Ontario Energy Association (OEA)

Answer to Interrogatory from
School Energy Coalition (SEC)

INTERROGATORY

Question(s):

For each of CLD+ utilities, please provide:

a) Copies of all credit rating agency reports since 2009

b) Each year between 2009 and 2023, a table that shows approved (i.e. ROE include in base rates) vs actual regulated ROE. As part of that response, for i) Hydro One, please provide a further breakdown by regulated business (transmission and distribution), ii) OPG, please provide a breakdown by generating segment (nuclear and hydroelectric), iii) for Alectra, Elexicon, and Enbridge, who have been subject to major MAAD transactions since 2009, please provide information for predecessor utilities for the applicable years.

c) Details of all equity investments received since 2009, including the date, amount, and source (direct shareholder investment, indirect shareholder investment through holding company, and share sale).

d) A table that shows for all outstanding long-term debt, i) date of issuance, ii) term, iii) maturity date, iv) principal, v) interest rate, vi) type of debt instrument (e.g. public bond, private placement, loan, promissory note, swap, etc.) vii) source of debt (e.g. TD Bank, infrastructure Ontario, shareholder, etc.) and viii) indicate if the debt issued is at the LDC or holding company level.

e) For each year between 2009 and 2024, actual capital structure.

Response to a):

Enbridge Gas Inc.:

Please see N-M2-10-SEC-41 – Attachment 1 (Enbridge Gas Inc.) for all relevant Enbridge Gas Inc. credit rating agency reports from the past 5 years. The reports are provided in one file and are numerated below.

Appendix	Rating Agency	Title
1	DBRS	DBRS EGI RR Oct 2019
2	DBRS	DBRS EGI RR Sep 2020
3	DBRS	DBRS EGI RR Oct 2021
4	DBRS	DBRS EGI RR Sep 2022
5	DBRS	DBRS EGI RR Sep 2023
6	S&P	S&P EGI Apr 2020
7	S&P	S&P EGI Jan 2021
8	S&P	S&P EGI Feb 2022
9	S&P	S&P EGI Jul 2022
10	S&P	S&P EGI Jul 2023
11	S&P	S&P EGI Sep 2023 Research Update
12	S&P	S&P EGI Jun 2024 Research Update

OPG:

OPG's credit rating reports are provided in N-M2-10-SEC-41 – Attachment 2 (OPG).

Appendix	Rating Agency	Title
1	DBRS	DBRS 2019-2024
2	Moody's	Moody's 2019-2024
3	S&P	S&P 2019-2024

UCT 2:

Rating reports can be obtained from the links below and copies are also attached as N-M2-10-SEC-41 – Attachment 3 (UCT 2).

May 2024: https://dbrs.morningstar.com/research/432193/morningstar-dbrs-confirms-east-west-ties-ratings-at-a-low-with-stable-trends

May 2023: https://dbrs.morningstar.com/research/413338/dbrs-morningstar-finalizes-provisional-ratings-of-a-low-with-stable-trends-on-east-west-tie-limited-partnership

March 2023: https://dbrs.morningstar.com/research/411675/dbrs-morningstar-assigns-provisional-ratings-of-a-low-with-stable-trends-to-east-west-tie-limited-partnership

Hydro One:

Copies of the following credit rating agency reports since 2019 are attached as N-M2-10-SEC-41 – Attachment 4 (Hydro One).

Reference #	Ratings Agency	Title
1	DBRS	DSRS HOI April 15 2019
2	DBRS	DBRS HOI April 16 2020
3	DBRS	DBRS HOI May 3 2022
4	DBRS	DBRS HOI Nov 9 2022
5	DBRS	DBRS HOI Nov 20 2023
6	Moody's	Moody's HOI 20Dec10
7	Moody's	Moody's HOI Nov 25 2021
8	Moody's	Moody's HOI May 30 2023
9	Moody's	Moody's HOI 26Jul2024
10	S&P	S&P HOI Feb 24 2020
11	S&P	S&P HOI Mar 11 2021
12	S&P	S&P HOI Apr 15 2022
13	S&P	S&P HOI Mar 17 2023
14	S&P	S&P HOL June 10 2024

Hydro Ottawa Limited:

Hydro Ottawa Limited does not maintain a credit rating with a credit rating agency. Accordingly, there are no "distributor stand alone" credit rating agency reports to provide.

The following credit rating agency reports have been issued since 2019, pertaining to Hydro Ottawa Holding Inc., and are attached as N-M2-10-SEC-41 – Attachment 5 (Hydro Ottawa Holding):

- Standard & Poor's RatingsDirect report for Hydro Ottawa Holding Inc. dated September 25, 2019
- Standard & Poor's Research Update for Hydro Ottawa Holding Inc. dated January 13, 2020
- DBRS Rating Report for Hydro Ottawa Holding Inc. dated September 25, 2019
- DBRS Rating Report for Hydro Ottawa Holding Inc. dated September 30, 2020
- DBRS Rating Report for Hydro Ottawa Holding Inc. dated October 29, 2021

- DBRS Rating Report for Hydro Ottawa Holding Inc. dated October 19, 2022
- DBRS Rating Report for Hydro Ottawa Holding Inc. dated October 18, 2023

Toronto Hydro:

Please see N-M2-10-SEC-41 – Attachment 6 (Toronto Hydro) for all relevant Toronto Hydro credit rating agency reports from the past 5 years.

Reference	Rating Agency	Title
1	DBRS	Toronto Hydro – DBRS – 2019
2	DBRS	Toronto Hydro – DBRS – 2020
3	DBRS	Toronto Hydro – DBRS – 2021
4	DBRS	Toronto Hydro – DBRS – 2022
5	DBRS	Toronto Hydro – DBRS – 2023
6	DBRS	Toronto Hydro – DBRS – 2024
7	S&P	Toronto Hydro – S&P – 2019
8	S&P	Toronto Hydro – S&P – 2020
9	S&P	Toronto Hydro – S&P – 2021
10	S&P	Toronto Hydro – S&P – 2022_1
11	S&P	Toronto Hydro – S&P – 2022_2
12	S&P	Toronto Hydro – S&P – 2023
13	S&P	Toronto Hydro – S&P – 2024_1
14	S&P	Toronto Hydro – S&P – 2024_2

Alectra Inc.:

Please see N-M2-10-SEC-41 – Attachment 7 (Alectra) for all relevant Alectra credit rating agency reports from the past five years.

Reference	Rating Agency	Title
1	DBRS	Alectra Inc DBRS 2019
2	DBRS	Alectra Inc DBRS 2020
3	DBRS	Alectra Inc DBRS 2021
4	DBRS	Alectra Inc DBRS 2022
5	DBRS	Alectra Inc DBRS 2023
6	DBRS	Alectra Inc DBRS 2024
7	Fitch	Alectra Inc Fitch 2023
8	Fitch	Alectra Inc Fitch 2024

9	S&P	Alectra Inc S&P 2019
10	S&P	Alectra Inc S&P 2020
11	S&P	Alectra Inc S&P 2021
12	S&P	Alectra Inc S&P 2022
13	S&P	Alectra Inc S&P 2023
14	S&P	Alectra Inc S&P 2024

Elexicon Energy Inc:

Please see N-M2-10-SEC-41 – Attachment 8 (Elexicon) for all relevant Elexicon credit rating agency reports from the past five years.

1	DBRS	Elexicon Rating Report 2020 May 8
2	DBRS	Elexicon Rating Report 2021 May 10
3	DBRS	Elexicon Rating Report 2022 August 23
4	DBRS	Elexicon Rating Report 2023 July 5
5	DBRS	Elexicon Rating Report 2024 July 3

Response to b):

Elexicon Energy Inc:

	2019	2020	2021	2022	2023
Actual	7.61%	6.80%	6.87%	4.86%	5.15%
Deemed	9.43%	9.43%	9.43%	9.43%	9.43%

Toronto Hydro:

	2019	2020	2021	2022	2023
Actual	8.44%	5.90%	7.08%	7.44%	6.80%
Deemed	9.30%	8.52%	8.52%	8.52%	8.52%

Enbridge Gas Inc.:

Enbridge Gas Inc.'s 2019 – 2023 actual utility ROE's, and the ROE's included in rates, are provided in the table below.

Line No.	Year	Col. 1 Actual Utility ROE	Col. 2 ROE in Base Rates
		%	%
			Union / EGD Rate Zones
1.	2019	10.47	8.93 / 9.00
2.	2020	8.72	8.93 / 9.00
3.	2021	9.17	8.93 / 9.00
4.	2022	9.52	8.93 / 9.00
5.	2023	6.35	8.93 / 9.00

Alectra:

Year	Approved ROE	Actual ROE
2019	8.95%	7.21%
2020	8.95%	4.80%
2021	8.95%	6.18%
2022	8.95%	6.70%
2023	8.95%	7.55%

UCT 2

Year	Actual ROE	Approved ROE
2022	9.42%	8.34%
2023	9.31%	8.34%

Hydro One:

Below is a table that outlines the OEB approved and achieved ROEs for Transmission and Distribution

Transmission

	2019*	2020	2021	2022	2023
Deemed ROE	N/A	8.52	8.52	8.52	9.36
Achieved ROE	9.53%	9.29%	9.30%	9.92%	10.80%

*2019 was an inflationary filing

Distribution

	2019	2020	2021	2022	2023
Deemed ROE	9.00	9.00	9.00	9.00	9.36
Achieved ROE	10.90%	10.56%	10.99%	10.10%	10.88%

Hydro Ottawa:

Year	**2019**	**2020**	**2021**	**2022**	**2023**
Hydro Ottawa ROE	8.98%	8.98%	8.34%	8.34%	8.34%
Hydro Ottawa ROE achieved	8.82%	7.24%	8.49%	6.94%	6.15%

OPG:

OPG operates as a single company, with a single management structure/corporate cost structure, and a single OEB-authorized cost of capital that covers both the hydroelectric and nuclear generating facilities, and obtains corporate financing as a single company. Accordingly, OPG reports achieved return on equity for its prescribed facilities as a whole.

OPG's Regulated ROE

	2019	2020	2021	2022	2023
Actual	15.61%	17.22%	10.79%	12.68%	13.80%
Nuclear Deemed	8.78%	8.78%	8.78%	8.66%	8.66%

Hydroelectric Deemed	9.33%	9.33%	9.33%	9.33%	9.33%

Response to c):

Toronto Hydro:

On June 28, 2017, Toronto Hydro Corporation issued 200 common shares to its shareholder for total proceeds of $250.0 million, net of share issue costs and expenses.

On June 28, 2024, Toronto Hydro Corporation filed the following Material Change Report related to shareholder equity:
https://www.sedarplus.ca/csaparty/viewInstance/resource.html?node=W1580&drmKey=b87115a0c5ea1b95&drr=ss6b4650951600347cceb13bcd5b91b967b9ebdfe234b8bcde4c5e867b24c523e1c14901026484277ee266b1feddd5c7e7ux&id=0c11f8b7998bcd9668b76226759035c74a014ba8ed28aabf

Elexicon Energy: Elexicon Energy has not received any equity investment since the merger of its predecessor utilities in 2019.

Alectra: There have been no equity investments since 2019.

OPG: There were no shareholder equity injections in connection with OPG's regulated business since 2019.

Enbridge Gas Inc

Year	Date	Amount	Source
2019	**November 27, 2019**	**$800,000,000**	**Indirect Shareholder Investment through holding company**
2020	**December 10, 2020**	**$800,000,000**	**Indirect Shareholder Investment through holding company**
2021	**December 7, 2021**	**$975,000,000**	**Indirect Shareholder Investment through holding company**
2022	June 28, 2022	$500,000,000	**Indirect Shareholder Investment through holding company**
2022	September 26, 2022	$300,000,000	**Indirect Shareholder Investment through holding company**

2022 Total Contribution	**September 26, 2022**	**$800,000,000**	**Indirect Shareholder Investment through holding company**
2023 Total Contribution	-	None	-

UCT 2:

Equity investments were made in the form of direct shareholder investment.

Year	Amount ($ MMs)
2014	$19
2015	$7
2016	$8
2017	$15
2018	$23
2019	$111
2020	$275
2021	$231
2022	$196

Hydro Ottawa: No equity investments were received by Hydro Ottawa since 2019.

Hydro One: From 2019 to 2024, there have been no equity investments in the company.

Response to d):

Toronto Hydro:

Debenture Series	Date of Issuance	Terms (yrs)	Maturity Date	Principal	Interest Rate	Type of Debt Instrument	Source of Debt	Debt Issued is at the LDC or Holding Company Level
Series 14	12-Nov-2019	10	11-Dec-2029	$ 200,000,000	2.49%	Promissory Note	THC - Holding Company	Debentures issued at the holding company
Series 15	12-Nov-2019	30	10-Dec-2049	$ 200,000,000	3.04%	Promissory Note	THC - Holding Company	Debentures issued at the holding company

Series 16	15-Oct-2020	10	15-Oct-2030	$ 200,000,000	1.55%	Promissory Note	THC - Holding Company	Debentures issued at the holding company
Series 17	18-Oct-2021	10	20-Oct-2031	$ 150,000,000	2.52%	Promissory Note	THC - Holding Company	Debentures issued at the holding company
Series 18	18-Oct-2021	30	18-Oct-2051	$ 200,000,000	3.32%	Promissory Note	THC - Holding Company	Debentures issued at the holding company
Series 19	13-Oct-2022	30	13-Oct-2052	$ 300,000,000	5.00%	Promissory Note	THC - Holding Company	Debentures issued at the holding company
Series 20	14-Jun-2023	10	14-Jun-2033	$ 250,000,000	4.66%	Promissory Note	THC - Holding Company	Debentures issued at the holding company
Series 21	12-Oct-2023	5	12-Oct-2028	$ 200,000,000	5.18%	Promissory Note	THC - Holding Company	Debentures issued at the holding company

Elexicon Energy:

Type	Term	Issue date	Mature on	Rate	Amount (in thousands)	Debt Held By
Notes payable to the shareholders of the Corporation	Short Term	since merger	due on demand	4.13%	71,926	LDC
Notes payable to the Corporation	Long Term	since merger	December, 2034	5%	15,000	LDC
Notes payable to the Corporation	Long Term	since merger	December, 2039	OEB-deemed long-term debt rate, less 30bps	11,200	LDC
Loan payable to the Corporation	Long Term	Septemb er, 2016	September, 2031	5%	62	LDC
Loan payable to Town of Cobourg Holding Inc.	Long Term	February , 2019	February, 2044	6%	77	LDC
Long-term debt from TD Bank (SWAP Loan)	Long Term	Novemb er, 2023	November, 2028	5%	33,390	LDC
Long-term debt from TD Bank (SWAP Loan)	Long Term	August, 2023	August, 2028	5%	220,000	LDC
Notes payable to the shareholders,	Short Term	since merger	due on demand	4.13%	89,132	Corporation (Holding Company)

Alectra:

Description	Lender	Start Date	Term (years)	Maturity date	Principal ($)	Issue cost	Effective Rate (%)	Coupon rate (%)	Incremental (%)
Promissory Note Payable	Alectra Inc.	4/11/2019	30	4/12/2049	$200,000,000	$1,437,541	3.50%	3.46%	0.04%
Promissory Note Payable	Alectra Inc.	2/11/2021	10	2/11/2031	$300,000,000	$1,754,325	1.82%	1.75%	0.06%
Promissory Note Payable	Alectra Inc.	11/14/2022	30	11/14/2052	$250,000,000	$1,755,955	5.27%	5.23%	0.05%
Promissory Note Payable	Alectra Inc.	6/13/2024	10	6/13/2034	$200,000,000	$1,423,855	4.72%	4.63%	0.09%

Enbridge Gas Inc.

All long-term debt issuances by Enbridge Gas Inc. and its predecessor companies are public bonds issued in the Canadian debt capital markets. Investors primarily include pension funds, life insurance companies and asset managers.

Issuance Date	Maturity Date	Term (years)	Interest Rate	Currency	Notional
8/22/2014	8/22/2024	10	3.15%	CAD	$215,000,000
6/2/1995	12/2/2024	29	9.85%	CAD	$85,000,000
10/2/1995	10/2/2025	30	8.85%	CAD	$20,000,000
11/10/1995	11/10/2025	30	8.65%	CAD	$125,000,000
10/29/1996	10/29/2026	30	7.60%	CAD	$100,000,000
11/3/1997	11/3/2027	30	6.65%	CAD	$100,000,000
5/19/1998	5/19/2028	30	6.10%	CAD	$100,000,000
11/15/2002	11/15/2032	30	6.90%	CAD	$150,000,000
12/16/2003	12/16/2033	30	6.16%	CAD	$150,000,000
2/24/2006	2/25/2036	30	5.21%	CAD	$300,000,000
9/11/2006	9/11/2036	30	5.46%	CAD	$165,000,000
9/2/2008	9/2/2038	30	6.05%	CAD	$300,000,000
11/22/2010	11/22/2050	40	4.95%	CAD	$200,000,000
1/23/2011	7/23/2040	29	5.20%	CAD	$250,000,000
6/21/2011	6/21/2041	30	4.88%	CAD	$300,000,000
9/7/2011	11/22/2050	39	4.95%	CAD	$100,000,000
11/22/2013	11/22/2043	30	4.50%	CAD	$200,000,000
6/2/2014	6/2/2044	30	4.20%	CAD	$500,000,000
8/22/2014	8/22/2044	30	4.00%	CAD	$215,000,000
9/11/2015	9/11/2025	10	3.31%	CAD	$400,000,000
9/11/2015	8/22/2044	28	4.00%	CAD	$170,000,000
9/17/2015	9/17/2025	10	3.19%	CAD	$200,000,000
5/31/2016	6/1/2026	10	2.81%	CAD	$250,000,000
5/31/2016	6/1/2046	30	3.80%	CAD	$250,000,000
8/5/2016	8/5/2026	10	2.50%	CAD	$300,000,000
11/22/2017	11/22/2027	10	2.88%	CAD	$250,000,000
11/22/2017	11/22/2047	30	3.59%	CAD	$250,000,000
11/29/2017	11/29/2047	30	3.51%	CAD	$300,000,000
8/9/2019	8/9/2029	10	2.37%	CAD	$400,000,000
8/9/2019	8/9/2049	30	3.01%	CAD	$300,000,000
4/1/2020	4/1/2030	10	2.90%	CAD	$600,000,000
4/1/2020	4/1/2050	30	3.65%	CAD	$600,000,000
9/15/2021	9/15/2031	10	2.35%	CAD	$475,000,000
9/15/2021	9/15/2051	30	3.20%	CAD	$425,000,000
8/17/2022	8/17/2032	10	4.15%	CAD	$325,000,000
8/17/2022	8/17/2052	30	4.55%	CAD	$325,000,000
10/6/2023	10/6/2028	5	5.46%	CAD	$250,000,000

10/6/2023	10/6/2033	10	5.70%	CAD	$400,000,000
10/6/2023	10/6/2053	30	5.67%	CAD	$350,000,000
					$10,395,000,000

UCT 2:

As provided in EB-2023-0298, UCT 2's long-term debt is a 30-year $427,651,000 Senior Secured Fixed-Rate Partially Amortizing note with a 4.864% fixed interest rate. Long-term debt was issued on May 1, 2023.

Date of Issue	Term (yrs)	Maturity Date	Principal	Interest Rate	Type
May 1, 2023	30	May 1, 2053	$427,651,000	4.864 %	Senior Secured Fixed-Rate Partially Amortizing Note

Hydro Ottawa:

Date of Issuance	**Term (Years)**	**Maturity Date**	**Principal ($)**	**Interest Rate**	**Type of Debt Instrument**	**Source of Debt (Creditor)[1]**	**Issuer (Debtor)[2]**
9/Feb/15	10.0	3/Feb/25	138,667,000	2.614%	Promissory Note	Hydro Ottawa Holding Inc. ("HOHI")	Hydro Ottawa Limited ("HOL")
9/Feb/15	30.0	2/Feb/45	121,333,000	3.639%	Promissory Note	HOHI	HOL
14/May/13	30.0	14/May/43	107,185,000	3.991%	Promissory Note	HOHI	HOL
14/May/13	23.6	19/Dec/36	50,000,000	4.968%	Promissory Note	HOHI	HOL
25/Jun/15	10.0	25/Jun/25	15,999,000	2.614%	Promissory Note	HOHI	HOL
25/Jun/15	30.0	25/Jun/45	14,001,000	3.639%	Promissory Note	HOHI	HOL
16/Oct/19	10.0	16/Oct/29	87,500,000	2.660%	Promissory Note	HOHI	HOL

16/Oct/19	30.0	16/Oct/49	162,500,000	3.210%	Promissory Note	HOHI	HOL
5/Jul/21	on demand	on demand	80,000,000	3.570%	Grid Note	HOHI	HOL
9/Aug/22	on demand	on demand	30,000,000	4.940%	Grid Note	HOHI	HOL
7/Jul/23	on demand	on demand	30,000,000	4.560%	Grid Note	HOHI	HOL

Hydro One:

For Hydro One Inc.

