# Rating Report Alectra Inc.

**DBRS Morningstar** 

June 24, 2022

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### Commercial Paper Limit

\$700 million

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Ratings						
Debt	Rating	Rating Action	Trend			
Issuer Rating	А	Confirmed	Stable			
Senior Unsecured Debentures	А	Confirmed	Stable			
Commercial Paper	R-1 (low)	Confirmed	Stable			

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#### **Rating Update**

On June 21, 2022, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating and Senior Unsecured Debentures rating of Alectra Inc. (Alectra or the Company) at "A" and the Commercial Paper (CP) rating at R-1 (Iow). All trends are Stable. The ratings of Alectra are based on its regulated electricity distribution business, which provides a predictable stream of earnings and cash flows. The confirmations and trends are based on the Company's reasonable financial risk profile, with all key credit metrics in the "A" rating category.

Alectra's business risk assessment remained stable, supported by the reasonable regulatory framework under the Ontario Energy Board (OEB). The Company's distribution business continues to operate under a 10-year rates deferral period until 2027, with productivity gains from the merger and acquisition of the predecessor utilities largely accruing to the shareholders. DBRS Morningstar notes, however, Alectra has been growing its nonregulated operations and intends to increase this segment to account for up to 15% of EBITDA over the medium term (8% in 2021). While the Company's nonregulated operations are largely complementary to the incumbent regulated business (such as solar generation, submetering, and power restoration services), DBRS Morningstar considers nonregulated operations to be of higher risk because earnings and cash flows are less predictable; this is partly mitigated by the generation portfolio's long-term contracts with the Independent Electricity System Operator (IESO). DBRS Morningstar will continue to monitor the growth in Alectra's nonregulated segment. Should earnings from the nonregulated business exceed the 20% threshold on a sustained basis, the Company's business risk assessment could be negatively affected.

Alectra's financial risk assessment remains supportive of the current ratings, with all key credit metrics in line with the "A" rating category. Given that most of the earnings and cash flows are from regulated activities, DBRS Morningstar expects the Company's key metrics to remain stable for the medium term. However, should key credit metrics weaken further to a level no longer commensurate with the current ratings, a negative rating action could occur.

#### Financial Information

	12 mos. ended March 31	For the year ended December 31				
	2022	2021	2020	2019	2018	
Total debt in capital structure (%) <sup>1, 2</sup>	61.1	60.5	62.2	60.9	60.9	
Cash flow/Total debt (%) <sup>2</sup>	12.7	13.8	12.5	14.4	15.3	
EBIT gross interest coverage (x) <sup>2</sup>	3.04	2.97	2.69	2.59	2.93	

1 Equity excludes goodwill resulting from the amalgamation of PowerStream, Horizon, and Enersource, and the acquisition of Guelph Hydro. 2 Adjusted for operating leases.

#### Issuer Description

Alectra is the largest municipally owned electricity distribution company in Ontario, with more than one million customers. Its service franchise areas include Mississauga, Markham, Richmond Hill, Vaughan, Barrie, St. Catharines, Hamilton, Brampton, and Guelph.

#### Rating Considerations

#### Strengths

1. Stability from regulated business

Approximately 94% of the Company's assets is in the regulated distribution business, which generates stable cash flow. The regulated electricity distribution business operates under a reasonable regulatory framework in Ontario.

#### 2. Strong franchise area with good growth

Alectra's franchise area is one of the strongest in Ontario, with above-average customer growth that has helped to offset energy conservation pressure on consumption volumes. The customer mix is also favourable, with residential customers accounting for approximately 90% of total customers. Residential customers reduce the Company's exposure to cyclicality.

#### 3. Reasonable financial profile

Alectra's key credit metrics have been reasonable for the current rating category. For the last 12 months ended March 31, 2022 (LTM 2022), all three of the Company's key credit metrics of cash flow-to-debt, debt-to-capital, and EBIT-interest coverage (12.7%, 61.1%, and 3.04 times (x), respectively) were in the "A" rating range.

#### Challenges

## 1. Operational challenges and performance pressure under Incentive Rate-Setting (IR) Under performance-based regulation, Alectra must forecast its operating, maintenance, and administrative expenses as well as its capital investment for a specified time period. As a result, earnings and cash flows could be negatively affected by large unforeseen discrepancies between forecast and actual costs. Additionally, under the Price Cap IR method, annual rate increases are based on a regulatory formula that includes inflation, a productivity factor, and a stretch factor. Alectra Utilities Corporation (AUC), the regulated utility, must achieve productivity at least equal to the regulatory productivity and stretch factor in order to achieve the allowed return on equity (ROE). However, DBRS

Morningstar views earnings pressure as manageable given that the rate adjustment parameters for the productivity and stretch factors for 2021 and 2022 were reasonable at 0.0% and 0.3%, respectively, in both years.

