Alectra Inc.

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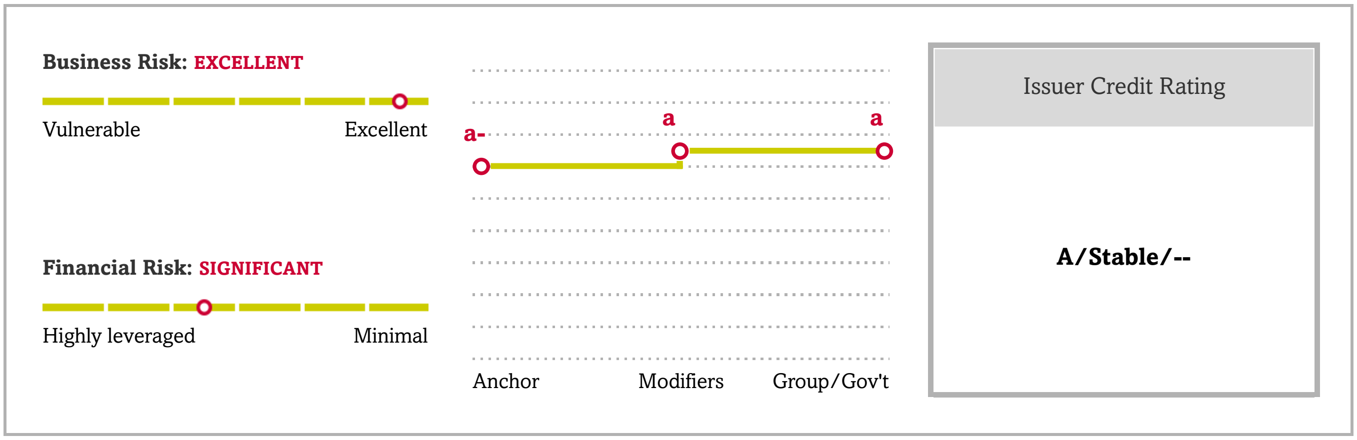

Credit Highlights

Overview	
Key Strengths	**Key Risks**
Majority of cash flows from low-risk regulated electricity distribution operations	Continued acquisitions could stress credit metrics
Credit-supportive regulatory environment	Limited geographic and regulatory diversity
Mostly residential customer base with minimal customer concentration risk	Negative discretionary cash flow indicating external funding needs

Merger with Guelph Hydro Electric Systems Inc. (GHESI) is a positive credit factor.

Alectra closed its noncash merger with GHESI in exchange for the addition of GHESI's rate base to Alectra's total consolidated rate base. Alectra assumed all of GHESI's debt. The merger marginally enhanced Alectra's business risk profile through a greater regulated footprint in the constructive regulatory environment of Ontario and increased customer base.

Continued growth through tuck-in acquisitions.

Alectra plans to continue its strategy of nonorganic growth through tuck-in acquisitions and investments in nonregulated renewable energy market. If the acquisitions or investments are debt financed, financial measures could weaken.

The Ontario Electric Board (OEB) provides a supportive and constructive regulatory environment.

We believe the OEB, the regulator for the Province of Ontario, provides a transparent, consistent, and independent regulatory framework that supports stable and predictable cash flows for the company, which we view as a key credit strength.

Outlook: Stable

The stable outlook reflects S&P Global Ratings' assessment of Alectra's predictable and stable cash flows from the company's low-risk, regulated distribution business. We expect adjusted funds from operations (FFO) to debt to be in the 12%-13% range through 2021. The outlook also reflects our expectation that management will continue to focus on integrating the amalgamated companies and its core regulated business electricity distribution over our two-year outlook horizon.

Downside scenario

We could downgrade the company over the next two years if adjusted FFO to debt declines below 12%. This would indicate very minimal cushion at the current rating level and could happen if the company cannot achieve the required synergies, costs significantly increase during the company's deferred rate rebasing period, or there is an adverse regulatory decision that materially limits cost recovery.

Upside scenario

Although less likely, we could raise the rating within the next two years if Alectra's adjusted FFO to debt to approaches 20%. However, based on our financial forecast and the company's capital programs, we believe the prospect of a positive rating action is highly unlikely during our outlook horizon.

Our Base-Case Scenario

Assumptions

- Continued costs recovered through annual filings and incremental capital module riders;
- Modest customer growth in Ontario;
- Incremental cash inflows from GHESI merger starting 2019;
- Total annual capital spending of about C$300 million–C$400 million over 2019-2021;
- Dividend payments averaging about C$85 million annually;
- Negative discretionary cash flows indicate external funding needs; and
- All debt maturities are refinanced.