Outstanding Debt as at August 20, 2024

Hydro One Inc.

Offering Date	Term (Years)	Maturity Date	Principal Amount ($Millions)	Coupon Rate	Yield
28-Feb-20	5.0	28-Feb-25	400.0	1.76%	1.77%
26-Jun-18	7.0	26-Jun-25	350.0	2.97%	2.97%
20-Oct-23	2.0	20-Oct-25	400.0	5.54%	5.54%
24-Feb-16	10.0	24-Feb-26	500.0	2.77%	2.77%
21-Sep-23	3.0	21-Sep-26	425.0	CORRA+0.5%	Variable
27-Oct-22	5.3	27-Jan-28	750.0	4.91%	4.91%
5-Apr-19	10.0	5-Apr-29	550.0	3.02%	3.02%
27-Jan-23	6.8	30-Nov-29	300.0	3.93%	3.93%
12-Jan-24	5.9	30-Nov-29	250.0	3.93%	4.09%
28-Feb-20	10.0	28-Feb-30	400.0	2.16%	2.16%
3-Jun-00	30.0	3-Jun-30	400.0	7.35%	7.36%
9-Oct-20	10.3	16-Jan-31	400.0	1.69%	1.70%
17-Sep-21	10.0	17-Sep-31	450.0	2.23%	2.24%
22-Jun-01	31.0	1-Jun-32	300.0	6.93%	6.94%
17-Sep-02	29.7	1-Jun-32	200.0	6.93%	6.60%
27-Jan-23	10.0	27-Jan-33	450.0	4.16%	4.16%
31-Jan-03	31.0	31-Jan-34	200.0	6.35%	6.36%
25-Jun-04	29.6	31-Jan-34	120.0	6.35%	6.29%
24-Aug-04	29.5	31-Jan-34	65.0	6.35%	6.05%
12-Jan-24	10.1	1-Mar-34	550.0	4.39%	4.40%
20-Aug-24	10.4	4-Jan-35	700.0	4.25%	4.25%
19-May-05	31.0	20-May-36	350.0	5.36%	5.37%
24-Apr-06	30.1	20-May-36	250.0	5.36%	5.41%

13-Mar-07	30.0	13-Mar-37	400.0	4.89%	4.89%
3-Mar-09	30.0	3-Mar-39	300.0	6.03%	6.03%
16-Jul-09	31.0	16-Jul-40	300.0	5.49%	5.50%
15-Mar-10	30.4	16-Jul-40	200.0	5.49%	5.42%
26-Sep-11	30.0	26-Sep-41	300.0	4.39%	4.40%
22-Apr-03	40.0	22-Apr-43	250.0	6.59%	6.59%
20-Aug-04	38.7	22-Apr-43	65.0	6.59%	6.03%
9-Oct-13	30.0	9-Oct-43	435.0	4.59%	4.59%
6-Jun-14	30.0	6-Jun-44	350.0	4.17%	4.18%
24-Feb-16	30.0	23-Feb-46	350.0	3.91%	3.92%
19-Oct-06	40.0	19-Oct-46	75.0	5.00%	5.01%
13-Sep-10	36.1	19-Oct-46	250.0	5.00%	4.95%
18-Nov-16	31.0	18-Nov-47	450.0	3.72%	3.72%
26-Jun-18	31.0	25-Jun-49	750.0	3.63%	3.63%
28-Feb-20	30.0	28-Feb-50	300.0	2.71%	2.71%
9-Oct-20	29.4	28-Feb-50	200.0	2.71%	2.70%
5-Apr-19	31.0	5-Apr-50	250.0	3.64%	3.64%
17-Sep-21	30.0	15-Sep-51	450.0	3.10%	3.10%
22-Dec-11	40.0	22-Dec-51	100.0	4.00%	4.00%
22-May-12	39.6	22-Dec-51	125.0	4.00%	4.00%
27-Jan-23	30.0	27-Jan-53	300.0	4.46%	4.46%
30-Nov-23	31.0	30-Nov-54	400.0	4.85%	4.86%
12-Dec-23	31.0	30-Nov-54	100.0	4.85%	4.56%
20-Aug-24	30.3	30-Nov-54	500.0	4.85%	4.64%
31-Jul-12	50.0	31-Jul-62	75.0	3.79%	3.79%
16-Aug-12	50.0	31-Jul-62	235.0	3.79%	3.80%
29-Jan-14	50.0	29-Jan-64	50.0	4.29%	4.29%

A portion of each debt issue listed above has been allocated to Hydro One Networks Inc. Distribution and Hydro One Networks Inc. Transmission

All debt listed above is public debt issued in the Canadian debt capital market

OPG:

OPG is filing its table confidentially due to commercially sensitive information. A redacted version is provided below.

List of Outstanding Debt Supporting Regulated Operations Issued since 2019($M)

Line No.	Issue	Issue Date	Term (years)	Maturity Date	Principal*	Interest Rate (%)	Type of Debt Instrument	Source of Debt	Debt issued at LDC/Holdco Level
	List of outstanding debt issued since 2019								
1	OEFC Debt	8/22/2019	20.0	8/22/2039	100.0	3.49%	Loan	OEFC Credit Facility	OPG
2	Green Bond	1/18/2019	30.0	1/18/2049	0.4	4.25%	Public Bond	Capital Market	OPG
3	Green Bond	7/18/2022	10.0	7/19/2032	297.9	4.92%	Public Bond	Capital Market	OPG
4	Green Bond	6/28/2024	10.0	6/28/2034	496.7	4.83%	Public Bond	Capital Market	OPG
5	Green Bond	6/28/2024	30.0	6/28/2054	496.2	4.99%	Public Bond	Capital Market	OPG
6	Insurance Linked Bond	1/5/2022	5.0	1/4/2027	25.0	9.19%	Insurance Linked Bond	Private Placement	OPG
7	CIB*	10/14/2022	[redacted]	[redacted]	78.0	[redacted]	Loan	CIB	OPG
8	CIB*	4/11/2023	[redacted]	[redacted]	85.0	[redacted]	Loan	CIB	OPG
9	CIB*	9/29/2023	[redacted]	[redacted]	91.0	[redacted]	Loan	CIB	OPG
10	CIB*	12/18/2023	[redacted]	[redacted]	68.0	[redacted]	Loan	CIB	OPG
11	CIB*	3/22/2024	[redacted]	[redacted]	77.0	[redacted]	Loan	CIB	OPG
12	CIB*	6/19/2024	[redacted]	[redacted]	87.0	[redacted]	Loan	CIB	OPG

*Term, Maturity Date and Interest Rate redacted for commercial sensitivity

Response to e):

Toronto Hydro:

	2019	2020	2021	2022	2023
Actual	55.1%	57.1%	57.8%	60.0%	61.5%

OPG

	2019	2020	2021	2022	2023
Actual Equity Ratio[1]	62.7%	71.2%	77.3%	78.3%	78.3%

[1] Given that OPG's regulated operations form part of OPG's overall business, and are not operated as a standalone entity, the percentages shown have been derived by adding the "Other Long-Term Debt Provision" in OPG's deemed capital structure for the regulated facilities, as shown in OPG's actual historical capitalization tables reported to the OEB, to the deemed equity.

Enbridge Gas Inc.

Enbridge Gas Inc.'s actual utility capital structure for each of 2019 – 2023 is provided in the table below.

Line No.		Col. 1 Principal	Col. 2 Component	Col. 3 Cost Rate	Col. 4 Return Component	Col. 5 (col 1x col 3) Return
		($Millions)	%	%	%	($Millions)
EGI 2019 Actual Utility Capital Structure						
1.	Long and Medium-Term Debt	8,002.0	60.90	4.45	2.71	356.1
2.	Short-Term Debt	407.0	3.10	2.04	0.06	8.3
3.		8,409.0	64.00		2.77	364.4
4.	Common Equity	4,730.0	36.00	10.47	3.77	495.5
5.		13,139.0	100.00		6.54	859.9
EGI 2020 Actual Utility Capital Structure						
6.	Long and Medium-Term Debt	8,568.5	63.18	4.38	2.77	375.3
7.	Short-Term Debt	111.1	0.82	0.94	0.01	1.0
8.		8,679.7	64.00		2.78	376.3
9.	Common Equity	4,882.3	36.00	8.72	3.14	425.6
10.		13,562.0	100.00		5.91	801.9
EGI 2021 Actual Utility Capital Structure						
11.	Long and Medium-Term Debt	8,505.3	59.81	4.37	2.61	371.3
12.	Short-Term Debt	596.5	4.19	0.31	0.01	1.9
13.		9,101.8	64.00		2.63	373.2
14.	Common Equity	5,119.8	36.00	9.17	3.30	469.4

15.		14,221.6	100.00		5.93	842.6

EGI 2022 Actual Utility Capital Structure

16.	Long and Medium-Term Debt	9,049.8	58.84	4.25	2.50	384.9
17.	Short-Term Debt	794.3	5.16	2.31	0.12	18.4
18.		9,844.1	64.00		2.62	403.4
19.	Common Equity	5,537.3	36.00	9.52	3.43	526.9
20.		15,381.4	100.00		6.05	930.2

EGI 2023 Actual Utility Capital Structure

21.	Long and Medium-Term Debt	9,498.1	59.89	4.21	2.52	399.7
22.	Short-Term Debt	651.6	4.11	5.04	0.21	32.9
23.		10,149.7	64.00		2.73	432.6
24.	Common Equity	5,709.2	36.00	6.35	2.29	362.7
25.		15,858.9	100.00		5.02	795.4

Elexicon Energy:

	2019	2020	2021	2022	2023
Debt (%)	47.5%	51.8%	54.1%	57.1%	59.2%
Equity (%)	52.5%	48.2%	45.9%	42.9%	40.8%

Alectra:

Year	Actual Total Debt to Equity Ratio	Actual Equity Ratio
2023	1.24	44.7%
2022	1.21	45.3%
2021	1.13	47.0%
2020	1.20	45.4%
2019	1.16	46.4%

UCT 2

Year	Regulated Capital Structure
2022	56% LT/4% ST Debt – 40% Equity
2023	56% LT/4% ST Debt – 40% Equity
2024	56% LT/4% ST Debt – 40% Equity

Hydro One:

Hydro One Inc.	2019	2020	2021	2022	2023
Debt to capitalization ratio[1]	56.7%	55.0%	55.2%	55.1%	56.1%
Equity thickness[2]	43.3%	45.0%	44.8%	44.9%	43.9%

[1]Source: Hydro One Inc. Annual Management's Discussion and Analysis

- 2022 & 2023 pg 1 [link]
- 2020 & 2021 pg 1 [link]
- 2019 pg 1 [link]

[2]100% less Debt to capitalization ratio from preceding row

Hydro Ottawa:

Year	2019	2020	2021	2022	2023
HOL Total Debt (includes short-term and long-term debt) to Equity Ratio*	1.90	1.98	1.92	1.99	1.94
OEB Deemed Capital Structure*	1.50	1.50	1.50	1.50	1.50

*Represented using the OEB LDC scorecard format.

Rating Report

Enbridge Gas Inc.

Eric Eng, MBA
+1 416 597 7578
eeng@dbrs.com

Vipin Pal
+1 416 597 7572
vpal@dbrs.com

Insight beyond the rating.

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable
Senior Unsecured Notes	A	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating Update

On September 20, 2019, DBRS Limited (DBRS) confirmed all the rating of Enbridge Gas Inc. (EGI) as listed above. All trends are Stable. EGI was formed following the amalgamation of Enbridge Gas Distribution Inc. (EGD) and Union Gas Limited (Union Gas) on January 1, 2019 (the Amalgamation; see the DBRS press release on EGI dated January 2, 2019). The rating confirmations reflect (1) EGI's stable business risk profile, as the Ontario Energy Board's (OEB) decision on the Amalgamation is expected to provide a reasonable framework for EGI to achieve or exceed the allowed return on equity (ROE) and strong cash flow over the deferred rebasing period from 2019 through 2023, and (2) its improved credit metrics in 2018 and for the last 12 months (LTM) ended June 30, 2019, compared with the combined 2017 results of EGD and Union Gas (pro forma by DBRS).

Post Amalgamation, EGI has a large customer base of approximately 3.7 million across Ontario. A large customer base is one of the key factors for EGI to achieve operating efficiency under the price-cap incentive regulation (IR) through 2023. Significant synergy is expected to be achieved over the next five years and EGI is allowed to keep 100% of the earnings up to 150 basis points (bps) in excess the allowed ROE (8.98% for 2019 and will be reset annually). EGI's reliability and flexibility of the natural gas supply has improved significantly compared with EGD as a result of the addition of Union Gas's storage facilities. The ratings incorporate EGI's exposure to volume risk and potential regulatory lag with respect to the recovery of natural gas costs when the price of natural gas increases substantially.

EGI's 2017 pro forma credit metrics (DBRS combined EGD's and Union Gas's 2017 results) were modestly weak, reflecting the fact that Union Gas's metrics were under pressure as a result of a large capex program. However, they improved in 2018 and the LTM 2019 and EGI's credit metrics are expected to improve further over the medium term, reflecting operating efficiency and incremental cash flow from a growing rate base. DBRS expects EGI to fund its future capital projects and to manage its dividend policy in a way that the capital structure will be maintained in line with the regulatory capital structure of 64% debt and 36% equity. DBRS does not expect any positive rating actions during the deferred rebasing period through 2023. However, a negative rating action could be taken if (1) there is an adverse regulatory change that has a negative impact on EGI's business risk profile or (2) EGI experiences a significant deterioration of its credit metrics on a sustained basis. These scenarios are considered unlikely by DBRS.

Financial Information

	6M June 30		12M June 30	Year ended December 31		
Key Pro Forma Credit Metrics	**2019**	**2018**	**2019**	**2018**	**2017PF**	**2016PF**
Cash flow-to-debt	16.6%	15.9%	13.1%	12.3%	10.9%	12.0%
Total debt in capital structure (excl. goodwill)	64.6%	60.2%	64.6%	63.9%	62.8%	62.2%
EBIT interest coverage (times)	3.48	3.23	2.69	2.57	2.18	2.18

Note: 2016PF and 2017PF were prepared by DBRS by combining full-year EGD and Union Gas results.

Issuer Description

EGI is an amalgamation of EGD and Union Gas. It is a regulated natural gas distributor, serving approximately 3.7 million customers across Ontario. Other operations include regulated transportation services as well as regulated and unregulated storage services in Ontario.

Rating Considerations

Strengths

1. Low-risk regulated operations

Substantially all of EGI's assets are regulated and operate under the OEB-approved, five-year price-cap IR plan from 2019 through 2023. The IR plan provides the Company with the following benefits: (a) relatively predictable earnings and cash flow through a formula (see the Regulatory Update section); (b) full recovery of gas supply costs with quarterly adjustments, subject to regulatory review; (c) annual updates for certain costs to be passed through to customers and a reasonable mechanism for capex recovery; and (d) an earnings sharing mechanism with customers, which provides incentives for operational efficiency.

2. Strong franchise area with a very large customer base

EGI is currently the largest regulated natural gas distributor in Canada and is one of the largest in North America, serving approximately 3.7 million residential, commercial and industrial customers across Ontario (approximately 2.2 million from EGD and 1.5 million from Union Gas). The Company's service area is viewed as economically strong compared with other service areas in Canada. EGI's large customer base provides it with the size and scale to operate efficiently during its deferred rebasing period, when efficiency is key to achieve or exceed allowed ROE. EGI's large size also allows it to have more flexibility with its capex planning and stronger access to the debt market.

3. Sizable storage assets provide additional rate base and cash flow

Following the Amalgamation, EGI owns approximately 272 billion cubic feet of natural gas underground storage capacity facilities located at Dawn, the largest natural gas storage hub in Canada, which acts as a gateway for Western Canadian and Appalachian gas supply. EGI's storage facilities are strategically connected to major pipelines that transport natural gas to major Canadian and U.S. markets. A majority of EGI's storage assets is in the regulated rate base. In addition, non-regulated storage assets have generated strong cash flow that reflect high demand in Ontario. DBRS estimates that cash flow from non-regulated storage activities accounts for approximately between 8% and 10% of EGI's consolidated cash flow.

Challenges

1. Volume risk

For EGI's residential and small commercial customers, weather risk remains significant, as forecast volumes (based on normalized weather) are built into the Company's base rates, while actual usage varies with the weather. Therefore, colder-than-normal weather in any given year generally results in higher earnings, while the reverse is true for periods of warmer-than-normal weather. For EGI's large industrial customers, volume consumption is sensitive to the economy. However, the volume risk is mitigated through the Company's firm contracts with larger commercial and industrial customers, with charges based on demand.

2. Managing operating costs under the price-cap IR plan

EGI is in the first year of its five-year deferred rebasing IR plan. Managing operating costs is critical for the Company to achieve or exceed the allowed ROE. A significant increase in operating costs can have a negative impact on EGI's earnings and cash flow, and consequently its credit metrics. Earnings below the allowed ROE will not be recovered from customers unless actual ROE is 300 bps below the allowed ROE, at which point the Company can request a regulatory review.

3. Potential regulatory lag

EGI faces potential regulatory lag with respect to the recovery of natural gas costs. Although the Company can pass natural gas costs on to customers with quarterly adjustments, potential regulatory lag still exists. If natural gas costs increase substantially within a short period of time, the Company may have to recover such costs over a longer time frame than it normally does. In addition, EGI could also face regulatory lag with respect to major projects if capital spending amounts are beyond those that can be funded through base rates and if these capital projects do not qualify for recovery through the Incremental Capital Module (ICM) mechanism (see the Regulatory Update section).

Earnings and Outlook

	6M June 30		12M June 30	Year ended December 31		
(CAD millions)	2019	2018	2019	2018	2017PF	2016PF
Gas commodity and distribution revenue	2,592	2,602	4,220	4,230	4,633	3,966
Transportation of gas revenue	457	574	867	984	781	629
Other revenue	42	38	87	83	138	121
Total Revenue	**3,091**	**3,214**	**5,174**	**5,297**	**5,552**	**4,716**
Gas commodity & distribution costs	1,589	1,795	2,470	2,676	3,102	2,374
Operating & administrative	503	499	1,081	1,077	1,047	1,001
Depreciation & amortization	319	318	609	608	595	561
Total Operating Costs	**2,411**	**2,612**	**4,160**	**4,361**	**4,744**	**3,936**
Operating Income	**680**	**602**	**1,014**	**936**	**808**	**780**
Gross interest expense	198	198	396	396	400	391
Capitalized interest	(3)	(3)	(5)	(5)	(15)	(24)
Interest Expense	**195**	**195**	**391**	**391**	**385**	**367**
Operating Income Before Other Income	**485**	**407**	**623**	**545**	**423**	**413**
Other income (expense), net	9	38	51	80	64	73
Operating Profit Before Taxes	**494**	**445**	**674**	**625**	**487**	**486**
Income taxes	61	52	66	57	2	35
Net Income Before Extra. Items	**433**	**393**	**608**	**568**	**485**	**451**
Extraordinary items	(27)	0	(27)	0	0	(16)
Net Income from Continuing Operations	**406**	**393**	**581**	**568**	**485**	**435**
Plus: discontinued operations	0	0	0	0	0	0
Reported Net Income	**406**	**393**	**581**	**568**	**485**	**435**

Note: 2016PF and 2017PF were prepared by DBRS by combining full-year EGD and Union Gas results.