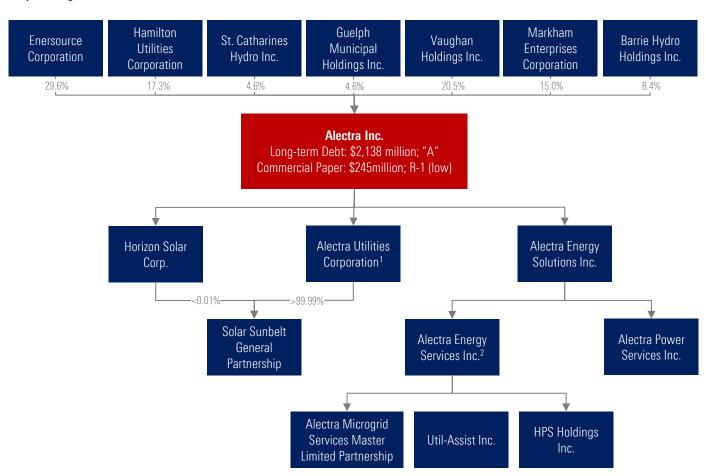
#### 2. Exposure to higher-risk nonregulated business

DBRS Morningstar considers the nonregulated business to be higher risk than Alectra's core regulated electricity distribution business. This is largely because of the greater volume risk associated with nonregulated operations. Nonregulated operations for the Company include solar generation, a submetering business, and a power restoration services business. DBRS Morningstar notes that, although commodity price risk for the generation business has been mitigated through long-term contracts with the IESO, increasing exposure to the nonregulated segment could result in greater volatility in Alectra's earnings and cash flows. In 2021, nonregulated operations accounted for approximately 8% of total EBITDA, and the Company has indicated this will likely increase to 10% to 15% over the medium term. Should earnings from the nonregulated business exceed the 20% threshold on a sustained basis, the Company's business risk assessment could be negatively affected.

#### 3. Limited access to equity capital market

Alectra's ownership structure (owned largely by several municipalities) limits its ability to directly access the equity market. As a result, free cash flow deficits have been largely financed through revolving credit facilities and debt issuances.

# Corporate Structure



**Simplified Organizational Structure** 

As at March 31, 2022.

1 Alectra Real Estate Holdings Inc. is not shown. It is the registered (but not beneficial) holder as nominee and bare trustee for AUC of real estate formerly owned by HOBNI.

2 Ownership of nonparticipating, nonvoting preferred shares by PowerStream Energy Holdings Trust not shown. Alectra Energy Solutions Inc. ownership of Util-Assist Corporation (operating company in the U.S.) is not shown. HPS Holdings owns 100% of Holland Power Services Inc.; ownership of Holland New England and NorthEast Line & Electrical Restoration are not shown. Source: Alectra.

- Alectra was created through the amalgamation of Enersource Holdings Inc., Horizon Holdings Inc., and PowerStream Holdings Inc. on January 31, 2017.
  - Alectra is indirectly owned by municipalities; the only nonmunicipal owner is Enersource Corporation, which is 90% owned by the City of Mississauga and 10% owned by BPC Energy Corporation, a wholly owned indirect subsidiary of the Ontario Municipal Employees' Retirement System.
- AUC was created through the amalgamation of the predecessor local distribution companies (LDCs): PowerStream Inc., Enersource Hydro Mississauga Inc., and Horizon Utilities Corporation on January 31, 2017. On February 28, 2017, AUC acquired all shares of Hydro One Brampton Networks Inc. (HOBNI).

- On January 1, 2019, Guelph Hydro Electric Systems Inc. (Guelph Hydro) merged with AUC. The City of Guelph, through its wholly owned subsidiary Guelph Municipal Holdings Inc., holds approximately 4.6% of shares in Alectra.
- AUC is the second-largest municipally owned electric utility by customer base in North America and the largest municipally owned LDC in Ontario, serving more than one million customers.
- Alectra Energy Solutions Inc. holds the large majority of the nonregulated business, managing total assets of approximately \$312 million, mainly consisting of solar-generation assets under long-term contracts with the IESO and a submetering business.
  - In January 2021, Alectra acquired Holland Power Services Inc. (Holland Power), which
    provides power restoration services along the eastern seaboard of the U.S. and Canada, for
    share consideration of approximately \$52 million plus working capital considerations.

#### **Earnings and Outlook**

	12 mos. March 31	For	the year ende	d December 31	
(CAD millions where applicable)	2022	2021	2020	2019	2018
Net Sales	767	754	671	653	596
EBITDA	401	399	371	356	339
EBIT	231	232	218	210	208
Gross interest expense	76	78	81	81	70
Net income before nonrecurring items	137	136	144	133	127
Reported net income	92	105	79	64	109
Return on equity (%)	9.2	9.0	10.0	9.9	10.2
Rate base <sup>1</sup>	N/A	3,403	3,371	3,212	2,886
Deemed common equity (%)	40.0	40.0	40.0	40.0	40.0
Allowed ROE (%) <sup>2</sup>	8.95	8.95	8.95	8.95	8.95
Achieved regulatory ROE (%)	N/A	7.50	4.80	7.21	7.69

1 Rate base amounts are based on actual Reporting and Record Keeping Requirements filings.

2 Based on weighted-average of last OEB-approved rate base.

#### 2021 Summary

- Alectra's earnings have been predictable, supported by the Company's regulated activities (92% of 2021 EBITDA).
  - EBITDA and EBIT increased because of higher approved distribution rates and contribution from Holland Power.
  - Net income before nonrecurring items decreased modestly, however, because of higher payments in lieu of income taxes for the year.
  - Earnings from the nonregulated segment largely consist of solar generation assets under long-term Feed-In Tariff contracts with the IESO.
- Reported net income included DBRS Morningstar regulatory adjustments of \$42 million, derecognition gain of \$11 million, and \$4 million of additional cleaning costs related to the pandemic.

 DBRS Morningstar notes that Alectra's achieved regulatory ROE has been lower than the allowed ROE because the Company (per OEB direction) excludes merger savings in this calculation.

2022 Summary and Outlook

- Earnings for LTM 2022 were largely in line with 2021.
- DBRS Morningstar expects Alectra's earnings to be steady in 2022.
  - Distribution revenues should continue to benefit from annual increases through the IR mechanism.
  - Overall, DBRS Morningstar expects Alectra's earnings to generally increase modestly year over year in line with growth in the rate base.