Key Metrics

	2019E	2020E	2021E
FFO to debt (%)	12-14	12-14	12-14
Debt to EBITDA (x)	5.5-6	5.5-6	5.5-6
FFO cash interest coverage (x)	4-6	4-6	4-6

A--Actual. E—Estimate. FFO—Funds from operations.

Company Description

Alectra is a municipality-owned electric distribution utility operating in Ontario, Canada.

Business Risk: Excellent

Our assessment of Alectra's business risk profile reflects its fully regulated electric distribution operations in the supportive regulatory environment in the Province of Ontario and a large customer base that is partially offset by its limited regulatory and business diversity. Alectra's larger customer base of about one million customers in Ontario, including those of GHESI, are mostly residential (over 90%) and commercial, providing additional stability to cash flows as exposure to industry cyclicality is limited.

We believe the OEB provides a transparent, consistent, and independent regulatory framework that supports stable and predictable cash flows for the company, which we view as a credit strength. This includes limiting commodity risk exposure since electricity costs are passed through to ratepayers. The tariff structure allows the operator to recover prudently spent operating costs, capital expenditures, or other unexpected material losses in a timely manner. These positive aspects are partially offset by our expectation that the company is allowed to defer rebasing rates for the next decade and its operations under a single regulator.

Alectra's limited riskier non-regulated utility operations include non-regulated solar generation and energy services businesses. These operations modestly offset the low-risk regulated operations.

Financial Risk: Significant

Alectra's financial risk profile reflects our base-case scenario that includes adjusted FFO to debt in the 12%-13% range through 2021 after incorporating capital spending averaging about C$350 million-C$400 million, regular recoveries through a capital rate surcharge, and modest customer growth. We expect FFO to debt to average about 12%-13% for Alectra, consistent with the higher range for its financial risk profile category. We expect the supplemental ratio of adjusted FFO cash interest coverage to be in the 5x-6x range and the debt leverage to be relatively aggressive for a regulated utility.

We base our assessment on our low-volatility financial benchmarks, which are the most relaxed when compared to those for a typical corporate issuer. This reflects the company's focus on low-risk regulated natural gas distribution operations and strong management of regulatory risk.

Liquidity: Adequate

We assess the company's liquidity as adequate because we believe its liquidity sources are likely to cover uses by more than 1.1x over the next 12 months and meet cash outflows even with a 10% decline in EBITDA. The assessment also reflects the company's generally prudent risk management, sound relationship with banks, and a generally satisfactory standing in credit markets.

Principal Liquidity Sources	Principal Liquidity Uses
• Estimated cash FFO of about C$290 million • Credit facility availability of C$500 million	• Debt maturities of C$220 million • Capital spending of about C$345 million • Dividend payments of about C$80 million

Other Credit Considerations

We have applied a one-notch positive adjustment to the anchor score based on our comparative rating analysis to reflect the company's adjusted FFO-to-debt metrics being at the stronger end of the significant category.

Environmental, Social, And Governance
The most significant environmental concern for Alectra is the maintenance and upgrading of its distribution infrastructure in order to ensure continued safety of its employees and the public. Social and governance factors are neutral to our ESG assessment and Alectra's governance practices are consistent with what we see across the industry for other publicly traded utilities.

Government Influence

We believe there is a low likelihood that the utility's owners would provide timely and sufficient extraordinary support in the unlikely event of financial distress. In our view, Alectra has a role of limited importance to the cities, given that the province, not the cities, has oversight of electricity regulation licensing, and that a private enterprise could provide the utility's services. We believe there is a limited link between Alectra and the cities, given our belief that, in a stress scenario, although the cities might provide some temporary liquidity support, they would be unlikely to support the utility with taxpayer dollars.

Issue Ratings - Subordination Risk Analysis

Capital structure

Alectra's capital structure consists of about C$1.9 billion of unsecured debt.

Analytical conclusions

We rate Alectra's senior unsecured debt the same as the issuer credit rating because the debt issue is not structurally subordinated in the absence of any other tranche.

Ratings Score Snapshot

Issuer Credit Rating

A/Stable/--

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Strong

Financial risk: Significant

- **Cash flow/Leverage:** Significant

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:** Positive (+1 notch)

Stand-alone credit profile : a

- **Related government rating:** AA-
- **Likelihood of government support:** Low (no impact)

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
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013

- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 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

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	**a-**	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of April 26, 2019)*

Alectra Inc.	
Issuer Credit Rating	A/Stable/--
Senior Unsecured	A
Issuer Credit Ratings History	
26-Jan-2017	A/Stable/--

*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.