Summary

- A noticeable increase in operating income in 2018 from 2017 reflected (1) a higher transportation revenue and higher distribution charges resulting from increases in the rate base and the customer base and (2) colder weather and higher incremental contributions from expansion projects. This increase was partially offset by higher employee-related costs.
- A meaningful increase in operating income in the first half of 2019 (H1 2019) from the same period in 2018 reflected (1) colder weather in the Company's franchise areas and (2) higher distribution rates and customer base. These positive factors were partially offset by the wind down of EGI's investment in IPL System Inc. (IPL) in December 2018, which are included in "Other Income (Expense) net" (see the Intercompany Transactions section).
- The after-tax $27 million extraordinary item in H1 2019 represented the severance costs ($37 million before tax) related to termination benefits to employees from the amalgamation of EGD and Union Gas.

Outlook

- Assuming normal weather, DBRS expects EGI's earnings to continue to increase modestly throughout the deferred rebasing period, reflecting the continued growth in the rate base and customer base.
- In addition, DBRS expects EGI to benefit from synergy and improvements in operational efficiency through a large customer base of 3.7 million (2.2 million for EGD and 1.5 million for Union Gas).
- However, because EGI's annual rate changes are based on a price-cap formula and operating efficiency is key to achieve or exceed allowed ROE, any material increase in operating costs can have a negative impact on EGI's earnings.
- In August 2017, the Company entered into an agreement to sell its 100%-owned subsidiary in New York State, St. Lawrence Gas, for approximately $76 million (the St. Lawrence Sale). The St. Lawrence Sale is expected to close in the second half of 2019. DBRS does not expect the St. Lawrence sale to have a material impact on EGI's earnings.

Financial Profile

	6M June 30		12M June 30	Year ended December 31		
(CAD millions)	2019	2018	2019	2018	2017PF	2016PF
Operating Cash Flow	**750**	**694**	**1,181**	**1,125**	**1,023**	**1,017**
Capex, equity investments, other	(404)	(778)	(953)	(1,327)	(1,830)	(1,776)
Dividends paid	(625)	(273)	(1,124)	(772)	(664)	(238)
Free cash flow (bef. work. cap. changes)	(279)	(357)	(896)	(974)	(1,471)	(997)
Changes in non-cash work. cap. items	403	912	92	601	265	64
Gross free cash flow	124	555	(804)	(373)	(1,206)	(933)
Business acquisitions, net of cash	0	0	0	0	0	0
Cash extraordinary items	(31)	0	(31)	0	0	0
Proceeds on sale of inv. & other activities (net)	0	0	825	825	0	0
Net Free Cash Flow	**93**	**555**	**(10)**	**452**	**(1,206)**	**(933)**
Change in debt & equivalents	(108)	(630)	(298)	(820)	937	479
Change in note payable - affiliate	0	0	575	575	(253)	191
Change in equity & equivalents	(1)	56	(311)	(254)	530	280
Change in other liabilities	0	0	0	0	0	0
Change in cash & marketable securities	16	19	44	47	(8)	(17)
Funding Sources	**(93)**	**(555)**	**10**	**(452)**	**1,206**	**933**
Total debt in capital structure	48.1%	60.2%	48.1%	47.9%	62.8%	62.2%
Total debt in capital structure 1	64.6%	60.2%	64.6%	63.9%	62.8%	62.2%
Cash flow/total debt	16.6%	15.9%	13.1%	12.3%	9.3%	12.0%
EBIT interest coverage (times)	3.48	3.23	2.69	2.57	2.18	2.18
Fixed-charges coverage (times)	3.48	3.17	2.66	2.51	2.14	2.14
Dividends/Cash flow	83.3%	39.3%	95.2%	68.6%	64.9%	23.4%

Note: 2016PF and 2017PF were prepared by DBRS by combining full-year EGD and Union Gas results.
1 Excludes goodwill.

Summary

- Post Amalgamation, the debt-to-capital ratio, excluding goodwill, increased modestly at the end of 2018 from the combined EGD and Union Gas in 2017. However, this ratio remains at the low end of DBRS's "A" rating range.
- The capital structure in 2017 included the investment of $825 million in IPL and the associated intercompany loan for the IPL investment. This investment and its associated loans wound down in December 2018.
- Cash flow-to-debt ratio in 2018 and LTM 2019 improved significantly from 2017, reflecting higher cash flow from operations (due to stronger earnings) and lower debt levels as a result of the elimination of intercompany loans associated with the investment in IPL. This ratio moved into DBRS's "A" rating range in LTM 2019.
- EBIT-interest coverage continues to benefit from the low-interest-rate environment and stronger operating income in 2018 and LTM 2019. In LTM 2019, this ratio improved and remained solidly at the upper end of DBRS's "A" rating range.
- EGI generated substantial cash flow deficits over the last three years as a result of a large capex program for future growth. The dividend/cash flow ratio has increased since 2018. However, EGI's financing plan is to maintain the debt-to-capital ratio in line with the regulatory capital structure of 64% debt/36% equity. As a result, EGI's debt-to-capital ratio has been maintained relatively stable around or near 64% debt in the past few years.

Outlook

- DBRS expects EGI to continue to generate large free cash flow deficits over the next two years due to large capex and a high dividend payout. Capex for 2019 and 2020 is estimated to be around $1.0 billion each year for system maintenance and to support system upgrades and new capital projects such as the community expansion projects and the Dawn-Parkway Expansion Project (see the Capital Projects section).
- DBRS does not expect EGI to change its financing strategy with respect to maintaining the debt-to-capital ratio (excluding goodwill) at or near the current level throughout the deferred rebasing period.
- DBRS expects EGI's cash flow-to-debt and EBIT-interest coverage ratios to improve modestly over the medium term, reflecting expected operating efficiency and incremental cash flow from a growing rate base.

Liquidity and Long-Term Debt Maturities

Credit Facilities

As at June 30, 2019

(CAD millions)	Total Facilities	Drawn 1	Available	Maturity
Enbridge Gas Inc.	2,000	917	1,083	2021
St. Lawrence Gas Company, Inc.	17	9	8	2019
Total	**2,017**	**926**	**1,091**	

1 Includes commercial paper issuances, net of discount, that are backed by the $2.0 billion Revolving Term Credit Facility. St. Lawrence Gas Company, Inc. draws are shown in Liabilities held for sale.

Summary

- Liquidity is supported by predictable cash flow form operations and the availability of credit facilities.
- The $2.0 billion Revolving Term Credit Facility is used to backstop a commercial paper (CP) program of $2.0 billion. EGI's CP program in turn is used to finance working capital changes and to fund capex before terming out with Medium-Term Notes (MTNs). In February 2019, EGI increased its CP program to $2.0 billion from $1.7 billion.
- In this respect, EGI has sufficient liquidity to fund its current working capital and capex needs. However, any combination of cold weather and high gas prices in the future could exhaust the Company's available liquidity. Should that event occur, Enbridge Inc. (Enbridge; rated BBB (high) with a Stable trend by DBRS) is expected to provide liquidity support in a timely manner for EGI.

Debt Maturities

As at June 30, 2019 (CAD million)	2019	2020	2021	2022	2023	Thereafter	Total
EGD Medium-Term Notes and Debentures	0	400	175	0	100	3,105	3,780
Union Gas Medium-Term Notes and Debentures	0	0	200	125	250	2,840	3,415
Total	**0**	**400**	**375**	**125**	**350**	**5,945**	**7,195**

Summary

- EGI's refinancing risk is low in 2019, as it has no long-term debt due in the year. The refinancing risk in 2020 and 2021 is manageable because the MTNs and debentures due in each of these years are modest and within the financing capability of the Company.
- In August 2019, EGI issued $700 million of MTNs to repay its short-term indebtedness and to fund capex. DBRS believes that the debt issuance had no impact on EGI's credit metrics.
- EGI is subject to the issue test covenant in the indenture which states that its total consolidated funded obligations (namely total indebtedness including guarantee that has maturity term longer than 18 months) will not exceed 75% of total consolidated capitalization. EGI is also subject to an EBIT-to-interest covenant of 2.0 times, based on EBIT for 12 consecutive months and annual pro forma interest requirements for all debt with the maturity term longer than 18 months.
  - The covenant does not apply to debt issuances for debt refinancing.
  - The Company was in compliance with the covenant as at June 30, 2019.

Intercompany Transactions

- Before the Amalgamation, EGD owned $825 million of Class D, non-voting, redeemable, retractable preferred shares of IPL, which is 100% owned by Enbridge. The Company owed IPL $375 million in loans, which were deeply subordinated to EGD's MTNs and debentures.
- The IPL investment wound down in December 2018 and the $375 million subordinated loan from IPL was paid off.

Regulatory Update

Amalgamation

On August 30, 2018, the OEB issued a decision on the application for the amalgamation of EGI and Union Gas. The OEB's major key determinations in the decision are, among others, as follows:

- The rebasing year is deferred until 2024. The Company asked for a ten-year deferred rebasing period, but the OEB allowed for only five years. DBRS believes that the five-year rebasing period is a credit positive because shorter periods have more certainty with respect to cost recovery and forecasts.
- The annual rate change during the deferred rebasing period is based on a price-cap index (PCI), where PCI growth is driven by an inflation factor using the Gross Domestic Product Implicit Price Index Final Domestic Demand Canada index as the inflation factor, less a productivity factor of zero and a stretch factor of 0.3%. The stretch factor is used in incentive regulation to measure the efficiency of utilities (the actual costs/forecast costs), with superior performance having a lower stretch factor.
- The earnings sharing mechanism during the 2019–2023 period will be on a 50/50 basis between EGI and its ratepayers for all earnings in excess of 150 bps over the allowed ROE. This means that earnings in excess of up to 150 bps will be retained by EGI.
- All capex beyond the amount approved in the deferred rebasing years will be recovered through an ICM (see the next section).
- EGI continues to pass through costs associated with Y factors, with the exception of Cap-and-Trade costs (see the next section). Y factors are costs related to gas commodity and upstream transportation costs, demand-side management cost changes, lost revenue adjustment mechanism changes for the contract market and normalized average consumption/average use.
- EGI is allowed to recover $5.5 million through a Z-factor mechanism ($1.5 million for EGD and $4.0 million for Union Gas). Z factors are related to unforeseen events outside of management.
- During the deferred rebasing period, EGI will continue to purchase market-based storage services to meet the needs of legacy EGD in-franchise customers. This will mean that legacy Union Gas customers continue to benefit from the sale of market-based storage until issues of rate harmonization are considered.

Incremental Capital Module

- ICM is a funding mechanism for significant capital projects for which a utility requires rate recovery in advance of its next regularly scheduled cost of service application.
- The test for ICM is that a capital project is not only required to be part of a capital project that is incremental to the materiality threshold (defined below) but must be driven by capital spending requirements that are extraordinary and unanticipated.
- Materiality means that the amount of capital spending must exceed the OEB-defined threshold (which represents a utility's financial capacities underpinned by existing rates, including growth) and clearly has a significant influence on the operation of the utility. In addition, to be eligible for ICM, the amount of capital spending must be for need and prudence. Need means that the amount of capital spending must be non-discretionary and must be outside of the base upon which the rates are derived. Prudence means that the utility's decision to incur the costs must represent the most cost-effective option for the ratepayers.

Federal Carbon Levy

- Ontario is subject to the federal government's carbon pricing program, which consists of two parts: (1) an output-based pricing system (effective January 1, 2019) and (2) a carbon or fuel charge levied on natural gas (effective April 1, 2019).
- Beginning 2019, on an interim basis, EGI set up an OEB-approved deferral account to capture the costs of the federal carbon charge, which is approximately 3.91 cents/cubic metre. An estimate of an increase in the average residential customer's bill is by $86 per year to $94 per year depending on their location in Ontario. The cost will be borne by customers.

Ontario's Cap and Trade Program

- The Government of Ontario revoked the Ontario cap and trade (OCT) program in July 2018. Registered participants of the OCT program can no longer purchase, sell, trade or otherwise deal with emission allowance and credits.
- In August 2018, the OEB instructed EGD and Union Gas to remove cap and trade charges from customer bills effective October 1, 2018. And in September 2018, the OEB approved EGD's and Union Gas's requests to remove the cap and trade charges from rates and to refund approximately $20 million in the cap and trade deferral accounts to customers.
- The removal of OCT charges is not expected to have any impact on EGI's credit ratios.

Capital Projects

- The Dawn-Parkway Expansion Project: EGI will expand the Dawn-Parkway system to provide Ontario and Northeast U.S. customers with access to the diversity, reliability, security of supply and cost competitiveness of the Dawn Hub. The cost of the project is estimated to be $206 million, and the incremental capacity is 75 million cubic feet per day. The project is expected to be in service in 2021.
- Community Expansion: In March 2019, the Government of Ontario released Ontario Regulation 24/19 (Regulation) allowing for ratepayer funding of specific community expansion projects. There are several projects identified in the Regulation specific to EGI. The total funding for these projects is approximately $34.5 million. EGI has proceeded with a number of community-based system expansion projects in 2019.
- Kingsville Transmission Reinforcement Project: Before the Amalgamation, Union Gas received approval from the OEB to construct a new pipeline, extending from interconnect at the existing Panhandle Line in the Town of Lakeshore to a new station in Kingsville. The cost of the project is estimated to be $122 million. This project is expected to be in service in November 2019.

Enbridge Gas Inc.

Balance Sheet (CAD millions)	June 30	December 31			June 30	December 31	
Assets	**2019**	**2018**	**2017R**	**Liabilities & Equity**	**2019**	**2018**	**2017R**
Cash and cash equivalents	31	17	39	Short-term borrowings	917	1,025	1,445
Restricted cash	2	32	57	Accounts payable	986	1,315	1,386
Accounts receivable and other	922	1,312	1,643	A/P to affiliates	136	55	82
Accounts receivable from affiliates	25	22	47	Liabilities held for sale	37	44	43
Gas inventory	418	687	633	Ltd. due in one year	0	0	412
Assets held for sale, current	23	22	15	**Current Liabilities**	**2,076**	**2,439**	**3,368**
Total Current Assets	**1,421**	**2,092**	**2,434**	Long-term debt	7,530	7,543	7,567
Property, plant and equipment	14,944	14,818	14,344	Other long-term liabilities	1,876	1,773	2,292
Investment in affiliate	0	0	825	Deferred income taxes	1,396	1,319	1,216
Deferred amounts and other assets	2,117	1,931	1,862	Loans from affiliate	950	950	375
Intangible assets	177	209	855	Liabilities held for sale	33	33	34
Goodwill	4,784	4,784	4,784	Preferred shares	0	0	210
Assets held for sale, long-term	105	116	110	Common equity	9,687	9,893	10,152
Total Assets	**23,548**	**23,950**	**25,214**	**Total Liab. & Equity**	**23,548**	**23,950**	**25,214**

R = restated by EGI.

Rating History

	Current	Jan. - 2019	2018
Issuer Rating	A	A	NR
Senior Unsecured Notes	A	A	NR
Commercial Paper	R-1 (low)	R- 1 (low)	NR

Previous Action

- Finalized provisional ratings, January 2, 2019.

Commercial Paper Limit

- $2.0 billion.

Previous Report

EGI does not have any previous reports, but please see the following reports for references:

- Enbridge Gas Distribution Inc.: Rating Report, November 22, 2018.
- Union Gas Limited: Rating Report, February 14, 2018.

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.

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.

The DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(CRA, NRSRO affiliate, DRO affiliate). For more information on regulatory registrations, recognitions and approvals, please see: http://www.dbrs.com/research/highlights.pdf.

© 2019, DBRS. All rights reserved. The information upon which DBRS ratings and other types of credit opinions and reports are based is obtained by DBRS from sources DBRS believes to be reliable. DBRS does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS ratings, other types of credit opinions, reports and any other information provided by DBRS are provided "as is" and without representation or warranty of any kind. DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS or any DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. Ratings, other types of credit opinions, other analysis and research issued or published by DBRS are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment advice or recommendations to purchase, sell or hold any securities. A report with respect to a DBRS rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS may receive compensation for its ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. DBRS is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS. ALL DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT http://www.dbrs.com/about/disclaimer. ADDITIONAL INFORMATION REGARDING DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON http://www.dbrs.com.

MORNINGSTAR | DBRS

Rating Report
Enbridge Gas Inc.

DBRS Morningstar
September 29, 2020

Contents

1 Ratings
1 Rating Update
2 Financial Information
2 Issuer Description
2 Rating Considerations Details
4 Earnings and Outlook
5 Financial Profile
6 Liquidity and Long-Term Debt Maturities
7 Regulatory Update
8 Capital Projects
9 Ratings History
9 Previous Actions
9 Commercial Paper Limit
9 Previous Report

Eric Eng, MBA
Senior Vice President
Infrastructure, Power & Utilities
+1 416 597-7578
eric.eng@morningstar.com

Vipin Pal
Assistant Vice President
Infrastructure, Power & Utilities
+1 416 597-7572
vipin.pal@morningstar.com

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable
Senior Unsecured Notes	A	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating Update

On September 17, 2020, DBRS Limited (DBRS Morningstar) confirmed all the ratings of Enbridge Gas Inc. (EGI or the Company) as listed above. All trends are Stable. The rating confirmations reflect (1) EGI's stable business risk profile as it is in the second year of the five-year price-cap incentive regulations (IR) lasting through 2023 and there are no expectations of any material changes during this five-year period; (2) its relatively solid credit metrics and DBRS Morningstar's expectation that the credit metrics will improve modestly over the medium term as a result of rate base growth and synergy realization; and (3) solid liquidity and low refinancing risk in the next few years.

The impact of the Coronavirus Disease (COVID-19) pandemic on EGI's operations and financial performance has been modest. Although the pandemic is ongoing, DBRS Morningstar does not expect it to have a material impact on EGI over the near to medium term because EGI operates critical infrastructure and continues to provide an essential service.

The Company's ratings are supported by a stable regulatory framework in Ontario and a very large and economically strong customer base of approximately 3.8 million customers across the province—the largest in Canada and one of the largest in North America. This large customer base is one of the key factors for EGI to achieve operating efficiency under the price-cap IR. Good synergy was realized from the amalgamation of Enbridge Gas Distribution Inc. (EGD) with Union Gas Limited in 2019 and the first half of 2020, and significant synergy is expected to be achieved through 2023. EGI is allowed to keep 100% of the earnings up to 150 basis points (bps) in excess of the allowed return on equity (ROE) (8.52% for 2020, and reset annually). EGI's reliability and the flexibility of its natural gas supply have improved significantly, compared with EGD, as a result of the addition of Union Gas's storage facilities. The ratings incorporate EGI's exposure to volume risk and the potential regulatory lag in the recovery of natural gas costs when the price of natural gas increases substantially.

EGI's key credit metrics have improved since the amalgamation and remained solid for 2019 and the last 12 months (LTM) ended June 30, 2020. DBRS Morningstar expects EGI's credit metrics to improve modestly over the medium term, reflecting operating efficiency (including synergy realization) and

incremental cash flow from a growing rate base. Although EGI will likely generate substantial free cash flow deficits over the next few years because of its major capital projects, DBRS Morningstar expects EGI to fund its future capital expenditures (capex) and to manage its dividend policy in such a way that the capital structure will be maintained in line with the regulatory capital structure of 64% debt and 36% equity.

DBRS Morningstar does not expect any positive rating actions during the deferred rebasing period through 2023. However, a negative rating action could be taken should the following events occur: (1) an adverse regulatory change has a negative impact on EGI's business risk profile or (2) EGI experiences a significant deterioration of its credit metrics on a sustained basis. DBRS Morningstar considers these scenarios unlikely.

Financial Information

Enbridge Gas Inc.	6M June 30	6M June 30	12M June 30	Year ended December 31	
Key Pro Forma Credit Metrics	**2020**	**2019**	**2020**	**2019**	**2018**
Cash flow-to-debt (%)	14.9	16.5	12.2	12.7	12.3
Total debt in capital structure (%)	49.0	48.1	49.0	48.3	47.9
Total debt in capital structure (excl. Goodwill) (%)	65.3	64.6	65.3	64.1	63.9
EBIT interest coverage (times)	3.07	3.48	2.44	2.62	2.57

Issuer Description

EGI was created following the amalgamation of Enbridge Gas Distribution Inc. (EGD) with Union Gas on January 1, 2019. The Company is a regulated natural gas distributor, serving approximately 3.8 million customers across Ontario. Other operations include regulated transportation services as well as regulated and unregulated storage services in Ontario. EGI is owned by Enbridge Inc. (54%; rated BBB (high) by DBRS Morningstar) and Westcoast Energy Inc. (46%; rated A (low) by DBRS Morningstar).