#### **Financial Profile**

	12 mos. ended March 31	For the year ended December 31			
(CAD millions where applicable)	2022	2021	2020	2019	2018
Net income before nonrecurring items	137	136	144	133	127
Depreciation & amortization	185	182	165	158	140
Deferred income taxes and other	(15)	9	(10)	26	38
Cash flow from operations	307	327	299	317	305
Dividends paid	(89)	(77)	(82)	(85)	(69)
Capital expenditures	(337)	(303)	(278)	(334)	(289)
Free cash flow (before working capital changes)	(119)	(53)	(61)	(102)	(53)
Changes in noncash working capital items	49	186	(120)	33	(108)
Regulatory assets/liabilities	(58)	(42)	(44)	(69)	(30)
Net free cash flow	(128)	91	(225)	(138)	(191)
Acquisitions & long-term investments	0	(98)	(7)	0	0
Proceeds on asset sales	31	31	33	17	17
Net equity change	(2)	(2)	(4)	(4)	(5)
Net debt change	76	(36)	193	127	73
Other investing & financing	14	20	7	11	0
Change in cash	(9)	6	(3)	13	(106)
Total debt	2,416	2,368	2,399	2,202	1,984
Total debt in capital structure (%) <sup>1,2</sup>	61.1	60.5	62.2	60.9	60.9
Cash flow/Total debt (%) <sup>2</sup>	12.7	13.8	12.5	14.4	15.3
EBIT gross interest coverage (x) <sup>2</sup>	3.04	2.97	2.69	2.59	2.93
Dividend payout ratio (%)	65.2	56.6	57.0	63.9	54.2

1 Equity excludes goodwill resulting from the amalgamation of PowerStream, Horizon, and Enersource and the acquisition of Guelph Hydro. 2 Adjusted for operating leases.

2021 Summary

- Alectra's key credit metrics strengthened in 2021 and returned to more historical levels; the weakness in 2020 was largely because of \$80 million of CP issued in December 2020 to fund the acquisition of Holland Power (completed in January 2021).
  - Overall, the Company's key credit metrics remained in line with the "A" rating category.
- Cash flow from operations increased because of timing of cash collection.
- Net capital expenditures (capex) increased as Alectra continued to spend on renewing its infrastructure and connecting new customers.
- Dividends of \$77 million were in line with the Company's dividend policy.
- Acquisitions for the year include Holland Power (\$52 million plus working capital considerations) and a
  portfolio of Distribution Energy Resources infrastructure assets (\$24 million).
- Alectra issued \$300 million of debentures in February 2021, with proceeds used to partly repay the outstanding CP balance.

2022 Summary and Outlook

- Alectra's key credit metrics weakened modestly in LTM 2022 because of the lower cash flow and higher debt load for the period.
  - Cash flow from operations decreased because of higher cash tax payments.
  - Overall, DBRS Morningstar expects the Company to manage its capex and dividends in a prudent manner to maintain its key credit metrics in line with the "A" rating category.
- Alectra has forecast capex of around \$325 million for the year, with the increase largely for new customer connections and for transit projects.
- DBRS Morningstar expects any net free cash flow deficits from the ongoing capex program to be funded through debt issuances.

#### **Debt and Liquidity**

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(CAD millions as at March 31, 2022)	Amount	Drawn/CP/Letter of Credit	Available	Expiry
Cash & cash equivalents	22	0	22	N/A
Committed revolving credit facility	700	245	455	Aug. 2026
Uncommitted credit facility	100	0	100	Demand
Letter of credit facility	100	34	66	Demand
Total	922	279	643	

Alectra has a \$700 million committed revolving credit facility.

- This facility is used to backstop the Company's \$700 million CP program, which was
  increased from \$500 million in June 2022 (\$245 million outstanding as at March 31, 2022).
- Additionally, this facility has an uncommitted accordion provision, which allows Alectra to request for a \$100 million increase in the revolving facility amount.
- The Company also has an uncommitted credit facility of \$100 million (undrawn as at March 31, 2022).

(CAD millions as at March 31, 2022)	Amount	Rate (%)	Maturity
Senior Unsecured Debentures Series B	150	3.033	Jul. 2022
Series B Senior Unsecured Debentures	150	3.239	Nov. 2024
Series A Senior Unsecured Debentures	675	2.488	May. 2027
Series A Senior Unsecured Debentures	65	5.264	Dec. 2030
Series B Senior Unsecured Debentures	210	5.297	Apr. 2041
Series A Senior Unsecured Debentures	200	3.958	Jul. 2042
Series B Senior Unsecured Debentures	30	4.121	Sep. 2045
Series 2019-1 Senior Unsecured Debentures	200	3.458	Apr. 2049
Series 2021-1 Senior Unsecured Debentures	300	1.751	Feb. 2031
Promissory note issued to the City of Vaughan	78	4.410	May. 2024
Promissory note issued to the City of Markham	68	4.410	May. 2024
Promissory note issued to the City of Barrie	20	4.410	May. 2024
Total	2,146		
Unamortized debt issuance costs	(8)		
Total long-term debt	2,138		

- Alectra's long-term debt maturity is relatively well spread out.
- The Company's long-term debt consists of the following:
  - Senior Unsecured Debentures totalling \$1,980 million; and
  - Subordinate debt to shareholders (promissory notes) totalling \$166 million. The three
    promissory notes are repayable as of 366 days following demand from its owners. The
    owners have an option to extend the term of the notes based on market conditions at the
    original maturity date.
- In February 2021, the Company issued \$300 million of 1.751% Series 2021-1 Senior Unsecured Debentures due February 2031.
- Covenants on Alectra's trust indenture and credit facilities include restrictions on the ability of the Company to issue priority debt and merge or dispose of assets as well as to maintain a ratio of funded debt-to-capitalization ratio not more than 75% (in compliance as at March 31, 2022).

