	-
Operating leases	-	-	-	9	2	2	(2)	7	-	-

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

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Accessible cash and liquid investments	(10)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	15	(15)	(15)	-	(15)
Nonoperating income (expense)	-	-	-	-	3	-	-	-	-	-
Debt: other	(1,424)	-	-	-	-	-	-	-	-	-
Total adjustments	(1,386)	-	-	9	5	17	(418)	(8)	-	(15)
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	10,905	11,163	6,608	1,711	1,017	440	1,293	70	104	1,506

Liquidity

We assess EGI's liquidity as adequate, with sources covering uses by 1.1x over the coming 12 months, and anticipate its sources would cover uses even if forecast consolidated EBITDA declines 10%. We believe the predictable regulatory framework for EGI provides cash flow stability for the company even in times of economic stress, supporting our use of slightly lower thresholds to assess liquidity. In addition, we believe it can reduce capital spending (averaging about C$1.6 billion over the next three years) during periods of stress, indicative of a limited need for refinancing under such conditions. Furthermore, our assessment reflects the company's generally prudent risk management, sound relationships with the banks, and a satisfactory standing in the credit markets (bond yields is in line with investment-grade peer utilities). Overall, we believe that the company could withstand adverse market circumstances over the next 12 months with sufficient liquidity to meet its obligations. The company has its next big long-term debt maturity in 2023, with about C$350 million coming due, and we expect the company to proactively address this maturity well in advance of its scheduled due date.

Principal liquidity sources

- Cash of about C$10 million;
- Committed credit facility availability of about C$1.1 billion; and
- Cash FFO of about C$1.3 billion.

Principal liquidity uses

- Debt maturities of about C$350 million over the next 12 months;
- Assumed maintenance capital spending of about C$1.4 billion over the next 12 months; and
- Net dividend payments of about C$13 million.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

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

Group Influence

Our rating on EGI incorporates our view of the company as a core subsidiary of parent Enbridge, meaning that we view EGI as highly unlikely to be sold and as integral to the group's overall strategy. In addition, EGI is closely linked to Enbridge's name and reputation, and it has strong long-term support from the group's senior management. In addition, we assess EGI as having one notch of insulation from its parent. Therefore, the issuer credit rating on the company is one notch above Enbridge's 'bbb+' group credit profile. Our assessment of EGI as an insulated subsidiary of Enbridge reflects the strength of the company's SACP and the cumulative value of the structural protections that insulate it from its parent. Key insulating measures include:

- EGI is a separate, stand-alone legal entity that functions independently (both financially and operationally), files its own rate cases, and is independently regulated;
- EGI has its own records and books, including stand-alone audited financial statements;
- EGI has its own funding arrangements, issues its own long-term debt, and has a separate committed credit facility that is distinct from that of its parent;
- We believe there is a strong economic basis for Enbridge to preserve EGI's credit strength, which reflects the utility's low-risk, profitable, and regulated nature; and
- We do not expect a default of other group entities to directly lead to a default of EGI.

Issue Ratings--Subordination Risk Analysis

Capital structure

EGI's capital structure comprises about C$1.40 billion of outstanding commercial paper and about C$10 billion of senior unsecured long-term debt.

Analytical conclusions

We rate EGI's senior unsecured debt 'A-', the same level as our issuer credit rating (ICR) on EGI, because the debt is issued by a qualifying investment-grade regulated utility. Our 'A-2' rating on the commercial paper program reflects our 'A-' ICR on EGI.

Rating Component Scores

Foreign currency issuer credit rating	**A-/Stable/A-2**
Local currency issuer credit rating	**A-/Stable/A-2**
Business risk	**Excellent**
Country risk	Very Low
Industry risk	Very Low
Competitive position	Excellent
Financial risk	**Significant**
Cash flow/leverage	Significant
Anchor	**a-**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**a-**

Related Criteria

- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- ARCHIVE | Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- ARCHIVE | General Criteria: Group Rating Methodology, 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: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- ARCHIVE | General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (as of July 14, 2023)*

Enbridge Gas Inc.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Canada National Scale Commercial Paper	A-1(LOW)
Senior Unsecured	A-
Issuer Credit Ratings History	
02-Jan-2019	A-/Stable/A-2
Related Entities	
Enbridge Energy L.P.	
Issuer Credit Rating	BBB+/Stable/--
Senior Unsecured	BBB+
Enbridge Energy Partners L.P.	
Issuer Credit Rating	BBB+/Stable/NR
Senior Unsecured	BBB+
Enbridge Inc.	
Issuer Credit Rating	
Foreign Currency	BBB+/Stable/A-2
Local Currency	BBB+/Stable/--
Commercial Paper	
Canada National Scale Commercial Paper	A-1(LOW)
Preferred Stock	
Canada National Scale Preferred Share	P-2(Low)
Preferred Stock	BBB-
Senior Unsecured	BBB+
Subordinated	BBB-
Enbridge Pipelines Inc.	
Issuer Credit Rating	BBB+/Stable/--
Commercial Paper	
Canada National Scale Commercial Paper	A-1(LOW)
Senior Unsecured	BBB+
Spectra Energy Capital LLC	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2
Spectra Energy Corp.	
Issuer Credit Rating	BBB+/Stable/--
Spectra Energy Partners L.P.	
Issuer Credit Rating	BBB+/Stable/NR

Ratings Detail (as of July 14, 2023)*

Senior Unsecured	BBB+
Texas Eastern Transmission L.P.	
Issuer Credit Rating	BBB+/Stable/--
Senior Unsecured	BBB+
Westcoast Energy Inc.	
Issuer Credit Rating	BBB+/Stable/--
Preferred Stock	
Canada National Scale Preferred Share	P-2(Low)
Preferred Stock	BBB-
Senior Unsecured	BBB+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.