Rating Considerations Details

Strengths

1. Low-risk regulated operations

Substantially all of EGI's assets are regulated and operate under the Ontario Energy Board (OEB)-approved, five-year price-cap IR plan from 2019 through 2023. The IR plan provides the Company with the following benefits: (A) relatively predictable earnings and cash flow through a formula (see the Regulatory Update section); (B) full recovery of gas supply costs with quarterly adjustments, subject to regulatory review; (C) annual updates for certain costs to be passed through to customers and a reasonable mechanism for capex recovery; and (D) a mechanism for sharing earnings with customers, which provides incentives for operational efficiency.

2. Strong franchise area with a very large customer base

EGI is currently the largest regulated natural gas distributor in Canada and is one of the largest in North America, serving approximately 3.8 million residential, commercial, and industrial customers across Ontario. The Company's service area is viewed as economically strong compared with other service areas in Canada. EGI's large customer base provides it with the size and scale to operate efficiently

during five-year price-cap IR plan. EGI's large size also allows it to maintain a good degree of flexibility with its capex planning.

3. Sizable storage assets provide additional rate base and cash flow

EGI currently owns approximately 272 billion cubic feet of natural gas underground storage capacity facilities located at the Dawn hub, the largest natural gas storage hub in Canada, which acts as a gateway for Western Canadian and Appalachian natural gas supply. EGI's storage facilities are strategically connected to major pipelines that transport natural gas to major Canadian and U.S. markets. A majority of EGI's storage assets is in the regulated rate base. In addition, nonregulated storage assets have generated strong cash flows that reflect high demand in Ontario. DBRS Morningstar estimates that cash flow from nonregulated storage activities accounts for approximately 8% to 10% of EGI's consolidated cash flow.

Challenges

1. Volume risk

For EGI's residential and small commercial customers, weather risk remains significant, as forecast volumes (based on normalized weather) are built into the Company's base rates, while actual usage varies with the weather. Therefore, colder-than-normal weather in any given year generally results in higher earnings, while the reverse is true for periods of warmer-than-normal weather. For EGI's large industrial customers, volume consumption is sensitive to the economy. However, the volume risk is partially mitigated through the Company's firm contracts with larger commercial and industrial customers where charges are based on demand. Further, the weather forecast is conducted annually to reflect the latest weather patterns.

2. Managing operating costs under the price-cap IR plan

EGI is in the second year of its five -year price-cap IR plan. Managing operating costs is particularly important for the Company to achieve or exceed the allowed ROE. A significant increase in operating costs can have a negative impact on EGI's earnings and cash flow, and consequently on its credit metrics. Earnings below the allowed ROE will not be recovered from customers unless the actual ROE is 300 bps below the allowed ROE, at which point the Company can request a regulatory review.

3. Potential regulatory lag

EGI faces a potential regulatory lag in the recovery of natural gas costs. Although the Company can pass natural gas costs on to customers with quarterly adjustments, the potential for a regulatory lag still exists. If natural gas costs increase substantially within a short period of time, the Company may have to recover such costs over a longer time frame than it normally does. In addition, EGI could also face regulatory lag with respect to major projects if capital spending amounts are beyond those that can be funded through base rates and if these capital projects do not qualify for recovery through the Incremental Capital Module (ICM) mechanism (see the Regulatory Update section).

Earnings and Outlook

Enbridge Gas Inc.	6M June 30	6M June 30	12M June 30	Year ended December 31	
(CAD millions)	2020	2019	2020	2019	2018
Gas commodity and distribution revenue	2,091	2,592	3,651	4,152	4,242
Transportation of gas revenue	431	457	810	836	972
Other revenue	35	42	80	87	83
Total revenue	**2,557**	**3,091**	**4,541**	**5,075**	**5,297**
Gas Commodity & Distribution Costs	1,127	1,589	1,872	2,334	2,676
Operating & Administrative	506	503	1,073	1,070	1,077
Depreciation & Amortization	318	319	637	638	608
Property Taxes and Other	0	0	0	0	0
Earnings Sharing	0	0	0	0	0
Total Operating Costs	**1,951**	**2,411**	**3,582**	**4,042**	**4,361**
Operating Income	**606**	**680**	**959**	**1,033**	**936**
Gross Interest Expense	208	198	415	405	396
Capitalized Interest	(3)	(3)	(5)	(5)	(5)
Interest Expense	**205**	**195**	**410**	**400**	**391**
Operating Income Before Other Income	**401**	**485**	**549**	**633**	**545**
Other Income (Expense), net	32	9	53	30	80
Operating Profit Before Taxes	**433**	**494**	**602**	**663**	**625**
Income Taxes	38	61	48	71	57
Net Income before Extra. Items	**395**	**433**	**554**	**592**	**568**
Extraordinary Items	(54)	(27)	(63)	(36)	0
Net Income From Continuing Operations	**341**	**406**	**491**	**556**	**568**
Plus: Discontinued Operations	0	0	0	0	0
Reported Net Income	**341**	**406**	**491**	**556**	**568**

Year end 2019 Summary

- Operating income in 2019 increased modestly from 2018, reflecting (1) higher distribution charges due to increase in distribution rates, (2) the increase in the customer base, (3) colder weather and higher incremental contributions from expansion projects, and (4) synergy realized from the amalgamation. This increase was partially offset by higher employee-related costs and higher depreciation and amortization due to higher overall rate base.
- Lower other income in 2019 was a result of the wind-down of the Company's investment in IPL System Inc. (IPL) in December 2018. Extraordinary loss was due to the disposal of St. Lawrence Gas in November 2019.

H1 2020 Summary

- The noticeable decrease in operating income in H1 2020 compared with the same period in 2019 reflected the (1) warmer weather in the Company's franchise areas during the first quarter of 2020 and (2) absence of contribution from St. Lawrence Gas. These factors were partially offset by the higher distribution charges, an increase in customer base, and synergy realized from the amalgamation.
- The higher other income in H1 2020 compared with H1 2019 was largely as a result of higher interest income and foreign currency gains on cash balances denominated in U.S. dollars. The extraordinary item

in H1 2020 represented the severance costs related to termination benefits to employees from the amalgamation of EGD and Union Gas.

Outlook

- Assuming normal weather, DBRS Morningstar expects EGI's earnings to continue to increase modestly throughout the deferred rebasing period, reflecting the continued growth in the rate base and customer base as well as the potential synergy to be realized from the amalgamation.
- However, because EGI's annual rate changes are based on a price-cap formula and operating efficiency is key to achieve or exceed allowed ROE, any material unexpected increase in operating costs can have a negative impact on EGI's earnings.
- On November 1, 2019, the Company sold sell its 100%-owned subsidiary in New York State, St. Lawrence Gas, for approximately $72 million. DBRS Morningstar does not expect the St. Lawrence sale to have a material impact on EGI's earnings.

Financial Profile

Enbridge Gas Inc.	6M June 30	6M June 30	12M June 30	Year ended December 31	
(CAD millions)	2020	2019	2020	2019	2018
Operating cash flow	**697**	**746**	**1,141**	**1,190**	**1,125**
Capex, equity investments, other	(452)	(404)	(1,157)	(1,109)	(1,327)
Dividends paid	(225)	(626)	(536)	(937)	(772)
Free cash flow (bef. work. cap. changes)	**20**	**(284)**	**(552)**	**(856)**	**(974)**
Changes in non-cash work. cap. items	367	403	80	116	601
Gross free cash flow	**387**	**119**	**(472)**	**(740)**	**(373)**
Cash Extraordinary Items	(54)	(27)	(56)	(29)	0
Proceeds on sale of inv. & other activities (net)	0	0	72	72	825
Net free cash flow	**333**	**92**	**(456)**	**(697)**	**452**
Change in debt & equivalents	650	(108)	1,328	570	(820)
Change in note payable - affiliate	(650)	0	(982)	(332)	575
Change in equity & equivalents	(400)	0	87	487	(254)
Change in cash & marketable securities	67	16	23	(28)	47
Funding Sources	**(333)**	**(92)**	**456**	**697**	**(452)**
Total adjusted debt	9,387	9,022	9,387	9,401	9,130
Total debt in capital structure (excluding goodwill) (%)	65.3	64.6	65.3	64.1	63.9
Cash flow/total debt (%)	14.9	16.5	12.2	12.7	12.3
EBIT interest coverage (times)	3.07	3.48	2.44	2.62	2.57
Fixed-charges coverage (times)	3.07	3.48	2.44	2.62	2.51
Dividends/Cash flow (%)	32.3	83.9	47.0	78.7	68.6

Summary

- The debt-to-capital ratio, excluding goodwill, has remained relatively stable since the amalgamation and has stayed at the low end of DBRS Morningstar's "A" rating range. This capital structure is consistent with the regulatory capital structure of 36% equity/64% debt.
- The cash flow-to-debt ratio for the 12 months to June 30, 2020, was negatively affected by lower cash flow for H1 2020. This was because of the negative impact of warmer weather during the first quarter of 2020 and the absence of the cash flow contribution from St. Lawrence Gas. However, this ratio was comparable with 2018 and remained at the lower end of the DBRS Morningstar's "A" rating range.

- EBIT-interest coverage continues to benefit from the low-interest-rate environment and stronger operating income in 2019 and LTM 2020. This ratio remained solidly at the upper end of DBRS Morningstar's "A" rating range.
- EGI has generated substantial free cash flow deficits for the last couple of years as a result of a large capex program for future growth. The dividend/cash flow ratio has increased since 2018. However, EGI's financing plan is to maintain the debt-to-capital ratio in line with the regulatory capital structure of 64% debt/36% equity.

Outlook

- DBRS Morningstar expects EGI to continue to generate significant free cash flow deficits over the next couple of years due to its large capex and high dividend payout. Capex for 2020 and 2021 is estimated to be around $1.0 to $1.5 billion each year for system maintenance and to support system upgrades and new capital projects, such as the community expansion projects and the Dawn-Parkway Expansion Project (see the Capital Projects section).
- DBRS Morningstar does not expect EGI to change its financing strategy of maintaining the debt-to-capital ratio (excluding goodwill) at or near the current level throughout the deferred rebasing period.
- Assuming normal weather, DBRS Morningstar expects EGI's cash flow-to-debt and EBIT-interest coverage ratios to improve modestly over the medium term, reflecting expected operating efficiency and incremental cash flow from a growing rate base.

Liquidity and Long-Term Debt Maturities

Credit Facilities				**As at June 30, 2020**
(CAD millions)	Total Facilities	Drawn[1]	Available	Maturity
Enbridge Gas Inc.	2,000	355	1,645	2021

1 Includes facility draws and commercial paper issuances, net of discount, that are backed by the external credit facility.

Summary

- Liquidity remains solid, supported by predictable cash flow from operations and the availability of sizeable credit facilities.
- The $2.0 billion Revolving Term Credit Facility is used to backstop a commercial paper (CP) program of $2.0 billion. The CP program in turn is used to finance working capital changes and to fund capex before terming out with Medium-Term Notes (MTNs).
- On April 1, 2020, EGI completed a $1.2 billion dual-tranche offering of 10-year and 30-year notes. Partial proceeds from these offerings were used to repay a subordinated promissory note from an affiliate. The rest of the proceeds have solidified EGI's liquidity requirement to fund its current working capital and capex needs. However, any combination of cold weather and high gas prices in the future could exhaust the Company's available liquidity. Should that event occur, Enbridge Inc. (Enbridge; rated BBB (high) with a Stable trend by DBRS Morningstar) is expected to provide liquidity support in a timely manner for EGI.

Debt Maturities

As at June 30, 2020 (CAD million)	**2020**	**2021**	**2022**	**2023**	**2023**	**2024+**	**Total**
EGI MTNs and debentures	400	375	125	350	300	7,545	9,095

Summary

- The refinancing risk in 2020 and 2021 is manageable because the MTNs and debentures due in each of these years are modest and within the financing capability of the Company.
- EGI is subject to the issue test covenant in the indenture, which states that its total consolidated funded obligations (namely total indebtedness, including any guarantee that has a maturity term longer than 18 months) will not exceed 75% of total consolidated capitalization. EGI is also subject to an EBIT-to-interest covenant of 2.0 times, based on EBIT for 12 consecutive months and the annual pro forma interest requirements for all debt with a maturity term longer than 18 months.
    - The covenant does not apply to debt issuances for debt refinancing.
    - The Company was in compliance with the covenant as at June 30, 2020.

Intercompany Transactions

- Before the amalgamation, EGD owned $825 million of Class D, non-voting, redeemable, retractable preferred shares of IPL, which were 100% owned by Enbridge. The Company owed IPL $375 million in loans, which were deeply subordinated to EGD's MTNs and debentures.
- The IPL investment wound down in December 2018 and the $375 million subordinated loan from IPL was paid off.

Regulatory Update

Amalgamation

On August 30, 2018, the OEB issued its decision on the application for the amalgamation of EGI and Union Gas. The OEB's major key determinations in the decision are, among others, as follows:

- The rebasing year is deferred until 2024. The Company asked for a 10-year deferred rebasing period, but the OEB allowed for only five years. DBRS Morningstar believes that the five-year rebasing period is credit positive because shorter periods have more certainty with respect to cost recovery and forecasts.
- The annual rate change during the deferred rebasing period is based on a price-cap index (PCI), where PCI growth is driven by an inflation factor using the Gross Domestic Product Implicit Price Index Final Domestic Demand Canada index as the inflation factor, less a productivity factor of zero and a stretch factor of 0.3%. The stretch factor is used in incentive regulation to measure the efficiency of utilities (the actual costs/forecast costs), with superior performance having a lower stretch factor.
- The earnings sharing mechanism during the 2019–23 period will be on a 50:50 basis between EGI and its ratepayers for all earnings in excess of 150 bps over the allowed ROE. This means that earnings in excess of up to 150 bps will be retained by EGI.
- All capex in excess of the OEB-defined materiality threshold will be recovered through an ICM mechanism, subject to the ICM eligibility criteria during the deferred rebasing term (see the next section).
- EGI continues to pass through costs associated with Y factors. Y factors are costs related to gas commodity and upstream transportation costs, demand-side management cost changes, lost revenue adjustment mechanism changes for the contract market and normalized average consumption/average use.
- EGI may apply to recover $5.5 million on a revenue requirement basis for costs related to unforeseen events outside of the control of management through a Z-factor mechanism.

- During the deferred rebasing period, EGI will continue to purchase market-based storage services to meet the needs of legacy EGD in-franchise customers. This will mean that legacy Union Gas customers continue to benefit from the sale of market-based storage until issues of rate harmonization are considered.

ICM mechanism

- ICM is an OEB funding mechanism for significant capital projects for which a utility requires rate recovery in advance of its next regularly scheduled cost of service (rebasing) application.
- The test for ICM eligibility is that a capital project is not only part of a capital project that is incremental to the materiality threshold (defined below) but must be driven by capital spending requirements that are extraordinary and unanticipated.
- Materiality means that the amount of capital spending must exceed the OEB-defined threshold (which represents a utility's financial capacities underpinned by existing rates, including growth). Any incremental capital amounts approved for rate recovery must fit within the total eligible incremental capital amount and must clearly have a significant influence on the operation of the utility. In addition, to be eligible for ICM, the amount of capital spending must meet the Need and Prudence criteria. Need means that the amount of capital spending must be discrete projects and must be outside of the base upon which the rates are derived. Prudence means that the utility's decision to incur the costs must represent the most cost-effective option for the ratepayers.

Federal carbon levy

- Ontario is subject to the federal government's carbon pricing program, which consists of two parts: (1) an output-based pricing system (effective January 1, 2019) and (2) a carbon or fuel charge levied on natural gas (effective April 1, 2019).
- Beginning in 2019 and on an interim basis, EGI set up an OEB-approved deferral account to capture the costs of the federal carbon charge. On April 1, 2020, the federal carbon charge for natural gas was increased from approximately 3.91 cents per cubic metre to 5.87 cents per cubic metre. The average residential customer's bill is estimated to increase by $141 per year. The cost will be borne by customers.

Capital Projects

- The Dawn-Parkway Expansion Project: EGI will expand the Dawn-Parkway system to provide Ontario and Northeast U.S. customers with access to the diversity, reliability, security of supply, and cost competitiveness of the Dawn Hub. The cost of the project is estimated to be $204 million and the incremental capacity is 83 million cubic feet per day. The project is expected to be in service in 2021.
- Community Expansion: In March 2019, the Government of Ontario released Ontario Regulation 24/19 (Regulation) allowing for ratepayer funding of specific community expansion projects. Several projects identified in the Regulation are specific to EGI. The total funding for these projects is approximately $32.9 million. EGI has proceeded with a number of community-based system expansion projects in 2019 and continued in the first half of 2020.
- Kingsville Transmission Reinforcement Project: Before the amalgamation, Union Gas received approval from the OEB to construct a new pipeline extending from the interconnect at the existing Panhandle Line

in the Town of Lakeshore, Ontario, to a new station in Kingsville, Ontario. This project was placed in service in November 2019.

Balance Sheet

Enbridge Gas Inc.							
Balance Sheet (CAD millions)	**June 30**	**Dec. 31**	**Dec. 31**		**June 30**	**Dec. 31**	**Dec. 31**
Assets	2020	2019	2018	Liabilities & Equity	2020	2019	2018
Cash and cash equivalents	10	77	17	Short-term borrowings	355	898	1,025
Restricted cash	0	0	32	Accounts payable	951	1,369	1,315
Accounts receivable and other	878	1,317	1,312	A/P to affiliates	120	113	55
Accounts receivable from affiliates	48	46	22	Liabilities held for sale	0	0	44
Gas inventory	357	631	687	Ltd. due in one year	602	400	0
Other current assets	0	0	22	**Current Liabilities**	**2,028**	**2,780**	**2,439**
Total Current Assets	**1,293**	**2,071**	**2,092**	Long-term debt	8,792	7,815	7,543
Property, plant, and equipment	15,491	15,418	14,818	Other long-term liabilities	2,066	1,999	1,773
Deferred amounts and other assets	2,333	2,235	1,931	Deferred income taxes	1,496	1,433	1,319
Intangible assets	160	173	209	Loans from affiliate	0	650	950
Goodwill	4,784	4,784	4,784	Liabilities held for sale	0	0	33
Assets held for sale, long-term	0	0	116	Common equity	9,679	10,004	9,893
Total Assets	**24,061**	**24,681**	**23,950**	**Total Liab. & Equity**	**24,061**	**24,681**	**23,950**

Rating History

	Current	January 2019	2018 *
Issuer Rating	A	A	NR
Senior Unsecured Notes	A	A	NR
Commercial Paper	R-1 (low)	R- 1 (low)	NR

*Note: EGI was formed in January 2019 after the amalgamation of EGD and Union Gas.

Previous Action

- Ratings confirmation, September 20, 2019.

Commercial Paper Limit

- $2.0 billion.

Previous Report

- Enbridge Gas Inc. Rating Report, October 1, 2019.

Note:
All figures are in Canadian dollars unless otherwise noted.

About DBRS Morningstar

DBRS Morningstar is a global credit ratings business with approximately 700 employees in eight offices globally.

On July 2, 2019, Morningstar, Inc. completed its acquisition of DBRS. Combining DBRS' strong market presence in Canada, the U.S., and Europe with Morningstar Credit Ratings' U.S. footprint has expanded global asset class coverage and provided investors with an enhanced platform featuring thought leadership, analysis, and research. DBRS and Morningstar Credit Ratings are committed to empowering investor success, serving the market through leading-edge technology and raising the bar for the industry.

Together as DBRS Morningstar, we are the world's fourth-largest credit ratings agency and a market leader in Canada, the U.S., and Europe in multiple asset classes. We rate more than 2,600 issuers and 54,000 securities worldwide and are driven to bring more clarity, diversity, and responsiveness to the ratings process. Our approach and size provide the agility to respond to customers' needs, while being large enough to provide the necessary expertise and resources.

The DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(CRA, NRSRO affiliate, DRO affiliate). Morningstar Credit Ratings, LLC is a NRSRO affiliate of DBRS, Inc.

For more information on regulatory registrations, recognitions and approvals of the DBRS group of companies and Morningstar Credit Ratings, LLC, please see: http://www.dbrsmorningstar.com/research/highlights.pdf.

The DBRS group and Morningstar Credit Ratings, LLC are wholly-owned subsidiaries of Morningstar, Inc.