#### Regulation

- AUC, a subsidiary of Alectra, is regulated by the OEB under the Ontario Electricity Act, 1998.
- In April 2016, the predecessor utilities filed a Mergers, Acquisitions, Amalgamations, and Divestitures (MAADs) application with the OEB. The OEB approved the application in December 2016 with the following:
  - AUC can defer rebasing for 10 years following the closing of the Merger. This will allow AUC to keep all efficiency gains for five years before being subject to an earnings-sharing mechanism (ESM) of any returns in excess of 300 basis points (bps) above the allowed ROE for the latter five years.
  - During the deferral period, the predecessor utilities' distribution rates and franchise areas will remain as separate rate zones. As well, rate zones that were operating under Price Cap

IR (Brampton, Enersource, and PowerStream) would continue to have their rates adjusted annually by the Price Cap adjustment mechanism. Rate zones that operate under a Custom IR (Horizon Utilities) will transition to the Price Cap IR following the expiry of its Custom IR term (in 2020).

- In October 2018, the OEB approved AUC's MAADs application to merge with Guelph Hydro.
  - As with the other rate zones, AUC is allowed to defer rebasing for the Guelph Hydro rate zone for 10 years, with an ESM of any returns in excess of 300 bps above the allowed ROE for the latter five years.

Brampton, Enersource, Guelph, Horizon Utilities, and PowerStream Rate Zones

- The Brampton rate zone (formerly HOBNI) comprises the City of Brampton.
- The Enersource rate zone (formerly Enersource Hydro Mississauga Inc.) comprises the City of Mississauga.
- The PowerStream rate zone (formerly PowerStream Inc.) comprises the Cities of Barrie, Markham, and Vaughan as well as the Towns of Aurora, Richmond Hill, Alliston, Beeton, Bradford, West Gwillimbury, Penetanguishene, Thornton, and Tottenham.
- The Guelph rate zone (formerly Guelph Hydro Electric Systems Inc.) comprises the City of Guelph and the Village of Rockwood.
- The Horizon Utilities rate zone (formerly Horizon Utilities Corporation) comprises the Cities of Hamilton and St. Catharines.
- The Brampton, Enersource, Guelph, Horizon Utilities, and PowerStream rate zones operate under a Price Cap IR whereby rates are subject to a formula price cap that allows for an annual increase in distribution rates based on inflation less productivity and a utility-specific stretch factor that can be reset annually.
- Under the Price Cap IR, AUC could file an ICM for each rate zone to request funding for incremental capital investment needs during the IR term.
- In its 2021 electricity distribution rate (EDR) application, AUC requested a Price Cap adjustment of 1.9% (based on an inflation factor of 2.2%, a productivity factor of 0.0%, and a stretch factor of 0.3%) for each of the Brampton, Enersource, Guelph, Horizon Utilities, and PowerStream rate zones.
  - In December 2020, the OEB approved the 1.9% rate increases effective January 1, 2021.
  - Additionally, the OEB approved AUC's ICM funding for three projects totalling \$11 million.
- In its 2022 EDR application, AUC requested a Price Cap adjustment of 3.0% (based on an inflation factor of 3.3%, a productivity factor of 0.0%, and a stretch factor of 0.3%) for each of the Brampton, Enersource, Guelph, Horizon Utilities, and PowerStream rate zones.
  - In December 2021, the OEB approved the 3.0% rate increases effective January 1, 2022.

#### Assessment of Regulatory Framework

Criteria	Score	Analysis
1. Deemed Equity	Excellent Good <b>Satisfactory</b> Below Average Poor	AUC has deemed an equity component of capital structure of 40% in 2022, which is consistent with the other electricity distribution companies in Ontario.
2. Allowed ROE	Excellent Good <b>Satisfactory</b> Below Average Poor	AUC's deemed ROE for 2022 ranges from 8.78% to 9.30% (Enersource rate zone 8.93%, Horizon Utilities rate zone 8.98%, Brampton rate zone 9.30%, PowerStream rate zone 8.78%, and Guelph rate zone 9.19%).
3. Energy Cost Recovery	<b>Excellent</b> Good Satisfactory Below Average Poor	There is no power price risk for AUC, as it is not responsible for purchasing power from generation facilities or the wholesale market. Power costs are passed on to ratepayers at rates set by the OEB, and AUC collects the payments from its customers on a monthly basis.
4. Capital and Operating Cost Recovery	Excellent <b>Good</b> Satisfactory Below Average Poor	Major capital and operating costs are preapproved by the OEB and recovered through distribution rates. Future test years are used, reducing regulatory lag. As well, residential customers are charged a fully fixed monthly fee for distribution services, significantly reducing volume risk.
5. Cost of Service versus Incentive Rate Mechanism	Excellent Good <b>Satisfactory</b> Below Average Poor	The Brampton, Enersource, Guelph, Horizon Utilities, and PowerStream rate zones operate under Price Cap IR, which typically has four years in between rebasing years. In between rebasing years, AUC can file ICM or advanced capital modules for significant and prudent capital needs. AUC can initiate a regulatory review if actual ROE falls 300 bps below the approved ROE. DBRS Morningstar notes that AUC's efficiency targets (0.30%) have been reasonable.
6. Political Interference	Excellent Good Satisfactory <b>Below Average</b> Poor	The government of Ontario plays a significant role in the electricity sector in Ontario, given that the majority of the utilities are government-owned (AUC is 97% owned by municipalities). Furthermore, stakeholders, such as the IESO, are also government owned. As a result, the government has direct and indirect influence on Ontario's electricity industry.
7. Stranded Cost Recovery	Excellent <b>Good</b> Satisfactory Below Average Poor	LDCs in Ontario have a limited history of stranded costs. Most prudently incurred or budgeted capex are approved by the OEB.
8. Rate Freeze	Excellent Good <b>Satisfactory</b> Below Average Poor	From 2002 to 2005, as a result of rising rates during Ontario's utility deregulation phase, a provincewide distribution rate freeze was imposed. There have been no subsequent provincewide rate freezes.