© 2020 Morningstar. All rights reserved. The information upon which DBRS ratings and other types of credit opinions and reports are based is obtained by DBRS from sources DBRS believes to be reliable. DBRS does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS ratings, other types of credit opinions, reports and any other information provided by DBRS are provided "as is" and without representation or warranty of any kind. DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS or any DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. No DBRS entity is an investment advisor. DBRS does not provide investment, financial or other advice. Ratings, other types of credit opinions, other analysis and research issued or published by DBRS are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities. A report with respect to a DBRS rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS may receive compensation for its ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. DBRS is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS. ALL DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT http://www.dbrsmorningstar.com/about/disclaimer. ADDITIONAL INFORMATION REGARDING DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON http://www.dbrsmorningstar.com.

MORNINGSTAR | DBRS

Rating Report
Enbridge Gas Inc.

DBRS Morningstar
October 5, 2021

Contents

1 Ratings
1 Rating Update
2 Financial Information
2 Issuer Description
2 Rating Considerations
4 Simplified Organizational Structure
5 Earnings and Outlook
6 Financial Profile
7 Liquidity and Long-Term Debt Maturities
8 Regulatory Update
9 Capital Projects
10 Balance Sheet
10 Rating History
10 Previous Action
10 Commercial Paper Limit
10 Previous Report

Eric Eng, MBA
Senior Vice President
Infrastructure, Power & Utilities
+1 416 597-7578
eric.eng@dbrsmorningstar.com

Vipin Pal
Assistant Vice President
Infrastructure, Power & Utilities
+1 416 597-7572
vipin.pal@dbrsmorningstar.com

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable
Senior Unsecured Notes	A	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating Update

On September 20, 2021, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating and Senior Unsecured Notes rating of Enbridge Gas Inc. (EGI or the Company) at "A" and the Company's Commercial Paper rating as R-1 (low). All trends are Stable. The rating confirmations reflect (1) EGI's stable business risk profile as it is in the third year of the five-year price-cap incentive regulations (IR) lasting through 2023, and there are no expectations of any material changes during this period; (2) its relatively solid credit metrics and DBRS Morningstar's expectation that the credit metrics will improve modestly over the medium term as a result of rate base growth and synergy realization; and (3) solid liquidity and low refinancing risk in the next few years.

The impact of the Coronavirus Disease (COVID-19) pandemic on EGI's operations and financial performance during 2020 and year-to-date 2021 has been modest. DBRS Morningstar does not expect the coronavirus to have a material impact on EGI's operational and financial performance because EGI operates critical infrastructure and continues to provide an essential service.

The Company's ratings are supported by a stable regulatory framework in Ontario and a very large and economically strong base of approximately 3.8 million customers across the province—the largest in Canada and one of the largest in North America. This large customer base is one of the key factors allowing EGI to achieve operating efficiency under the price-cap IR. Good synergy was realized from the amalgamation of Enbridge Gas Distribution Inc. (EGD) with Union Gas Limited in 2019 and 2020, and DBRS Morningstar expects significant synergy to be achieved through 2023. EGI is allowed to keep 100% of the earnings up to 150 basis points (bps) in excess of the allowed return on equity (ROE); beyond 150 bps, the split between customers and EGI is 50:50. EGI's reliability and the flexibility of its natural gas supply have improved significantly, compared with EGD, as a result of the addition of Union Gas' storage facilities. The ratings incorporate EGI's exposure to volume risk and the potential regulatory lag in the recovery of natural gas costs when the price of natural gas increases substantially.

A slight weakness in EGI's key credit metrics for 2020 compared with 2019 was caused by the lower volume of natural gas consumption because of warmer weather conditions. However, EGI's key credit

metrics for 2020 and the last 12 months (LTM) ended June 30, 2021, remained solid and were supportive of the current ratings. DBRS Morningstar expects EGI's credit metrics to improve modestly over the medium term, reflecting operating efficiency (including synergy realization) and incremental cash flow from a growing rate base. Although EGI will likely generate substantial free cash flow deficits over the next few years because of its major capital projects, DBRS Morningstar expects EGI to fund its future capital expenditures (capex) and to manage its dividend policy in such a way that the capital structure will be maintained in line with the regulatory capital structure of 64% debt and 36% equity. As a result, DBRS Morningstar does not expect the financing of EGI's capex to have a material impact on its credit metrics in the medium term.

DBRS Morningstar does not expect any positive rating actions in the near term. However, it could take a negative rating action should the following events occur: (1) an adverse regulatory change has a negative impact on EGI's business risk profile, or (2) EGI experiences a significant deterioration of its credit metrics on a sustained basis. DBRS Morningstar considers these scenarios unlikely.

Financial Information

Enbridge Gas Inc.	6M June 30	6M June 30	12M June 30	Year ended December 31		
Key Credit Metrics	**2021**	**2020**	**2021**	**2020**	**2019**	**2018**
Cash flow-to-debt (%)	14.8	14.9	12.2	11.9	12.7	12.3
Total debt in capital structure (%)	50.0	49.0	50.0	49.2	48.3	47.9
Total debt in capital structure (excl. goodwill) (%)	66.0	65.3	66.0	64.8	64.1	63.9
EBIT interest coverage (times)	3.28	3.07	2.58	2.50	2.62	2.57

Issuer Description

EGI was created following the amalgamation of EGD with Union Gas on January 1, 2019. The Company is a regulated natural gas distributor, serving approximately 3.8 million customers across Ontario. Other operations include regulated transportation services as well as regulated and unregulated storage services in Ontario. Enbridge Inc. (rated BBB (high) by DBRS Morningstar) directly owns 54% and indirectly owns 100% of EGI.

Rating Considerations

Strengths

1. Low-risk regulated operations

Almost all of EGI's assets are regulated and operate under the Ontario Energy Board (OEB)-approved, five-year price-cap IR plan from 2019 through 2023. The IR plan provides the Company with the following benefits: (A) relatively predictable earnings and cash flow through a formula (see the Regulatory Update section); (B) full recovery of gas supply costs with quarterly adjustments, subject to regulatory review; (C) annual updates for certain costs to be passed through to customers and a reasonable mechanism for capex recovery; and (D) a mechanism for sharing earnings with customers, which provides incentives for operational efficiency.

2. Strong franchise area with a very large customer base

EGI is currently the largest regulated natural gas distributor in Canada and is one of the largest in North America, serving approximately 3.8 million residential, commercial, and industrial customers across Ontario. The Company's service area is viewed as economically strong compared with other service areas in Canada. EGI's large customer base provides it with the size and scale to operate efficiently during the five-year price-cap IR plan. EGI's large size also allows it to maintain a good degree of flexibility with its capex planning.

3. Sizable storage assets provide additional rate base and cash flow

EGI currently owns approximately 276 billion cubic feet of natural gas underground storage capacity facilities located at the Dawn Hub, the largest natural gas storage hub in Canada, which acts as a gateway for Western Canadian and Appalachian natural gas supply. EGI's storage facilities are strategically connected to major pipelines that transport natural gas to major Canadian and U.S. markets. The majority of EGI's storage assets is in the regulated rate base. In addition, nonregulated storage assets have generated strong cash flows that reflect high demand in Ontario. DBRS Morningstar estimates that cash flow from nonregulated storage activities accounts for approximately 8% to 10% of EGI's consolidated cash flow.

Challenges

1. Volume risk

For EGI's residential and small commercial customers, weather risk remains significant, as forecast volumes (based on normalized weather) are built into the Company's base rates, while actual usage varies with the weather. Therefore, colder-than-normal weather in any given year generally results in higher earnings, while the reverse is true for periods of warmer-than-normal weather. For EGI's large industrial customers, volume consumption is sensitive to the economy. However, the volume risk is partially mitigated through the Company's firm contracts with larger commercial and industrial customers where charges are based on demand. Further, the weather forecast is conducted annually to reflect the latest weather patterns.

2. Managing operating costs under the price-cap IR plan

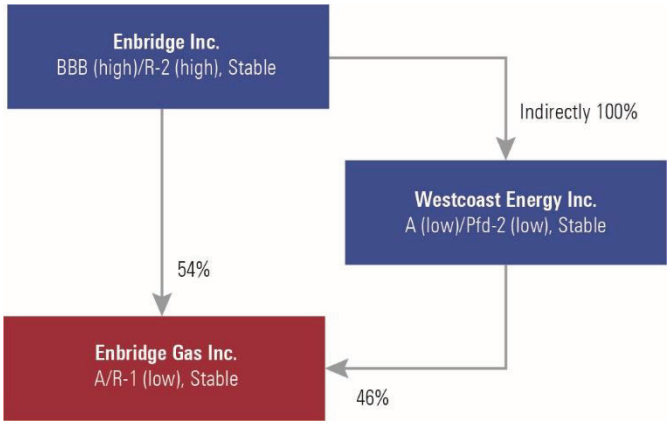
EGI is in the third year of its five-year price-cap IR plan. Managing operating costs is particularly important for the Company to achieve or exceed the allowed ROE. A significant increase in operating costs can have a negative impact on EGI's earnings and cash flow, and consequently on its credit metrics. Earnings below the allowed ROE will not be recovered from customers unless the actual ROE is 300 bps below the allowed ROE, at which point the Company can request a regulatory review.

3. Potential regulatory lag

EGI faces a potential regulatory lag in the recovery of natural gas costs. Although the Company can pass natural gas costs on to customers with quarterly adjustments, the potential for a regulatory lag still exists. If natural gas costs increase substantially within a short period of time, the Company may have to recover such costs over a longer time frame than it normally does. In addition, EGI could also face regulatory lag with respect to major projects if capital spending amounts are beyond those that can be

funded through base rates and if these capital projects do not qualify for recovery through the Incremental Capital Module (ICM) mechanism (see the Regulatory Update section).

Simplified Organizational Structure



Note: Enbridge Gas Inc. represents approximately 14% of the consolidated EBITDA of Enbridge Inc.

Enbridge Inc: It is a diversified energy company with the following segments: Liquids Pipelines (approximately 54% of DBRS Morningstar-adjusted segment EBITDA in the LTM ended March 31, 2021), Gas Transmission and Midstream (29%), Gas Distribution and Storage (14%), Renewable Power Generation (4%), and Energy Services (-1%).

Westcoast Energy Inc.: In addition of owning a 46% interest in EGI, Westcoast Energy Inc. also owns (1) the federally regulated B.C. Pipeline natural gas transmission system and (2) a 78% interest in the federally regulated Maritime & Northeast Pipeline Limited Partnership Canada, a natural gas transmission system in Eastern Canada.

Earnings and Outlook

Enbridge Gas Inc.	6M June 30	6M June 30	12M June 30	Year ended December 31		
(CAD millions)	**2021**	**2020**	**2021**	**2020**	**2019**	**2018**
Gas commodity and distribution revenues	2,260	2,091	3,800	3,631	4,152	4,242
Storage, transportation, and other revenues	474	466	892	884	923	1,055
Total revenue	**2,734**	**2,557**	**4,692**	**4,515**	**5,075**	**5,297**
Gas commodity & distribution costs	1,257	1,127	1,942	1,812	2,334	2,676
Operating & administrative expenses	504	506	1,061	1,063	1,070	1,077
Depreciation & amortization expenses	340	318	677	655	638	608
Total operating costs	**2,101**	**1,951**	**3,680**	**3,530**	**4,042**	**4,361**
Operating Income	**633**	**606**	**1,012**	**985**	**1,033**	**936**
Gross interest expense	198	208	407	417	405	396
Capitalized interest	(3)	(3)	(5)	(5)	(5)	(5)
Interest expense, net	**195**	**205**	**402**	**412**	**400**	**391**
Operating Income Before Other Income	**438**	**401**	**610**	**573**	**633**	**545**
Other income (expense), net	16	32	40	56	30	80
Operating Profit Before Taxes	**454**	**433**	**650**	**629**	**663**	**625**
Income taxes	53	38	93	78	71	57
Net income before extraordinary items	**401**	**395**	**557**	**551**	**592**	**568**
Extraordinary items	0	(54)	0	(54)	(36)	0
Reported net income	**401**	**341**	**557**	**497**	**556**	**568**

YE2020 Summary

- Operating income in 2020 dropped slightly from 2019, largely reflecting (1) warmer weather in 2020 than 2019 and (2) higher employee-related costs and higher depreciation and amortization from a higher overall rate base. The decrease was partially offset by (1) the increase in the customer base and (2) synergy realized from the amalgamation.

H1 2021 Summary

- The increase in operating income in H1 2021 compared with the same period in 2020 reflected (1) the increase in rates and customer base and (2) synergies realized from the amalgamation. However, the increase in the operating income was partially offset by warmer weather in the Company's franchise areas during the Q1 2021.

Outlook

- Assuming normal weather, DBRS Morningstar expects EGI's operating income to continue to increase modestly throughout the deferred rebasing period, reflecting the continued growth in the rate base and customer base as well as the potential synergy to be realized from the amalgamation.
- However, because EGI's annual rate changes are based on a price-cap formula and operating efficiency, any materially unexpected increase in operating costs can have a negative impact on EGI's operating income.

Financial Profile

Enbridge Gas Inc.	6M June 30	6M June 30	12M June 30	Year ended December 31		
(CAD millions)	**2021**	**2020**	**2021**	**2020**	**2019**	**2018**
Operating cash flow	732	697	1,198	1,163	1,190	1,125
Capital expenditures (incl. intangible assets)	(527)	(452)	(1,260)	(1,185)	(1,109)	(1,327)
Dividends paid	(626)	(625)	(1,251)	(1,250)	(1,250)	(772)
Free cash flow (bef. work. cap. changes)	**(421)**	**(380)**	**(1,313)**	**(1,272)**	**(1,169)**	**(974)**
Changes in noncash working capital items	332	367	58	93	116	601
Gross free cash flow	**(89)**	**(13)**	**(1,255)**	**(1,179)**	**(1,053)**	**(373)**
Cash extraordinary items	0	(54)	0	(54)	(29)	0
Proceeds on sale of inv. & other activities (net)	0	0	0	0	72	825
Net free cash flow	**(89)**	**(67)**	**(1,255)**	**(1,233)**	**(1,010)**	**452**
Change in debt & equivalents	89	650	454	1,015	570	(820)
Change in note payable – affiliate	0	(650)	0	(650)	(332)	575
Change in equity & equivalents	0	0	800	800	800	(44)
Change in cash & marketable securities	0	67	1	68	(28)	47
Funding sources	**89**	**67**	**1,255**	**1,233**	**1,010**	**(242)**
Total debt in capital structure (%)	50.0	49.0	50.0	49.2	48.3	47.9
Cash flow/total debt (%)	14.8	14.9	12.2	11.9	12.7	12.3
EBIT interest coverage (times)	3.28	3.07	2.58	2.50	2.62	2.57
Fixed-charges coverage (times)	3.28	3.07	2.58	2.50	2.62	2.51
Dividends/cash flow (%)	85.5	89.7	104.4	107.5	105.0	68.6

Summary

- All credit metrics remained solid in the LTM to June 30, 2021, reflecting relatively stable cash flow and reasonable debt leverage.
- The debt-to-capital ratio, excluding goodwill, has remained relatively stable since the amalgamation and has stayed at the low end of DBRS Morningstar's "A" rating range. This capital structure level is consistent with the regulatory capital structure of 36% equity/64% debt.
- The cash flow-to-debt ratio for the LTM to June 30, 2021, improved modestly from 2020 because of higher cash flow for H1 2021 compared with H1 2020. Cash flow in H1 2020 was negatively affected by warmer weather.
- EBIT-interest coverage for the LTM to June 30, 2021, continued to benefit from the low-interest rate environment and solid operating income for the period.
- EGI has generated substantial free cash flow deficits for the last couple of years as a result of a large capex program in 2019 and 2020 (averaging $1.15 billion each year). Most of growth capex was spent on growth capital projects that were approved by the regulator (see below).
- DBRS Morningstar notes that the dividend/cash flow ratio has increased since 2018. This increase combined with large growth projects caused EGI to require substantial external funds to finance its cash flow deficits.
- However, EGI's financing plan has been to maintain the debt-to-capital ratio in line with the regulatory capital structure of 64% debt/36% equity.

Outlook

- DBRS Morningstar expects EGI to continue to generate free cash flow deficits over the next couple of years because of its large capex and high dividend payout. Capex for 2021 and 2022 is estimated to be between $1.4 billion and $1.6 billion each year. A substantial amount of capex each year will be for system upgrades and new capital projects, such as the Community Expansion projects and the Lake Shore KOL Replacement Project (see the Capital Projects section).
- DBRS Morningstar does not expect EGI to change its financing strategy of maintaining the debt-to-capital ratio (excluding goodwill) at or near the current level throughout the deferred rebasing period.
- Assuming normal weather, DBRS Morningstar expects EGI's cash flow-to-debt and EBIT-interest coverage ratios to improve modestly over the medium term, reflecting expected operating efficiency and incremental cash flow from a growing rate base.

Liquidity and Long-Term Debt Maturities

Credit Facilities				As at June 30, 2021
(CAD millions)	**Total Facilities**	**Drawn**[1]	**Available**	**Maturity**
Enbridge Gas Inc.	2,000	1,410	590	2022

1 Includes facility draws and commercial paper issuances, net of discount, that are backed by the external credit facility.

Summary

- Liquidity remains solid, supported by predictable cash flow from operations and the availability of sizeable credit facilities.
- The $2.0 billion Revolving Term Credit Facility is used to backstop a commercial paper program of $2.0 billion.
- On September 15, 2021, EGI completed a $900 million dual-tranche offering of 10-year and 30-year notes. The debt issuance is not expected to have any material impact on EGI's credit metrics because most net proceeds repaid the company's indebtedness, which had financed its capex program.
- DBRS Morningstar notes that in the event where there is extremely cold weather and gas prices are rising sharply, the Company would have to seek temporarily support from its parent, Enbridge. Currently, EGI has access to Enbridge's letter of credit facilities totalling $2.0 billion.

Debt Maturities

As at June 30, 2021 (CAD million)	**2021**	**2022**	**2023**	**2024**	**2025**	**2026+**	**Total**
EGI medium-term notes and debentures	175	125	350	300	745	6,800	8,495

Summary

- The refinancing risk in the next four years is manageable because the medium-term notes and debentures due in each of these years are modest and within the financing capability of the Company.
- EGI is subject to the issue test covenant in the indenture, which states that its total consolidated funded obligations (namely total indebtedness, including any guarantee that has a maturity term longer than 18 months) will not exceed 75% of total consolidated capitalization. EGI is also subject to an EBIT-to-interest covenant of 2.0 times, based on EBIT for 12 consecutive months and the annual pro forma interest requirements for all debt with a maturity term longer than 18 months.
    - The covenant does not apply to debt issuances for debt refinancing.
    - The Company was in compliance with the covenant as at June 30, 2021.

Regulatory Update

2021 Rate Application

- On June 30, 2020, EGI filed for phase 1 of the application for setting rates for 2021. OEB approved this application on November 6, 2020.
- On October 15, 2021, EGI filed phase 2 application for 2021 ICM funding requirements. On May 6, 2021, OEB approved $124 million of the capital funding.

2022 Rate Application

- On June 30, 2021, EGI filed for phase 1 of the application for setting rates for 2022. The approval on this application is expected in H2 2021.

Amalgamation

On August 30, 2018, the OEB issued its decision on the application for the amalgamation of EGI and Union Gas. The OEB's major key determinations in the decision are, among others, as follows:

- The rebasing year is deferred until 2024. The Company asked for a 10-year deferred rebasing period, but the OEB allowed for only five years. DBRS Morningstar believes that the five-year rebasing period is credit positive because shorter periods have more certainty with respect to cost recovery and forecasts.
- The annual rate change during the deferred rebasing period is based on a price-cap index (PCI), where PCI growth is driven by an inflation factor using the Gross Domestic Product Implicit Price Index Final Domestic Demand Canada index as the inflation factor, less a productivity factor of zero and a stretch factor of 0.3%. The stretch factor is used in incentive regulation to measure the efficiency of utilities (the actual costs/forecast costs), with superior performance having a lower stretch factor.
- The earnings sharing mechanism during the 2019–23 period will be on a 50:50 basis between EGI and its ratepayers for all earnings in excess of 150 bps over the allowed ROE. This means that earnings in excess of up to 150 bps will be retained by EGI.
- All capex in excess of the OEB-defined materiality threshold will be recovered through an ICM mechanism, subject to the ICM eligibility criteria during the deferred rebasing term (see the next section).
- EGI continues to pass through costs associated with Y factors. Y factors are costs related to gas commodity and upstream transportation costs, demand-side management cost changes, lost revenue adjustment mechanism changes for the contract market, and normalized average consumption/average use.
- EGI may apply to recover $5.5 million on a revenue requirement basis for costs related to unforeseen events outside of the control of management through a Z-factor mechanism.
- During the deferred rebasing period, EGI will continue to purchase market-based storage services to meet the needs of legacy EGD in-franchise customers. This will mean that legacy Union Gas customers continue to benefit from the sale of market-based storage until issues of rate harmonization are considered.

ICM Mechanism

- ICM is an OEB funding mechanism for significant capital projects for which a utility requires rate recovery in advance of its next regularly scheduled cost of service (rebasing) application.
- The test for ICM eligibility is that a capital project is not only part of a capital project that is incremental to the materiality threshold (defined below) but must be driven by capital spending requirements that are extraordinary and unanticipated.
- Materiality means that the amount of capital spending must exceed the OEB-defined threshold (which represents a utility's financial capacities underpinned by existing rates, including growth). Any incremental capital amounts approved for rate recovery must fit within the total eligible incremental capital amount and must clearly have a significant influence on the operation of the utility. In addition, to be eligible for ICM, the amount of capital spending must meet the Need and Prudence criteria. Need means that the amount of capital spending must be discrete projects and must be outside of the base upon which the rates are derived. Prudence means that the utility's decision to incur the costs must represent the most cost-effective option for ratepayers.

Federal Carbon Levy

- Ontario is subject to the federal government's carbon pricing program, which consists of two parts: (1) an output-based pricing system (effective January 1, 2019) and (2) a carbon or fuel charge levied on natural gas (effective April 1, 2019).
- Beginning in 2019 and on an interim basis, EGI set up an OEB-approved deferral account to capture the costs of the federal carbon charge. On April 1, 2020, the federal carbon charge for natural gas was increased to 7.83 cents per cubic metre from approximately 5.87 cents per cubic metre. The average residential customer's bill is estimated to increase by $43 to $47 per year. The cost will be borne by customers.

Capital Projects

- The Dawn-Parkway Expansion Project: The purpose of the expansion was to provide Ontario and Northeast U.S. customers with access to the diversity, reliability, security of supply, and cost competitiveness of the Dawn Hub. However, because of changes in demand and uncertainties resulting from the coronavirus pandemic, on October 22, 2020, EGI withdrew the application for the Dawn-Parkway system expansion.
- Community Expansion: In March 2019, the government of Ontario released Ontario Regulation 24/19 (Regulation) allowing for ratepayer funding of specific community expansion projects. Several projects identified in the Regulation are specific to EGI. The total funding for these projects is approximately $32.9 million. On June 8, 2021, the Ontario government approved funding for phase 2 of the program. Under phase 2, EGI will be provided with up to $214 million for funding assistance to deliver 25 community expansion and two economic development projects. These projects are expected to be in service from 2022 through 2027.
- Lake Shore KOL Replacement Project: The replacement project of approximately 4.5 kilometres of natural gas pipeline and ancillary facilities of the Cherry to Bathurst segment of the Kipling Oshawa Loop along Lake Shore Boulevard in the City of Toronto. The project is expected to be placed into service in H2 2022.

Balance Sheet

	Enbridge Gas Inc.						
Balance Sheet ($ millions)	June 30	Dec. 31	Dec. 31		June 30	Dec. 31	Dec. 31
Assets	**2021**	**2020**	**2019**	**Liabilities & Equity**	**2021**	**2020**	**2019**
Cash and cash equivalents	9	9	77	Short-term borrowings	1,410	1,121	898
Accounts receivable and other	855	1,161	1,317	Accounts payable	1,094	1,295	1,369
Accounts receivable from affiliates	78	92	46	A/P to affiliates	185	134	113
Gas inventory	477	659	631	Ltd. due in one year	303	376	400
Total Current Assets	**1,419**	**1,921**	**2,071**	**Current Liabilities**	**2,992**	**2,926**	**2,780**
Property, plant, and equipment	16,107	15,866	15,418	Long-term debt	8,467	8,606	7,815
Deferred amounts and other assets	2,577	2,492	2,235	Other long-term liabilities	2,171	2,166	1,999
Intangible assets	165	174	173	Deferred income taxes	1,597	1,522	1,433
Goodwill	4,784	4,784	4,784	Loans from affiliate	0	0	650
Total Assets	**25,052**	**25,237**	**24,681**	Common equity	9,825	10,017	10,004
				Total Liab. & Equity	**25,052**	**25,237**	**24,681**

Rating History

	Current	2020	2019*
Issuer Rating	A	A	A
Senior Unsecured Notes	A	A	A
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)

*Note: EGI was formed in January 2019 after the amalgamation of EGD and Union Gas.

Previous Action

- Ratings confirmation, September 17, 2020.

Commercial Paper Limit

- $2.0 billion.

Previous Report

- Enbridge Gas Inc.: Rating Report, September 29, 2020.

Note:
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.

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 3,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why DBRS Morningstar is the next generation of credit ratings.

Learn more at dbrsmorningstar.com.

MORNINGSTAR | DBRS

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: https://www.dbrsmorningstar.com/research/225752/highlights.pdf.

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

© 2021 DBRS Morningstar. All Rights Reserved. The information upon which DBRS Morningstar ratings and other types of credit opinions and reports are based is obtained by DBRS Morningstar from sources DBRS Morningstar believes to be reliable. DBRS Morningstar does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS Morningstar ratings, other types of credit opinions, reports and any other information provided by DBRS Morningstar are provided "as is" and without representation or warranty of any kind. DBRS Morningstar hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS Morningstar or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Morningstar Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS Morningstar or any DBRS Morningstar Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. No DBRS Morningstar entity is an investment advisor. DBRS Morningstar does not provide investment, financial or other advice. Ratings, other types of credit opinions, other analysis and research issued or published by DBRS Morningstar are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities. A report with respect to a DBRS Morningstar rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS Morningstar may receive compensation for its ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. DBRS Morningstar is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS Morningstar shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS Morningstar. ALL DBRS MORNINGSTAR RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT https://www.dbrsmorningstar.com/about/disclaimer. ADDITIONAL INFORMATION REGARDING DBRS MORNINGSTAR RATINGS AND OTHER TYPES OF CREDIT OPINIONS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON https://www.dbrsmorningstar.com.

MORNINGSTAR | DBRS

Rating Report
Enbridge Gas Inc.

DBRS Morningstar
September 27, 2022

Contents

1 Ratings
1 Rating Update
2 Financial Information
2 Issuer Description
2 Rating Considerations
4 Simplified Organizational Structure
5 Earnings and Outlook
6 Financial Profile
7 Liquidity and Long-Term Debt Maturities
8 Regulatory Update
9 Capital Projects
10 ESG Factors
11 Balance Sheet
11 Rating History
11 Previous Action
11 Commercial Paper Limit
11 Previous Report

Eric Eng, MBA
Senior Vice President
Infrastructure, Power & Utilities
+1 416 597-7578
Eric.eng@dbrsmorningstar.com

Tanmay Tyaqi
Senior Analyst
Infrastructure, Power & Utilities
+1 416 597-7478
tanmay.tyagi@dbrsmorningstar.com

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable
Senior Unsecured Notes	A	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating Update

On September 21, 2022, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating and Senior Unsecured Notes rating of Enbridge Gas Inc. (EGI or the Company) at "A" and the Company's Commercial Paper rating at R-1 (low). All trends are Stable. The rating confirmations reflect the following considerations:

1. EGI maintained a stable business risk profile as it is in the fourth year of the five-year price-cap incentive regulations (IR) ending at the end of 2023. The IR framework for EGI has been stable and DBRS Morningstar does not expect any material changes during this IR period.

2. EGI's financial performance remained solid, with improved credit metrics for the 12 months ended June 30, 2022. Furthermore, DBRS Morningstar expects the credit metrics to improve modestly over the medium term as a result of rate base growth and synergy realization (see below).

3. EGI's liquidity remained solid despite a significant increase in the Purchase Gas Variance Account (PGVA), which captures the difference between actual and forecast natural gas prices. As of June 30, 2022, the PGVA balance was $780 million. The recovery of the PGVA balance was approved by the Ontario Energy Board (OEB). However, the recovery period extends to 24 months, instead of 12 months. At the end of June 2022, approximately $380 million of EGI's $2.0 billion credit facility was available. In August 2022, the Company's liquidity improved considerably as EGI issued $650 million in long-term debt, which was partially used to paydown the Company's short-term indebtedness. DBRS Morningstar expects that, as in the past, in the event that EGI requires more liquidity to finance its natural gas inventory for the winter distribution, its parent, Enbridge Inc. (rated BBB (high) with a Stable trend by DBRS Morningstar), will step in and provide temporary liquidity.

The Company's ratings are supported by a stable regulatory framework in Ontario and a very large and economically strong base of approximately 3.8 million customers across the province—the largest in Canada and one of the largest in North America. This large customer base is one of the key factors allowing EGI to achieve operating efficiency under the price-cap IR. Good synergy was realized in the past three years from the amalgamation of Enbridge Gas Distribution Inc. (EGD) with Union Gas Limited

(Union Gas), and DBRS Morningstar expects significant synergy to be achieved through 2023. EGI's reliability and the flexibility of its natural gas supply have improved significantly, compared with stand-alone EGD, as a result of the significant addition of Union Gas's storage facilities. The ratings incorporate EGI's exposure to volume risk and the potential regulatory lag in the recovery of natural gas costs when the price of natural gas increases substantially.

Although EGI will likely generate substantial free cash flow deficits over the next few years because of its major capital projects (which DBRS Morningstar estimates to be between $1.4 billion and $1.5 billion for new projects and system upgrades) and a high dividend payout ratio. Funding of cash flow deficits has been with new debt issued by EGI and equity injections from the parent. DBRS Morningstar expects EGI to continue to fund its future capital expenditures (capex) in such a way that the capital structure will be maintained in line with the regulatory capital structure of 64% debt and 36% equity. As a result, DBRS Morningstar does not expect the financing of EGI's capex to have a material impact on its credit metrics in the medium term.

DBRS Morningstar does not expect any positive rating actions in the near term. However, it could take a negative rating action should the following events occur: (1) an adverse regulatory change that would have a negative impact on EGI's business risk profile, or (2) a significant deterioration of EGI's credit metrics on a sustained basis that would no longer support the current ratings. DBRS Morningstar considers these scenarios unlikely.

Financial Information

Enbridge Gas Inc.	6M June 30	6M June 30	12M June 30	Year ended December 31		
Key Credit Metrics	**2022**	**2021**	**2022**	**2021**	**2020**	**2019**
Cash flow-to-debt (%)	15.0	14.8	12.0	11.4	12.1	12.7
Total debt in capital structure (%)	49.9	50.1	49.9	50.8	49.4	48.4
Total debt in capital structure (excl. goodwill) (%)	64.3	66.2	64.3	65.8	65.1	64.3
EBIT interest coverage (times (x))	3.34	3.20	2.49	2.41	2.36	2.55

Issuer Description

Enbridge Gas Inc is a regulated natural gas distributor with connections to approximately 3.8 million meters serving residential, commercial, and industrial customers across Ontario. Other operations include regulated transportation services as well as regulated and unregulated storage services in Ontario. Enbridge Inc. owns 100% of EGI (54% directly and 46% indirectly).

Rating Considerations

Strengths

1. Low-risk regulated operations

Almost all of EGI's assets are regulated and operate under the OEB-approved, five-year price-cap IR plan from 2019 through 2023. The IR plan provides the Company with the following benefits: (A) relatively predictable earnings and cash flow through a formula (see the Regulatory Update section); (B) full recovery of gas supply costs with quarterly adjustments, subject to regulatory review; (C) annual updates for certain costs to be passed through to customers and a reasonable mechanism for capex recovery;

and (D) a mechanism for sharing earnings with customers, which provides incentives for operational efficiency.

2. Strong franchise area with a very large customer base

EGI is currently the largest regulated natural gas distributor in Canada and is one of the largest in North America, serving approximately 3.8 million residential, commercial, and industrial customers across Ontario. The Company's service area is viewed as economically strong compared with other service areas in Canada. EGI's large customer base provides it with the size and scale to operate efficiently during the five-year price-cap IR plan. EGI's large size also allows it to maintain a good degree of flexibility with its capex planning.

3. Sizable storage assets provide additional rate base and cash flow

As at June 30, 2022, EGI owned approximately 281 billion cubic feet (bcf; 276 bcf in 2021) of natural gas underground storage capacity facilities located at the Dawn Hub, the largest natural gas storage hub in Canada, which acts as a gateway for Western Canadian and Appalachian natural gas supply. EGI's storage facilities are strategically connected to major pipelines that transport natural gas to major Canadian and U.S. markets. The majority of EGI's storage assets is in the regulated rate base. In addition, nonregulated storage assets have generated strong cash flows that reflect high demand in Ontario. DBRS Morningstar estimates that cash flow from nonregulated storage activities accounts for approximately 8% to 10% of EGI's consolidated cash flow.

Challenges

1. Volume risk

For EGI's residential and small commercial customers, weather risk remains significant, as forecast volumes (based on normalized weather) are built into the Company's base rates, while actual usage varies with the weather. Therefore, colder-than-normal weather in any given year generally results in higher earnings, while the reverse is true for periods of warmer-than-normal weather. For EGI's large industrial customers, volume consumption is sensitive to the economy. However, the volume risk is partially mitigated through the Company's firm contracts with larger commercial and industrial customers where charges are based on demand. Further, the weather forecast is conducted annually to reflect the latest weather patterns.

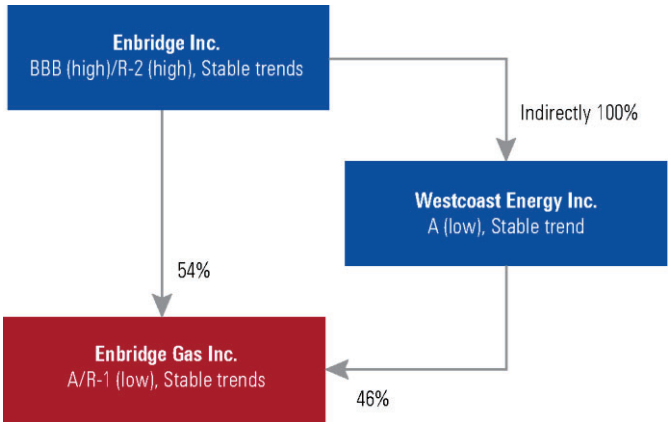
2. Managing operating costs under the price-cap IR plan

EGI is in the fourth year of its five-year price-cap IR plan. Managing operating costs is particularly important for the Company to achieve or exceed the allowed ROE. A significant increase in operating costs can have a negative impact on EGI's earnings and cash flow, and consequently on its credit metrics. Earnings below the allowed ROE will not be recovered from customers unless the actual ROE is 300 basis points (bps) below the allowed ROE, at which point the Company can request a regulatory review.

3. Potential regulatory lag

EGI faces a potential regulatory lag in the recovery of natural gas costs. Although the Company can pass natural gas costs on to customers with quarterly adjustments, the potential for a regulatory lag still exists. If natural gas costs increase substantially within a short period of time, the Company may have to recover such costs over a longer time frame than it normally does. In addition, EGI could also face regulatory lag with respect to major projects if capital spending amounts are beyond those that can be funded through base rates and if these capital projects do not qualify for recovery through the Incremental Capital Module (ICM) mechanism (see the Regulatory Update section).

Simplified Organizational Structure



Note: EGI represented approximately 13% of the consolidated EBITDA of Enbridge Inc. in 12 months ended March 31, 2022.

Enbridge Inc.: It is a diversified energy company with the following segments: Liquids Pipelines, Gas Transmission and Midstream, Gas Distribution and Storage, Renewable Power Generation, and Energy Services (see DBRS Morningstar's rating report dated July 27, 2022, for details).

Westcoast Energy Inc.: In addition to owning a 46% interest in EGI, Westcoast Energy Inc. also owns (1) the federally regulated B.C. Pipeline natural gas transmission system and (2) a 78% interest in the federally regulated Maritime & Northeast Pipeline Limited Partnership, a natural gas transmission system in Eastern Canada (see DBRS Morningstar's rating report dated June 29, 2022, for details).

Earnings and Outlook

Enbridge Gas Inc.	6M June 30	6M June 30	12M June 30	Year ended December 31		
(CAD millions)	**2022**	**2021**	**2022**	**2021**	**2020**	**2019**
Gas commodity and distribution revenues	2,982	2,260	4,718	3,996	3,631	4,252
Storage, transportation, and other revenues	512	474	935	897	884	923
Total Revenue	**3,494**	**2,734**	**5,653**	**4,893**	**4,515**	**5,075**
Gas commodity & distribution costs	1,927	1,257	2,816	2,146	1,812	2,334
Operating & administrative expenses	549	504	1,150	1,105	1,063	1,070
Depreciation & amortization expenses	337	340	674	677	655	638
Total operating costs	**2,813**	**2,101**	**4,640**	**3,928**	**3,530**	**4,042**
Operating Income	**681**	**633**	**1,013**	**965**	**985**	**1,033**
Gross interest expense	204	198	407	401	417	405
Capitalized interest	(4)	(3)	(8)	(7)	(5)	(5)
Interest expense, net	**200**	**195**	**399**	**394**	**412**	**400**
Operating Income Before Other Income	**481**	**438**	**614**	**571**	**573**	**633**
Other income (expense), net	38	16	65	43	56	30
Operating Profit Before Taxes	**519**	**454**	**679**	**614**	**629**	**663**
Income taxes	(46)	(53)	(56)	(63)	78	71
Net income before extraordinary items	**473**	**401**	**623**	**551**	**551**	**592**
Extraordinary items	0	0	0	0	(54)	(36)
Reported net income	**473**	**401**	**623**	**551**	**497**	**556**

YE2021 Summary

- Operating income in 2021 increased modestly from 2020, largely reflecting (1) the absence of employee severance, transition, and transformation costs in 2021; (2) synergy realized from the amalgamation; and (3) increases in rates and customer base.

H1 2022 Summary

- The increase in operating income in H1 2022 compared with the same period in 2021 reflected (1) colder weather in the first half of 2022, (2) higher distribution charges resulting from increases in rates and customer base, and (3) synergies realized from the amalgamation. However, the increase in the operating income was partially offset by higher operating expenses largely driven by the timing of expenditures.

Outlook

- Assuming normal weather, DBRS Morningstar expects EGI's operating income to continue to increase modestly throughout the deferred rebasing period, reflecting the continued growth in the rate base and customer base as well as the potential synergy to be realized from the amalgamation.
- However, because EGI's annual rate changes are based on a price-cap formula and operating efficiency, any materially unexpected increase in operating costs can have a negative impact on EGI's operating income.