#### ESG Checklist

There were no environmental, social, or governance factors affecting the ratings for this credit.

Description         N         N           Encision, Filterst, and Waste         Deve consider that the casts or risks from the same or its clients operational, and/or reputational standing?         N         N           Encision, Filterst, and Waste         Deve the super type cinescale regulatory pressure relating in additional casts and/or valid such charges casts are risks from the super type cinescale relating in additional casts and/or valid such charges casts and/or valid such casts operations of the issuer, resulting in lower productivity and therefore revenus?         N         N           Resource and Energy Management         In the a financial risk to the issuer for failing to effectively manage there a financial risk to the issuer of caling to effectively manage there a financial risk to the issuer of caling to effectively manage and conversion, rehabilitation, land impact, on biodiversity activities?         N         N           Land Impact and Biodiversity and conversion, rehabilitation, land impact, on biodiversity activities?         N         N           Management         Inter conversion, rehabilitation, land impact, on biodiversity activities?         N         N           Land Impact and Biodiversity conversion         Inter a financial risk to the issue?         N         N           Social Impact of Products         Bow econsider that the ascial impact of the issuer?         N         N           Management         Bow econsider that the ascial impact of the issuer?         N         N           Management		ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on ESG Factor on the Cred Analysis: Relevant (R) of Significant (S)*
Ensisten, Effluents, and Waste         result, or could result, in changes to an issue/S financial, object to the issuer face increased regulatory pressure relating to the carbon and GHG Cost         N           Carbon and GHG Cost         certaria face increased regulatory pressure relating to the carbon and GHG Cost         N         N           Resource and Energy Management         Does the issuer (resulting in lower productivity and therefore revenues?         N         N           Land Impact and Biodiversity undo coversion, rehealington, land result, or in obvery productivity and therefore revenues?         N         N           East and Society of sourcing key resources hinder the production are revenues?         N         N           East and Biodiversity undo coversion, rehealington, land result, or in obvery productivity and therefore revenues?         N         N           Einest and Weather Risks         Item as fanancial insk to the issuer for alling to effectively manage activities and infrastructure be materially affected financially by a 2 C         N         N           Climate and Weather Risks         De we consider that the social impact of the issuer's or allows and and services could pose a fanancial or regulatory risk to the issuer?         N         N           Human Capital and Human Rights         De we consider that the social impact of the issuer's financial, instancial impact of the issuer apportation indice the issuer's or allows and and services could pose a fanancial or regulatory risk to the issuer?         N         N         N	ental	Overall:	N	N
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Carton and GHG Casts         creat profile/ The product of sources and/or will suck costs increase over time affecting the long term operations of the issuer, resulting in lower productivity and therefore meansame term will cause and/or will be the source for failing to efficitely manage in the near term, will clinica change and adverse weather events potentially darupt issuer or clinic pression adverse weather events potentially darupt issuer and elevents or clinica pression adverse weather events potentially darupt issuer and elevents or clinica bases activities and instaurucus te materially affected financially by a 2C N         N           Clinicate and Weather Risks         Deve consider that the social impact or the losser's or clinica bases activities and instaurucus te materially affected financially by a 2C N         N         N           Social Impact of Product Bights         Deve consider that the social impact? The bisource's providers and services could pose a financial or regulatory its to the issuer' Product Governance         N         N           Human Capital and Human Bights         Deve financial and energiatory its to the issuer' financial impact of the issuer's financial or regulatory of skilled that could result in a material financial or or patient information to the issuer's financial and gen issuer to financial and gen issuer to activities and information or regulatory its to the issuer' N         N           Product Governance         Does failure in delivering quality products and services cause damage to custames and expose of dergagement, with local communities pose a financial impact on the issuer?         N           Data Privacy and Secrify Occupational Health and Safety         Dee failure in predine or reputati				
Description         Description of the issuer, resulting in lower productivity and therefore revenues?         N         N           Anagement         revenues?         N         N         N           Land Impact and Biodiversity         Is there a financial risk to the issuer for failing to effectively manage information, rehabilitation, land impact, or biodiversity activities?         N         N           Land Impact and Biodiversity         Is there a financial risk to the issuer for failing to effectively manage information adverse weather events potentially direct differencial and device weather events potentially direct differencial and device weather events activities and infrastructure be materially affected financially by a 2C         N         N           Climate and Weather Ricks         Do we consider that the social impact of the issuer?         N         N         N           Social Impact of Products and Services cauld goals a financial or regulatory risk to the issuer?         N         N         N           Human Capital and Human Rights         B ow econsider that the social impact of the issuer?         N         N         N           Product Governance         the issuer special and poparitoning providers and services cause damage to ustomer and expose the issuer to financial and regulation?         N         N           Data Privacy and Security         Does failure in delivering quality products and services cause damage to the issuer?         N         N           Data P				
Resource and Energy Management         operations of the issuer, resulting in lower productivity and therefore revenues?         N           Land Impact and Biodiversity And conversion, rehabilitation, land impact, or biodiversity activities?         N         N           Land Impact and Biodiversity And conversion, rehabilitation, land impact, or biodiversity activities?         N         N           In the next term, will dimate change and adverse weather events potentially disrupt issuer or client operations, causing angetive financial impact of the loss error.         N         N           Social Impact of Products and Services         De we consider that the long term, will the issuer's products and and Services         N         N           Human Capital and Human Bights         Do we consider that the social impact of the issuer's products and and Services         N         N           Do violations of rights create a potential libitity that can negatively diffect the issue's financial or operational impact?         N         N           Does bilure in delivering quality products and services cause damage to customers and eapose the issuer to financial and legal liabitity?         N         N           Does bilure in delivering quality products and services cause damage to customers and eapose the issuer?         N         N           Does bilure in delivering quality products and services cause damage to customers and eapose the issuer?         N         N           Does bilure in delivering cuality products and services towe thego	Carbon and GHG Costs		Ν	N
Management         revenues?         N         N           Land Impact and Biodiversity         Is there a financial risk to the issuer for failing to effectively manage land conversion, rehabilitation, land impact, or biodiversity activities?         N         N           Land Impact and Biodiversity         Is there a financial climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact in the long term, will the long term term term term term term term term	Passuras and Energy			