Financial Profile

Enbridge Gas Inc.	6M June 30	6M June 30	12M June 30	Year ended December 31		
(CAD millions)	**2022**	**2021**	**2022**	**2021**	**2020**	**2019**
Operating cash flow	**798**	**732**	**1,279**	**1,213**	**1,163**	**1,190**
Capital expenditures (incl. intangible assets)	(619)	(452)	(1,472)	(1,380)	(1,109)	(1,185)
Dividends paid	(687)	(626)	(1,311)	(1,250)	(1,250)	(1,250)
Free cash flow (bef. work. cap. changes)	**(508)**	**(421)**	**(1,504)**	**(1,417)**	**(1,272)**	**(1,169)**
Changes in noncash working capital items	16	332	(789)	(473)	116	93
Gross free cash flow	**(492)**	**(89)**	**(2,293)**	**(1,890)**	**(1,179)**	**(1,053)**
Cash extraordinary items	0	0	0	0	(54)	(29)
Proceeds on sale of inv. & other activities (net)	12	0	12	0	0	72
Net free cash flow	**(480)**	**(89)**	**(2,281)**	**(1,890)**	**(1,233)**	**(1,010)**
Change in debt & equivalents	230	89	1,056	915	1,015	570
Change in note payable – affiliate	0	0	0	0	(650)	(332)
Change in equity & equivalents	500	0	1,475	975	800	800
Change in cash & marketable securities	250	0	(250)	0	68	(28)
Funding sources	**480**	**89**	**2,281**	**1,890**	**1,233**	**1,010**
Total debt in capital structure (%) [1]	64.3	66.2	64.3	65.8	65.1	64.3
Cash flow/total debt (%)	15.0	14.8	12.0	11.4	12.1	12.7
EBIT interest coverage (x)	3.34	3.20	2.49	2.41	2.36	2.55
Dividends/cash flow (%)	86.1	85.5	102.5	103.1	106.1	105.0

1 Excluding goodwill.

Summary

- All credit metrics remained solid in the last twelve months (LTM) ended June 30, 2022, reflecting relatively stable cash flow and reasonable debt leverage.
- The debt-to-capital ratio, excluding goodwill, has remained relatively stable since the amalgamation and has stayed at the low end of DBRS Morningstar's "A" rating range. This capital structure level is consistent with the regulatory capital structure of 36% equity/64% debt.
- The cash flow-to-debt ratio for the LTM ended June 30, 2022, improved modestly from 2021 because of higher cash flow for H1 2022 compared with H1 2021.
- EBIT-interest coverage for the LTM ended June 30, 2022, continued to benefit from solid operating income for the period.
- EGI has generated substantial free cash flow deficits for the last couple of years as a result of a large capex program in 2020 and 2021 (averaging $1.35 billion each year). Most of growth capex was spent on growth capital projects that were approved by the regulator (see below).
- DBRS Morningstar notes the dividend/cash flow ratio has increased since 2018. This increase combined with large growth projects caused EGI to require substantial external funds to finance its cash flow deficits.
- However, EGI's financing plan has been to maintain the debt-to-capital ratio in line with the regulatory capital structure of 64% debt/36% equity.

Outlook

- DBRS Morningstar expects EGI to continue to generate free cash flow deficits over the next couple of years because of its large capex and a high dividend payout. Capex for 2022 and 2023 is estimated to be between $1.4 billion and $1.5 billion each year. A substantial amount of capex each year will be for system upgrades and new capital projects, such as the Lake Shore Kipling Oshawa Loop Replacement Project (Lakeshore KOL Replacement Project), Natural Gas Expansion Project and Panhandle Regional Expansion Project (see the Capital Projects section).
- DBRS Morningstar does not expect EGI to change its financing strategy of maintaining the debt-to-capital ratio (excluding goodwill) at or near the current level throughout the deferred rebasing period.
- Assuming normal weather, DBRS Morningstar expects EGI's cash flow-to-debt and EBIT-interest coverage ratios to improve modestly over the medium term, reflecting expected operating efficiency and incremental cash flow from a growing rate base.

Liquidity and Long-Term Debt Maturities

Credit Facilities				As at June 30, 2022
(CAD millions)	**Total Facilities**	**Drawn**[1]	**Available**	**Maturity**
Enbridge Gas Inc.[1]	2,000	1,620	380	2023

1 Includes facility draws and commercial paper issuances, net of discount, that are backed by the external credit facility.

Summary

- Liquidity remains solid, supported by predictable cash flow from operations and the availability of sizable credit facilities.
- The $2.0 billion Revolving Term Credit Facility is used to backstop a commercial paper program of $2.0 billion. In August 2022, EGI completed a $650 million dual-tranche offering of 10-year and 30-year notes. The debt issuance is not expected to have any material impact on EGI's credit metrics because most net proceeds were used to pay down the Company's short-term indebtedness.
- DBRS Morningstar notes in the event where there is extremely cold weather and gas prices are rising sharply, the Company would have to seek temporary support from its parent, Enbridge Inc. Currently, EGI has access to Enbridge Inc.'s letter of credit facilities totalling $2.0 billion.

Debt Maturities

As at June 30, 2022 (CAD millions)	**2022**	**2023**	**2024**	**2025**	**2026**	**2027+**	**Total**
EGI medium-term notes and debentures	0	350	300	745	650	7,050	9,095

Summary

- The refinancing risk in the next four years is manageable because the medium-term notes and debentures due in each of these years are modest and within the financing capability of the Company.
- EGI is subject to the issue test covenant in the indenture, which states that its total consolidated funded obligations (namely total indebtedness, including any guarantee that has a maturity term longer than 18 months) will not exceed 75% of total consolidated capitalization. EGI is also subject to an EBIT-to-interest covenant of 2.0 times, based on EBIT for 12 consecutive months and the annual pro forma interest requirements for all debt with a maturity term longer than 18 months:
    - The covenant does not apply to debt issuances for debt refinancing.
    - The Company was in compliance with the covenant as at June 30, 2022.

Regulatory Update

EGI 2022 Rate Application

- EGI filed its application in two phases. Phase 1 was filed in June 2021 for the setting of rates for 2022. In October 2021, the OEB approved a Phase 1 Settlement proposal and Interim Rate Order effective January 1, 2022. In April 2022, the OEB issued its decision on Phase 2, which was filed in October 2021, addressing ICM funding requirements. The OEB decision approved $127 million of EGI's capital funding, which was incorporated into final rates, effective July 1, 2022.

EGI 2023 Rate Application

- In June 2022, EGI filed for Phase 1 of the application for setting rates for 2023 (the 2023 Application). EGI expects to receive an OEB decision on Phase 1 of the 2023 Application in the second half of 2022. EGI does not anticipate its 2023 capital investment to require incremental funding during the final year of its Price Cap IR term (see below).

Amalgamation

On August 30, 2018, the OEB issued its decision on the application for the amalgamation of EGI and Union Gas. The OEB's major key determinations in the decision were, among others, as follows:

- The rebasing year is deferred until 2024. The Company asked for a 10-year deferred rebasing period, but the OEB allowed for only five years. DBRS Morningstar believes the five-year rebasing period is credit positive because shorter periods have more certainty regarding cost recovery and forecasts.
- The annual rate change during the deferred rebasing period is based on a price-cap index (PCI), where PCI growth is driven by an inflation factor using the Gross Domestic Product Implicit Price Index's Final Domestic Demand index as the inflation factor, less a productivity factor of zero and a stretch factor of 0.3%. The stretch factor is used in incentive regulation to measure the efficiency of utilities (the actual costs/forecast costs), with superior performance having a lower stretch factor.
- The earnings sharing mechanism during the 2019–23 period will be on a 50:50 basis between EGI and its ratepayers for all earnings in excess of 150 bps over the allowed ROE. This means earnings in excess of up to 150 bps will be retained by EGI.
- All capex in excess of the OEB-defined materiality threshold will be recovered through an ICM mechanism, subject to the ICM eligibility criteria during the deferred rebasing term (see the next section).
- EGI continues to pass through costs associated with Y-factors. The Y-factors are costs related to gas commodity and upstream transportation costs, demand-side management cost changes, lost revenue adjustment mechanism changes for the contract market, and normalized average consumption/average use.
- The Z-factor materiality threshold will be set at $5.5 million on a revenue requirement basis.
- During the deferred rebasing period, EGI will continue to purchase market-based storage services to meet the needs of legacy EGD's in-franchise customers. This will mean that legacy Union Gas customers continue to benefit from the sale of market-based storage until issues of rate harmonization are considered.

ICM Mechanism

- ICM is an OEB funding mechanism for significant capital projects, for which a utility requires rate recovery in advance of its next regularly scheduled cost of service (COS; rebasing) application.
- The test for ICM eligibility is that a capital project is not only part of a capital project that is incremental to the materiality threshold (defined below) but must also be driven by capital spending requirements that are extraordinary and unanticipated.
- Materiality means the amount of capital spending must exceed the OEB-defined threshold (which represents a utility's financial capacities underpinned by existing rates, including growth). Any incremental capital amounts approved for rate recovery must fit within the total eligible incremental capital amount and must clearly have a significant influence on the operation of the utility. In addition, to be eligible for ICM, the amount of capital spending must meet the need and prudence criteria. Need means the total amount of capital spending must be for discrete projects and must be outside of the base upon which the rates are derived. Prudence means the utility's decision to incur the costs must represent the most cost-effective option for ratepayers.

Capital Project - Significant Commercially Secured Projects (Between 2022 and 2027, all approved by OEB)

- Storage Enhancement: This project is part of a larger delta-pressuring project to increase deliverability and storage capacity at EGI's storage facilities. The additional deliverability and storage capacity will be sold as part of the Company's unregulated storage portfolio. The estimated capital cost is $80 million.
- Lake Shore KOL Replacement Project: The replacement project of approximately 4.5 kilometres of natural gas pipeline and ancillary facilities of the Cherry to Bathurst Streets segment of the Kipling Oshawa Loop along Lake Shore Boulevard in the City of Toronto. The project is expected to be placed into service in Q4 2022. The estimated capital cost is $130 million.
- Natural Gas Expansion Program (NGEP): Under Phase 2 of the NGEP, EGI will be provided up to $214 million in funding assistance to deliver 25 community expansion and two economic development projects throughout Ontario. The estimated capital cost is $121 million (net of maximum funding assistance).
- Panhandle Regional Expansion: Expansion of the Panhandle Transmission System, which supplies natural gas from the Dawn Hub to customers in Southern Ontario, west of Dawn, consists of construction of the Panhandle Loop and Leamington interconnects, and is expected to receive a full COS-regulated return upon OEB approval. In-service dates are targeted for November 2023 and November 2024. The estimated capital cost is $314 million.

ESG Factors

There are currently no environmental, social, or governance (ESG) factors affecting the ratings of EGI.

* A Relevant Effect means that the impact of the applicable ESG risk factor has not changed the rating or rating trend on the issuer.
A Significant Effect means that the impact of the applicable ESG risk factor has changed the rating or trend on the issuer.
If any factor is proposed to have a Significant Effect, this should be reflected in the Press Release

ESG Factor	ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental	**Overall:**	**N**	**N**
Emissions, Effluents, and Waste	Do we consider that the costs or risks for the issuer or its clients result, or could result, in changes to an issuerÆs financial, operational, and/or reputational standing?	N	N
Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs and/or will such costs increase over time affecting the long term credit profile?	N	N
Resource and Energy Management	Does the scarcity of sourcing key resources hinder the production or operations of the issuer, resulting in lower productivity and therefore 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
Climate and Weather Risks	In the near term, will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact? In the long term, will the issuer's or client's business activities and infrastructure be materially affected financially by a 2C rise in temperature?	N	N
Social	**Overall:**	**N**	**N**
Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services could pose 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 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
	Human Capital and Human Rights:	**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	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could it result, in financial penalties or client attrition to the issuer?	N	N
Occupational Health and Safety	Would the failure to address workplace hazards have a negative 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	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
Governance	**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
	Are there any political risks that could impact the issuer's financial position or its reputation?	N	N
	Bribery, Corruption, and Political Risks:	**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
	Corporate / Transaction Governance:	**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
	Are government officials exposed to public scrutiny and held to high ethical standards of conduct?	N	N
	Institutional Strength, Governance, and Transparency (Governments Only):	**N**	**N**
	Consolidated ESG Criteria Output:	**N**	**N**

Balance Sheet

	Enbridge Gas Inc.						
Balance Sheet (CAD millions)	June 30	Dec. 31	Dec. 31		June 30	Dec. 31	Dec. 31
Assets	**2022**	**2021**	**2020**	**Liabilities & Equity**	**2022**	**2021**	**2020**
Cash and cash equivalents	9	9	9	Short-term borrowings	1,620	1,515	1,121
Accounts receivable and other	1,447	1,228	1,161	Accounts payable	1,360	1,458	1,295
Accounts receivable from affiliates	170	156	92	A/P to affiliates	354	113	134
Gas inventory	658	897	659	Ltd. due in one year	0	126	376
Total Current Assets	**2,284**	**2,290**	**1,921**	**Current Liabilities**	**3,334**	**3,212**	**2,926**
Property, plant, and equipment	16,974	16,662	15,866	Long-term debt	9,343	9,352	8,606
Deferred amounts and other assets	3,049	2,677	2,492	Other long-term liabilities	2,118	2,012	2,166
Intangible assets	180	177	174	Deferred income taxes	1,774	1,666	1,522
Goodwill	4,784	4,784	4,784	Common equity	10,702	10,348	10,017
Total Assets	**27,271**	**26,590**	**25,237**	Total Liab. & Equity	27,271	26,590	25,237

Rating History

	Current	2021	2020	2019*
Issuer Rating	A	A	A	A
Senior Unsecured Notes	A	A	A	A
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

*Note: EGI was formed in January 2019 after the amalgamation of EGD and Union Gas.

Previous Action

- Ratings confirmation, September 20, 2021.

Commercial Paper Limit

- $2.0 billion.

Previous Report

- Enbridge Gas Inc.: Rating Report, October 5, 2021.

Note:
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.

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 3,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why DBRS Morningstar is the next generation of credit ratings.

Learn more at dbrsmorningstar.com.

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). DBRS Morningstar does not hold an Australian financial services license. DBRS Morningstar credit ratings, and other types of credit opinions and reports, are not intended for Australian residents or entities. DBRS Morningstar does not authorize their distribution to Australian resident individuals or entities, and accepts no responsibility or liability whatsoever for the actions of third parties in this respect. For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: https://www.dbrsmorningstar.com/research/225752/highlights.pdf.

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

© 2022 DBRS Morningstar. All Rights Reserved. The information upon which DBRS Morningstar credit ratings and other types of credit opinions and reports are based is obtained by DBRS Morningstar from sources DBRS Morningstar believes to be reliable. DBRS Morningstar does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS Morningstar credit ratings, other types of credit opinions, reports and any other information provided by DBRS Morningstar are provided "as is" and without representation or warranty of any kind and DBRS Morningstar assumes no obligation to update any such ratings, opinions, reports or other information. DBRS Morningstar hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS Morningstar or its directors, officers, employees, independent contractors, agents, affiliates and representatives (collectively, DBRS Morningstar Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of credit ratings, other types of credit opinions and reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS Morningstar or any DBRS Morningstar Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. IN ANY EVENT, TO THE EXTENT PERMITTED BY LAW, THE AGGREGATE LIABILITY OF DBRS MORNINGSTAR AND THE DBRS MORNINGSTAR REPRESENTATIVES FOR ANY REASON WHATSOEVER SHALL NOT EXCEED THE GREATER OF (A) THE TOTAL AMOUNT PAID BY THE USER FOR SERVICES PROVIDED BY DBRS MORNINGSTAR DURING THE TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO LIABILITY, AND (B) U.S. $100. DBRS Morningstar does not act as a fiduciary or an investment advisor. DBRS Morningstar does not provide investment, financial or other advice. Credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar (a) are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities; (b) do not take into account your personal objectives, financial situations or needs; (c) should be weighed, if at all, solely as one factor in any investment or credit decision; (d) are not intended for use by retail investors; and (e) address only credit risk and do not address other investment risks, such as liquidity risk or market volatility risk. Accordingly, credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar are not a substitute for due care and the study and evaluation of each investment decision, security or credit that one may consider making, purchasing, holding, selling, or providing, as applicable. A report with respect to a DBRS Morningstar credit rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS Morningstar may receive compensation for its credit ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS Morningstar. ALL DBRS MORNINGSTAR CREDIT RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DEFINITIONS, LIMITATIONS, POLICIES AND METHODOLOGIES THAT ARE AVAILABLE ON https://www.dbrsmorningstar.com. Users may, through hypertext or other computer links, gain access to or from websites operated by persons other than DBRS Morningstar. Such hyperlinks or other computer links are provided for convenience only. DBRS Morningstar does not endorse the content, the operator or operations of third party websites. DBRS Morningstar is not responsible for the content or operation of such third party websites and DBRS Morningstar shall have no liability to you or any other person or entity for the use of third party websites.

MORNINGSTAR | DBRS

Rating Report
Enbridge Gas Inc.

DBRS Morningstar
September 28, 2023

Contents

1 Ratings
1 Rating Update
2 Financial Information
2 Issuer Description
2 Rating Considerations
4 Simplified Organizational Structure
5 Earnings and Outlook
6 Financial Profile
7 Liquidity and Long-Term Debt Maturities
8 Regulatory Update
9 Capital Projects
10 ESG Factors
11 Balance Sheet
11 Rating History
11 Previous Action
11 Commercial Paper Limit
11 Previous Report

Eric Eng, MBA
Senior Vice President
Infrastructure, Power & Utilities
+1 416 597-7578
eric.eng@dbrsmorningstar.com

Tanmay Tyaqi
Senior Analyst
Infrastructure, Power & Utilities
+1 416 597-7478
tanmay.tyagi@dbrsmorningstar.com

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable
Senior Unsecured Notes	A	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating Update

On September 21, 2023, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating and Senior Unsecured Notes rating of Enbridge Gas Inc. (EGI or the Company) at "A" and the Company's Commercial Paper rating at R-1 (low). All trends are Stable. The rating confirmations reflect the following considerations:

(1) EGI maintained a stable business risk profile as it is in the final year of the five-year price-cap incentive regulations (IR) ending at YE2023. The IR framework for EGI has been stable, and DBRS Morningstar does not expect any material changes during this IR period.

(2) EGI's financial performance remained solid, with strong credit metrics for the trailing 12 months ended June 30, 2023. Furthermore, DBRS Morningstar expects the credit metrics to improve modestly over the medium term as a result of rate base growth.

(3) EGI's liquidity remained solid despite a significantly large amount in the Purchase Gas Variance Account (PGVA) (although reduced in 2023), which captures the difference between actual and forecast natural gas prices. As of June 30, 2023, the PGVA balance was $337 million. The recovery of the PGVA balance was approved by the Ontario Energy Board. However, the recovery period extends to 24 months, instead of 12 months. In August 2022, the Company's liquidity improved considerably as EGI issued $650 million in long-term debt, which was partially used to pay down the Company's short-term indebtedness. DBRS Morningstar expects that, as in the past, in the event that EGI requires more liquidity to finance its natural gas inventory for the winter distribution, its parent, Enbridge Inc. (rated BBB (high), Under Review with Developing Implications by DBRS Morningstar), will step in and provide temporary liquidity.

The Company's credit ratings are supported by a stable regulatory framework in Ontario and a very large and economically strong base of approximately 3.9 million customers across the province—the largest in Canada and one of the largest in North America. This large customer base is one of the key factors allowing EGI to achieve operating efficiency under the price-cap IR. The Company had good synergy in the past three years from the amalgamation of Enbridge Gas Distribution Inc. (EGD) with Union Gas

Limited (Union Gas), and DBRS Morningstar expects EGI to achieve significant synergy through 2023. EGI's reliability and the flexibility of its natural gas supply have improved significantly, compared with stand-alone EGD, as a result of the significant addition of Union Gas' storage facilities. The credit ratings incorporate EGI's exposure to volume risk and the potential regulatory lag in the recovery of natural gas costs when the price of natural gas increases substantially.

EGI will likely generate substantial free cash flow deficits over the next few years because of its major capital projects (which DBRS Morningstar estimates to be between $1.7 billion and $1.8 billion for new projects and system upgrades). The Company has funded cash flow deficits with new debt it issued and equity injections from the parent. DBRS Morningstar expects EGI to continue to fund its future capital expenditures (capex) in such a way that the capital structure will be maintained in line with the Ontario Energy Board's (OEB) approved capital structure, which is currently 64% debt and 36% equity for 2023. As a result, DBRS Morningstar does not expect the financing of EGI's capex to have a material impact on its credit metrics in the medium term.

DBRS Morningstar does not expect any positive credit rating actions in the near term. However, it could take a negative credit rating action should the following events occur: (1) an adverse regulatory change that would have a negative impact on EGI's business risk profile or (2) a significant deterioration of EGI's credit metrics on a sustained basis that would no longer support the current credit ratings. DBRS Morningstar considers these scenarios unlikely.

Financial Information

Enbridge Gas Inc.	6M June 30	6M June 30	12M June 30	Year ended December 31		
Key Credit Metrics	**2023**	**2022**	**2023**	**2022**	**2021**	**2020**
Cash flow-to-debt (%)	15.4	15.0	11.9	10.7	11.4	12.1
Total debt in capital structure (%)	48.4	49.9	48.4	51.2	50.8	49.4
Total debt in capital structure (excl. goodwill) (%)	61.6	64.3	61.6	64.7	65.8	65.1
EBIT interest coverage (times)	3.00	3.27	2.20	2.31	2.41	2.36

Issuer Description

Enbridge Gas Inc. is a regulated natural gas distributor with connections to approximately 3.9 million meters serving residential, commercial, and industrial customers across Ontario. Other operations include regulated transportation services as well as regulated and unregulated storage services in Ontario. Enbridge Inc. owns 100% of EGI (54% directly and 46% indirectly).