Land Impact and Biodiversity         Is there a financial risks to the issuer for failing to effectively manage in the near term, will dimate change and adverse weather events potentially disrut issuer or client of pations, causing angelive financial impact in the long term, will the issuer's or client's business activities and infrastructure be materially affected financially by 2 C         N           Climate and Weather Risks         The near term, will change and adverse weather events potentially disrut issuer or client's business activities and infrastructure be materially affected financially by 2 C         N         N           Social Impact of Products and Services         Do we consider that the long term, will the issuer's products and services could pase a financial or regulatory risk, to the issuer to cluations of rights causes or found and theor relations conflicts that could result in a material financial or operational impact?         N           Human Capital and Human Rights         Do we consider that the adverse apotent liability that can negatively affect the issue's financial or operational impact?         N           Do advalance of rights cause a potential liability that can negatively affect the issue's financial wellbeing quality products and services cause damage to coattomers and espose the issuer to financial and light liability?         N           Data Privacy and Security Cocurs and security to the issuer?         N         N           Occurstional Health and Wood the failure to address workplace hazards have a negative financial impact on the issuer?         N         N           Cocurstiona, and postation or its separational to reputational ris to the i			N	N
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potentially disrupt issuer or client operations, cussing a negative activities and infrastructure be materially affected financially by 2/2 rise in temperature?         N         N           Climate and Weather Risks         rise in temperature?         N         N         N           Social Impact of Products and Services         Do we consider that the social impact of the issuer? products and services could pose a financial or regulatory risk to the issuer?         N         N           Human Capital and Human Rights         The the issuer exposed to staffing risks, such as the searcity of skilled labor, uncompetitive wages, or flequent labour relations conflicts that could result in a material financial or operational impact?         N         N           Product Governance         Does failure in delivering quality products and services cause damage to customers and expose the issuer of nonacial and egatiliability?         N         N           Date Privacy and Security Date Privacy and Security to the issuer?         N         N         N           Occupational Health and state or negligence in maintaining private client or stakeholder data resulted, or could it result, in financial penatties or client attrition than itsuer?         N         N           Obes engagement, or lack of engagement, with local communities parices have the potential to result in any significant negative financial impact on the issuer?         N         N           Obes a financial or protect with respect to essential products or services have thepotentis to result in any significant negative financial impact	Land Impact and Biodiversity		N	N
Climate and Weather Risks         activities and infrastructure be materially affected financially by 2/2         N         N           Social Impact of Products and Services         Dowe consider that the social impact of the issuer?         N         N           Human Capital and Human Rights         Dowe consider that twe age, or frequent labour relations conflicts that could result in a material financial or operational impact?         N         N           Product Governance         The tossuer exposed to staffing risks, such as the scarcity of skilled that could result in a material financial or operational impact?         N         N           Product Governance         To violations or frights create a potential liability that can negatively affect the issuer?         N         N           Does failure in delivering quality products and services cause damage to customers and expose the issuer to financial and legal liability?         N         N           Data Privacy and Security Decemptional Health and Safety         Does failure to address workplace heards have a negative financial impact on the issuer?         N         N           Occurational Health and Safety         Does engagement, with local communities pose a financial or reputational risk to the issuer?         N         N           Occuration, and Political Risks         Do alleged or actual illicit payments pose a financial or reputational risk to the issuer?         N         N           Bibery, Corruption, and Political Risks         Do alleged or				
Climate and Weather Risks         rise in temperature?         N         N           Social Impact of Product and Services         Do we consider that the social impact of the issuer's products and services could pose a fancal of cregulatory risk to the issuer?         N         N           Human Capital and Human Rights         Is the issuer exposed to staffing risks, such as the scarcity of skilled tabour, uncompetitive wages, or frequent labour relations conflicts         N         N           Product Governance         Do violations of rights create a potential liability that can negatively affect the issuer's financial wellbeing or reputation?         N         N           Product Governance         Does failure in delivering quality products and services cause damage to customers and expose the issuer to financial and legal liability?         N         N           Data Privacy and Security         N         N         N         N           Geoupational Health and Safety         Does nagaement, or lack of engagement, with local communities         N         N           Obes a suble to proteide 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           Data Privacy and Security         Do alleged or actual liftic payments pose a financial or reputational financial impact on the issuer?         N         N           Data Privacy and Security         N         N         N				
Overall:         N         N           Social Impact of Products and Services could pose a financial or regulatory risk to the issuer?         N         N           Human Capital and Human Rights         Do we consider that the social financial or operational impact?         N         N           Do violations of rights ceare a potential lability that can negatively affect the issuer's financial velibeing or reputation?         N         N           Product Governance         to customers and expose the issuer to financial and pallability?         N         N           Product Governance         to customers and expose the issuer to financial and pallability?         N         N           Data Privacy and Security         to the issuer?         N         N           Occupational Health and Safety         Mould the failure to address workplace hazards have a negative financial impact on the issuer?         N         N           Obes 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           Occupational Health and Safety         Do a alloged or actual illicit payments pose a financial or reputational risk to the issuer?         N         N           Occupational Reath and Safety         Do alloged or actual illicit payments pose a financial or reputational risk to the issuer?         N         N           Do astaliur			-	
Social Impact of Products and Services         Do we consider that the social impact of the issuer's products and services could pace a financial or regulatory risk to the issuer's the issuer exposed to staffing risks, such as the servicity of skilled labour, uncompetitive wages, or frequent labour relations conflicts that could result in a material financial or operational impact?         N           Product Governance         Do violations of rights create a potential liability that can negatively affect the issuer such as the scarcity of skilled labour, uncompetitive wages, or frequent labour relations conflicts         N           Product Governance         Does failure in delivering quality products and services cause damage to customers and expose the issuer to financial and legal liability?         N           Product Governance         Does failure in delivering quality products and services cause damage to customers and expose the issuer to financial penalties or client attrition data resulted, or could it result, in financial penalties or client attrition data resulted, or could it result, in financial penalties or client attrition data resulted, or could it result in any significant negative financial impact on the issuer?         N           Community Relations         Does a financial or reputational risk to the issuer?         N         N           Does a financial or part to the issuer?         N         N         N           Access to Basic Services         Do alleged or actual illicit payments pose a financial or reputational risk to the issuer?         N         N           Do general profesional ethics pose a financial or reputational risk t	Climate and Weather Risks	rise in temperature?	N	; N
and Services         services could pase a financial or regulatory risk to the issuer?         N         N           Human Capital and Human Rights         Is the issuer exposed to staffing risks, such as the scarcity of skilled labour, uncompetitive wages, or frequent labour relations conflicts         N         N           Product Governance         Is the issuer's financial or operational impact?         N         N           Product Governance         Does failure in delivering quality products and services cause damage to customers and expose the issuer to financial and legal lability?         N         N           Data Privacy and Security         N         N         N         N           Occupational Health and Safety         Mould the failure to address workplace hazards have a negative financial inpact on the issuer?         N         N           Community Relations         Does enagement, or lack of engagement, with local communities pose a financial inpact on the issuer?         N         N           Community Relations         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           No         Do alleged or actual illicit payments pose a financial or reputational risk to the issuer?         N         N           Community Relations         Do general professional ethics pose a financical or reputational risk to the issuer?         N		Overall:	N	N
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Rights         that could result in a material financial or operational impact?         N         N           Do violations of rights create a potential liability that can negatively affect the issue's financial wellbeing or reputation?         N         N           Product Governance         Does failure in delivering quality products and services cause damage to customers and expose the issuer to financial and legal liability?         N         N           Product Governance         Does failure in delivering quality products and services cause damage to customers and expose the issuer to financial products and services cause damage to customers and expose the issuer to financial products of the tailure to cudd tressult, in financial penalties or client attrition         N         N           Data Privacy and Security         Would the failure to address workplace hazards have a negative financial impact on the issuer?         N         N           Community Relations         Does a failure to provide or protect with respect to essential products or services have the potential to result in any significant negative financial mage on actual illicit payments pose a financial or reputational fisk to the issuer?         N         N           Recess to Basic Services         Do alleged or actual illicit payments pose a financial or reputational mode or not the issuer?         N         N           Political Risks         Do general professional ethics pose a financial or reputational mode or not is reputation?         N         N           Bribery, Corruption, and Political Risks	Human Canital and Human			
Do violations of rights create a potential liability that can negatively affect the issue's financial wellbeing or reputation?         N         N           Product Governance         Does failure in delivering quality products and services cause damage to customers and expose the issuer to financial and legal liability?         N         N           Product Governance         to customers and expose the issuer to financial and legal liability?         N         N           Date Security Occupational Health and Safety         Would the failure to address workplace hazards have a negative financial impact on the issuer?         N         N           Does engagement, or lack of engagement, with local communities pose a financial or reputational risk to the issuer?         N         N           Community Relations         Does alloger or to reputational risk to the issuer?         N         N           Does engagement, or lack of engagement, with local communities pose a financial or reputational risk to the issuer?         N         N           Access to Basic Services         financial impact on the issuer?         N         N           Do alleged or actual illicit payments pose a financial or reputational risk to the issuer?         N         N           Are there any political risks that could impact the issuer's financial position or its reputation?         N         N           Corporate / Transaction Governance         Do general professional ethics pose a financial or reputational risk to the issuer	•		N	N
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Safety         financial impact on the issuer?         N         N           Community Relations         Does engagement, or lack of engagement, with local communities pose a financial or reputational risk to the issuer?         N         N           Access to Basic Services         financial impact on the issuer?         N         N           Access to Basic Services         financial impact on the issuer?         N         N           Ce         Overall:         N         N           Bribery, Corruption, and Political Risks         Do alleged or actual illicit payments pose a financial or reputational risk to the issuer?         N         N           Descence         Overall:         N         N         N           Business Ethics         The issuer?         N         N         N           Do general professional ethics pose a financial or reputational rostitudependence?         N         N         N           Business Ethics         Do be the issuer's corporate structure allow for appropriate board and audit independence?         N         N           Have there been significant governance failures that could negatively affect the issuer's financial wellbeing or reputation?         N         N           Does the Board and/or management have a formal framework to assess climate-related financial risk to the issuer?         N         N           Institutional Stre			Ν	N
Community Relations         Does engagement, or lack of engagement, with local communities pase a financial or reputational risk to the issuer?         N         N           Access to Basic Services         Does a failure to provide or protect with respect to essential products or services have the potential to result in any significant negative financial impact on the issuer?         N         N           Access to Basic Services         financial impact on the issuer?         N         N         N           Ce         Overall:         N         N         N         N           Bribery, Corruption, and Political Risks         Do alleged or actual illicit payments pose a financial or reputational risk to the issuer?         N         N           Business Ethics         Do general professional ethics pose a financial or reputational risk to the issuer?         N         N           Corporate / Transaction Governance         Do general professional ethics pose a financial or reputation?         N         N           Have there been significant governance failures that could negatively affect the issuer's financial wellbeing or reputation?         N         N           Institutional Strength, Governance, and Transparency (Governments Only)         Compared with other governments, do institutional arrangements provide a similar degree of accountability, transparency, and effectiveness?         N         N           Are regulatory and oversight bodies protected from inappropriate political influence?			N	N
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Access to Basic Services         or services have the potential to result in any significant negative financial impact on the issuer?         N         N           Ce         Overall:         N         N         N           Bribery, Corruption, and Political Risks         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 impact the issuer's financial position or its reputation?         N         N         N           Business Ethics         Do general professional ethics pose a financial or reputational risk to the issuer?         N         N           Corporate / Transaction Governance         Does the issuer's corporate structure allow for appropriate board and audit independence?         N         N           Have there been significant governance failures that could negatively affect the issuer's financial wellbeing or reputation?         N         N           Does the Board and/or management have a formal framework to assess climate-related financial risks to the issuer?         N         N           Institutional Strength, Governance, and Transparency (Governments Only)         Compared with other governments, do institutional arrangements provide a similar degree of accountability, transparency, and effectiveness?         N         N           Are regulatory and oversight bodies protected from inappropriate political influence?         N         N	Community Relations		Ν	N
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(CAD millions)	Mar. 31	Dec. 31	Dec. 31		Mar. 31	Dec. 31	Dec. 31
Assets	2022	2021	2020	Liabilities & Equity	2022	2021	2020
Cash & equivalents	22	32	26	Short-term borrowings	245	195	415
Accounts receivable	345	338	334	Accounts payable	450	466	433
Inventories	36	34	31	Current portion L.T.D.	155	156	114
Prepaid expenses & other	246	253	359	Other current liabilities	135	145	117
Total current assets	649	657	750	Total current liabilities	985	962	1,079
Net fixed assets	3,824	3,807	3,600	Long-term debt	2,016	2,017	1,870
Future income tax assets	2	2	3	Deferred income taxes	102	97	68
Goodwill & intangibles	0	0	0	Other long-term liabilities	665	663	602
Investments & others	1,038	1,042	1,002	Shareholders' equity	1,745	1,769	1,736
Total assets	5,513	5,508	5,355	Total liabilities & equity	5,513	5,508	5,355

Ratios	12 mos. ended March 31	For	the year endeo	d December 3	1
Balance Sheet & Liquidity & Capital Ratios	2022	2021	2020	2019	2018
Current ratio (x)	0.66	0.68	0.70	0.83	0.85
Total debt in capital structure (%)	58.1	57.2	58.0	55.8	54.0
Total debt in capital structure (%) <sup>1, 2</sup>	61.1	60.5	62.2	60.9	60.9
Cash flow/Total debt (%)	12.7	13.8	12.5	14.4	15.4
Cash flow/Total debt (%) <sup>2</sup>	12.7	13.8	12.5	14.4	15.3
(Cash flow-dividends)/Capex (x)	0.65	0.76	0.78	0.69	0.82
Dividend payout ratio (%)	65.2	56.6	57.0	63.9	54.2
Coverage Ratios (x)					
EBIT gross interest coverage	3.04	2.97	2.69	2.59	2.97
EBIT gross interest coverage <sup>2</sup>	3.04	2.97	2.69	2.59	2.93
EBITDA gross interest coverage	5.27	5.12	4.58	4.40	4.84
Fixed-charge coverage	3.04	2.97	2.69	2.59	2.93
Profitability Ratios (%)					
EBITDA margin	52.3	52.9	55.3	54.5	56.8
EBIT margin	30.2	30.8	32.5	32.2	34.9
Profit margin	17.8	18.0	21.5	20.4	21.4
Return on equity <sup>1,2</sup>	9.2	9.0	10.0	9.9	10.2
Return on capital <sup>1,2</sup>	4.3	4.4	4.3	4.5	4.8

1 Equity excludes goodwill resulting from the amalgamation of PowerStream, Horizon, and Enersource, and the acquisition of Guelph Hydro. 2 Adjusted for operating leases.

#### **Rating History**

	Current	2021	2020	2019	2018	2017
Issuer Rating	А	А	А	А	А	А
Senior Unsecured Debentures	А	А	А	А	А	А
Commercial Paper	R-1 (low)	NR				

#### **Previous Actions**

- "DBRS Morningstar Notes Alectra Inc.'s Commercial Paper Limit Increase," June 1, 2022.
- "DBRS Morningstar Confirms Alectra Inc. at "A" and R-1 (low), Stable Trends," June 21, 2021.
- "DBRS Morningstar Assigns Rating of "A" with a Stable Trend to Alectra Inc.'s \$300 Million Senior Unsecured Debentures," February 11, 2021.

#### **Previous Report**

• Alectra Inc.: Rating Report, June 22, 2021.

#### 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.dbrsmorningstar.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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