Rating Considerations

Strengths

1. Low-risk regulated operations

Almost all of EGI's assets are regulated and operate under the OEB-approved, five-year price-cap IR plan from 2019 through 2023. In October 2022, EGI filed an application with OEB to establish a 2024 through 2028 rate-setting framework (cost of service for 2024 and price cap IR rate setting mechanism for 2025–28). The IR plan provides the Company with the following benefits: (A) relatively predictable earnings and cash flow through a formula (see the Regulatory Update section); (B) full recovery of gas supply

costs with quarterly adjustments, subject to regulatory review; (C) annual updates for certain costs to be passed through to customers and a reasonable mechanism for capex recovery; and (D) a mechanism for sharing earnings with customers, which provides incentives for operational efficiency.

2. Strong franchise area with a very large customer base

EGI is currently the largest regulated natural gas distributor in Canada with a rate base estimated at $15.0 billion and is one of the largest in North America, serving approximately 3.9 million residential, commercial, and industrial customers across Ontario. The Company's service area is viewed as economically strong compared with other service areas in Canada. EGI's large customer base provides it with the size and scale to operate efficiently during the five-year price-cap IR plan. EGI's large size also allows it to maintain a good degree of flexibility with its capex planning.

3. Sizable storage assets provide additional rate base and cash flow

As at June 30, 2023, EGI owned approximately 290 billion cubic feet (bcf; 281 bcf in 2022) of natural gas underground storage capacity facilities located at the Dawn Hub, the largest natural gas storage hub in Canada, which acts as a gateway for Western Canadian and Appalachian natural gas supply. EGI's storage facilities are strategically connected to major pipelines that transport natural gas to major Canadian and U.S. markets. The majority of EGI's storage assets is in the regulated rate base. In addition, nonregulated storage assets have generated strong cash flows that reflect high demand in Ontario. DBRS Morningstar estimates that cash flow from nonregulated storage activities accounts for approximately 8% to 10% of EGI's consolidated cash flow.

Challenges

1. Volume risk

For EGI's residential and small commercial customers, weather risk remains significant, as forecast volumes (based on normalized weather) are built into the Company's base rates, while actual usage varies with the weather. Therefore, colder-than-normal weather in any given year generally results in higher earnings, while the reverse is true for periods of warmer-than-normal weather. For EGI's large industrial customers, volume consumption is sensitive to the economy. However, the volume risk is partially mitigated through the Company's firm contracts with larger commercial and industrial customers where charges are based on demand. Further, the weather forecast is conducted annually to reflect the latest weather patterns.

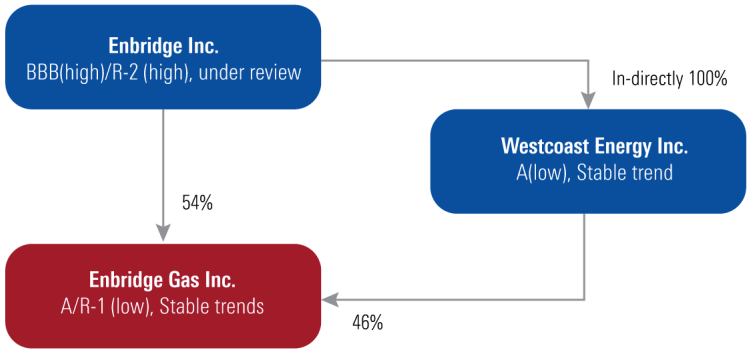
2. Managing operating costs under the price-cap IR plan

EGI is in the final year of its five-year price-cap IR plan. Managing operating costs is particularly important for the Company to achieve or exceed the allowed return on equity (ROE). A significant increase in operating costs can have a negative impact on EGI's earnings and cash flow, and consequently on its credit metrics. Earnings below the allowed ROE will not be recovered from customers unless the actual ROE is 300 basis points (bps) below the allowed ROE, at which point the Company can request a regulatory review.

3. Potential regulatory lag

EGI faces a potential regulatory lag in the recovery of natural gas costs. Although the Company can pass natural gas costs on to customers with quarterly adjustments, the potential for a regulatory lag still exists. If natural gas costs increase substantially within a short period of time, the Company may have to recover such costs over a longer time frame than it normally does. In addition, EGI could also face regulatory lag with respect to major projects if capital spending amounts are beyond those that can be funded through base rates and if these capital projects do not qualify for recovery through the Incremental Capital Module (ICM) mechanism (see the Regulatory Update section).

Simplified Organizational Structure



Note: Endridge Gas Inc. represented approximately 13% of the consolidated EBITDA of Enbridge Inc. in 12 months to March 21, 2023.

Enbridge Inc.: It is a diversified energy company with the following segments: Liquids Pipelines, Gas Transmission and Midstream, Gas Distribution and Storage, Renewable Power Generation, and Energy Services (see DBRS Morningstar's rating report dated June 28, 2023, for details).

Westcoast Energy Inc.: In addition to owning a 46% interest in EGI, Westcoast Energy Inc. also owns (1) the federally regulated B.C. Pipeline natural gas transmission system and (2) a 78% interest in the federally regulated Maritime & Northeast Pipeline Limited Partnership, a natural gas transmission system in Eastern Canada (see DBRS Morningstar's rating report dated May 30, 2023, for details).

Earnings and Outlook

Enbridge Gas Inc.	6M June 30	6M June 30	12M June 30	Year ended December 31		
(CAD millions)	**2023**	**2022**	**2023**	**2022**	**2021**	**2020**
Gas commodity and distribution revenues	3,049	2982	5680	5613	3996	3631
Storage, transportation, and other revenues	562	512	1045	995	897	884
Total Revenue	**3,611**	**3494**	**6725**	**6608**	**4893**	**4515**
Gas commodity & distribution costs	1,985	1927	3737	3679	2146	1812
Operating & administrative expenses	591	549	1269	1227	1105	1063
Depreciation & amortization expenses	374	337	727	690	677	655
Total Operating Costs	**2,950**	**2813**	**5733**	**5596**	**3928**	**3530**
Operating Income	**661**	**681**	**992**	**1012**	**965**	**985**
Gross interest expense	220	208	450	438	401	417
Capitalized interest	0	(8)	(7)	(15)	(7)	(5)
Interest Expense, Net	**220**	**200**	**443**	**423**	**394**	**412**
Operating Income Before Other Income	**441**	**481**	**549**	**589**	**571**	**573**
Other income (expense), net	26	38	67	79	43	56
Operating Profit Before Taxes	**467**	**519**	**616**	**668**	**614**	**629**
Income taxes	(21)	(46)	(44)	(69)	(63)	(78)
Net income Before Extraordinary Items	**446**	**473**	**572**	**599**	**551**	**551**
Extraordinary items	0	0	0	0	0	(54)
Reported Net Income	**446**	**473**	**572**	**599**	**551**	**497**

YE2022 Summary

- Operating income in 2022 increased modestly by 5% from 2021. The revenue increased by 35% largely due to an increase in rates and customer base as well as higher demand in the contract market. This was offset by higher Opex largely driven by higher employee costs. Furthermore, the gas commodity and distribution costs increased by over 70%.

H1 2022 Summary

- The modest decrease in operating income in H1 2023 compared with the same period in 2022 reflected (1) higher distribution charges resulting from increases in rates and customer base, and (2) higher OPEX due to higher costs for line locates.

Outlook

- Assuming normal weather, DBRS Morningstar expects EGI's operating income to continue to increase modestly throughout the deferred rebasing period, reflecting the continued growth in the rate base and customer base.
- However, because EGI's annual rate changes are based on a price-cap formula and operating efficiency, any materially unexpected increase in operating costs can have a negative impact on EGI's operating income.

Financial Profile

Enbridge Gas Inc.	6M June 30	6M June 30	12M June 30	Year ended December 31		
(CAD millions)	**2023**	**2022**	**2023**	**2022**	**2021**	**2020**
Operating Cash Flow	833	798	1284	1249	1213	1178
Capital expenditures (incl. intangible assets)	(591)	(619)	(1,493)	(1,521)	(1,380)	(1,185)
Dividends paid	(100)	(687)	(100)	(687)	(1,250)	(1,250)
Free Cash Flow (bef. work. cap. changes)	**142**	**(508)**	**(309)**	**(959)**	**(1,417)**	**(1,257)**
Changes in noncash working capital items	1,356	16	169	(1,171)	(473)	78
Gross Free Cash Flow	**1,498**	**(492)**	**(140)**	**(2,130)**	**(1,890)**	**(1,179)**
Cash extraordinary items	0	0	0	0	0	(54)
Proceeds on sale of inv. & other activities (net)	(18)	12	(18)	12	0	0
Net Free Cash Flow	**1,480**	**(480)**	**(158)**	**(2,118)**	**(1,890)**	**(1,233)**
Change in debt & equivalents	(1,148)	230	(377)	1,001	915	1,015
Change in note payable–affiliate	(318)	0	0	318	0	(650)
Change in equity & equivalents	0	500	300	800	975	800
Change in cash & marketable securities	(14)	(250)	235	(1)	0	68
Funding Sources	**(1,480)**	**480**	**158**	**2,118**	**1,890**	**1,233**
Total debt in capital structure (%)[1]	48.4	49.9	48.4	51.2	50.8	49.4
Cash flow/total debt (%)	15.4	15.0	11.9	10.7	11.4	12.1
EBIT interest coverage (times)	3.00	3.27	2.20	2.31	2.41	2.36
Dividends/cash flow (%)	12	86.1	7.8	55	103.1	106.1

1 Excluding goodwill.

Summary

- All credit metrics remained solid in the last 12 months (LTM) ended June 30, 2023, reflecting relatively stable cash flow and reasonable debt leverage.
- The debt-to-capital ratio, excluding goodwill, has remained relatively stable since the amalgamation and has stayed at the low end of DBRS Morningstar's "A" rating range. This capital structure level is consistent with the regulatory capital structure of 36% equity/64% debt.
- The cash flow-to-debt ratio for the LTM ended June 30, 2023, was almost similar to 2021 levels as cash flow and debt increased by similar proportions for H1 2023 compared with H1 2022.
- EBIT-interest coverage for the LTM ended June 30, 2023, continued to benefit from solid operating income for the period.
- EGI has had substantial free cash flow deficits for the last couple of years as a result of a large capex program in 2020, 2021, and 2022 (averaging $1.21 billion each year). Most of growth capex was spent on growth capital projects that were approved by the regulator (see below).
- DBRS Morningstar notes the dividend/cash flow ratio, which had increased since 2018, has dropped by almost 50% in 2022. The reduction in dividends has lowered the free cash flow deficits. However, increase in account receivables and gas inventory resulted in higher deficits for gross free cash flow. In addition to external debt, EGI took 318 CAD million as notes payable from affiliates to fund the deficit.
- However, EGI's financing plan has been to maintain the debt-to-capital ratio in line with the regulatory capital structure of 64% debt/36% equity.

Outlook

- DBRS Morningstar expects EGI to continue to generate free cash flow deficits over the next couple of years because of its large capex. However, the deficits are expected to reduce as the company reduces its dividend payout. Capex for 2023 and 2024 is estimated to be between $1.7 billion and $1.8 billion each year. A substantial amount of capex each year will be for system upgrades and new capital projects, such as the Lake Shore Kipling Oshawa Loop Replacement Project (Lakeshore KOL Replacement Project), Natural Gas Expansion Project and Panhandle Regional Expansion Project (see the Capital Projects section).
- DBRS Morningstar does not expect EGI to change its financing strategy of maintaining the debt-to-capital ratio (excluding goodwill) at or near the current level throughout the deferred rebasing period.
- Assuming normal weather, DBRS Morningstar expects EGI's cash flow-to-debt and EBIT-interest coverage ratios to improve modestly over the medium term, reflecting expected operating efficiency and incremental cash flow from a growing rate base.

Liquidity and Long-Term Debt Maturities

Credit Facilities				As at June 30, 2023
(CAD millions)	**Total Facilities**	**Drawn**[1]	**Available**	**Maturity**
Enbridge Gas Inc.	2,500	850	1,650	2024

1 Includes facility draws and commercial paper issuances, net of discount, that are backed by the external credit facility.

Summary

- Liquidity remains solid, supported by predictable cash flow from operations and the availability of sizable credit facilities.
- The $2.5 billion Revolving Term Credit Facility is used to backstop a commercial paper program of $2.5 billion. In August 2022, EGI completed a $650 million dual-tranche offering of 10-year and 30-year notes. The debt issuance is not expected to have any material impact on EGI's credit metrics because most net proceeds were used to pay down the Company's short-term indebtedness.
- DBRS Morningstar notes in the event where there is extremely cold weather and gas prices are rising sharply, the Company would have to seek temporary support from its parent, Enbridge Inc.

Debt Maturities

As at June 30, 2022 (CAD million)	**2023**	**2024**	**2025**	**2026**	**2027**	**2027+**	**Total**
EGI medium-term notes and debentures	350	300	745	650	350	7,350	9,745

Summary

- The refinancing risk in the next four years is manageable because the medium-term notes and debentures due in each of these years are modest and within the financing capability of the Company.
- EGI is subject to the issue test covenant in the indenture, which states that its total consolidated funded obligations (namely total indebtedness, including any guarantee that has a maturity term longer than 18 months) will not exceed 75% of total consolidated capitalization. EGI is also subject to an EBIT-to-interest covenant of 2.0 times, based on EBIT for 12 consecutive months and the annual pro forma interest requirements for all debt with a maturity term longer than 18 months:
    - The covenant does not apply to debt issuances for debt refinancing.
    - The Company was in compliance with the covenant as at June 30, 2023.

Regulatory Update

EGI 2024 Rebasing and incentive rate setting mechanism application

- EGI filed an application in October 2022 to establish a 2024 to 2028 rate setting framework. It seeks approval to establish 2024 base rates on a cost of service basis and a price cap IR rate setting mechanism for remainder of the term (2025 to 2028). OEB will hear the application in two phases with Phase 1 addressing items that affect rates effective January 1, 2024, and Phase 2 addressing items that will affect rates subsequent to January 1, 2024. An OEB decision is expected on Phase 1 of the application in the second half of 2023.

EGI 2022 Rate Application

- EGI filed its application in two phases. Phase 1 was filed in June 2021 for the setting of rates for 2022. In October 2021, the OEB approved a Phase 1 Settlement proposal and Interim Rate Order effective January 1, 2022. In April 2022, the OEB issued its decision on Phase 2, which was filed in October 2021, addressing ICM funding requirements. The OEB decision approved $127 million of EGI's capital funding, which was incorporated into final rates, effective July 1, 2022.

EGI 2023 Rate Application

- In June 2022, EGI filed for Phase 1 of the application for setting rates for 2023 (the 2023 Application). EGI expects to receive an OEB decision on Phase 1 of the 2023 Application in the second half of 2022. EGI does not anticipate its 2023 capital investment to require incremental funding during the final year of its Price Cap IR term (see below).

Amalgamation

On August 30, 2018, the OEB issued its decision on the application for the amalgamation of EGI and Union Gas. The OEB's major key determinations in the decision were, among others, as follows:

- The rebasing year will be 2024.
- The annual rate change during the deferred rebasing period is based on a price-cap index (PCI), where PCI growth is driven by an inflation factor using the Gross Domestic Product Implicit Price Index's Final Domestic Demand index as the inflation factor, less a productivity factor of zero and a stretch factor of 0.3%. The stretch factor is used in incentive regulation to measure the efficiency of utilities (the actual costs/forecast costs), with superior performance having a lower stretch factor.
- The earnings sharing mechanism during the 2019–23 period will be on a 50:50 basis between EGI and its ratepayers for all earnings in excess of 150 bps over the allowed ROE. This means earnings in excess of up to 150 bps will be retained by EGI.
- All capex in excess of the OEB-defined materiality threshold will be recovered through an ICM mechanism, subject to the ICM eligibility criteria during the deferred rebasing term (see the next section).
- EGI continues to pass through costs associated with Y-factors. The Y-factors are costs related to gas commodity and upstream transportation costs, demand-side management cost changes, lost revenue adjustment mechanism changes for the contract market, and normalized average consumption/average use.

- EGI may apply to recover $5.5 million on a revenue-requirement basis for costs related to unforeseen events outside of the control of management through a Z-factor mechanism.
- During the deferred rebasing period, EGI will continue to purchase market-based storage services to meet the needs of legacy EGD's in-franchise customers. This will mean that legacy Union Gas customers continue to benefit from the sale of market-based storage until issues of rate harmonization are considered.

ICM Mechanism

- ICM is an OEB funding mechanism for significant capital projects, for which a utility requires rate recovery in advance of its next regularly scheduled cost of service (COS; rebasing) application.
- The test for ICM eligibility is that a capital project is not only part of a capital project that is incremental to the materiality threshold (defined below) but must also be driven by capital spending requirements that are extraordinary and unanticipated.
- Materiality means the amount of capital spending must exceed the OEB-defined threshold (which represents a utility's financial capacities underpinned by existing rates, including growth). Any incremental capital amounts approved for rate recovery must fit within the total eligible incremental capital amount and must clearly have a significant influence on the operation of the utility. In addition, to be eligible for ICM, the amount of capital spending must meet the need and prudence criteria. Need means the total amount of capital spending must be for discrete projects and must be outside of the base upon which the rates are derived. Prudence means the utility's decision to incur the costs must represent the most cost-effective option for ratepayers.

Capital Projects—Significant Commercially Secured Projects (Between 2023 and 2027, all approved by OEB)

- Natural Gas Expansion Program (NGEP): Under Phase 2 of the NGEP, EGI will be provided up to $214 million in funding assistance to deliver 25 community expansion and two economic development projects throughout Ontario. The estimated capital cost is $121 million (net of maximum funding assistance).
- Panhandle Regional Expansion: Expansion of the Panhandle Transmission System, which supplies natural gas from the Dawn Hub to customers in Southern Ontario, west of Dawn, consists of construction of the Panhandle Loop and Leamington interconnects, and is expected to receive a full COS-regulated return upon OEB approval. In-service dates are targeted for November 2023 and November 2024. The estimated capital cost is $359 million.

ESG Factors

There are currently no environmental, social, or governance (ESG) factors affecting the ratings of EGI.

* A Relevant Effect means that the impact of the applicable ESG risk factor has not changed the rating or rating trend on the issuer.
A Significant Effect means that the impact of the applicable ESG risk factor has changed the rating or trend on the issuer.
If any factor is proposed to have a Significant Effect, this should be reflected in the Press Release

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		**Overall:**	**N**	**N**
	Emissions, Effluents, and Waste	Do we consider that the costs or risks for the issuer or its clients result, or could result, in changes to an issuerÆs financial, operational, and/or reputational standing?	**N**	**N**
	Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs and/or will such costs increase over time affecting the long term credit profile?	**N**	**N**
	Resource and Energy Management	Does the scarcity of sourcing key resources hinder the production or operations of the issuer, resulting in lower productivity and therefore 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**
	Climate and Weather Risks	In the near term, will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact? In the long term, will the issuer's or client's business activities and infrastructure be materially affected financially by a 2C rise in temperature?	**N**	**N**
Social		**Overall:**	**N**	**N**
	Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services could pose 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 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**
		Human Capital and Human Rights	**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	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could it result, in financial penalties or client attrition to the issuer?	**N**	**N**
	Occupational Health and Safety	Would the failure to address workplace hazards have a negative 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	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**
Governance		**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**
		Are there any political risks that could impact the issuer's financial position or its reputation?	**N**	**N**
		Bribery, Corruption, and Political Risks	**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**
		Corporate / Transaction Governance	**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**
		Are government officials exposed to public scrutiny and held to high ethical standards of conduct?	**N**	**N**
		Institutional Strength, Governance, and Transparency (Governments Only)	**N**	**N**
		Consolidated ESG Criteria Output:	**N**	**N**

Balance Sheet

	Enbridge Gas Inc.						
Balance Sheet (CAD millions)	June 30	Dec. 31	Dec. 31		June 30	Dec. 31	Dec. 31
Assets	**2023**	**2022**	**2021**	**Liabilities & Equity**	**2023**	**2022**	**2021**
Cash and cash equivalents	9	10	9	Short-term borrowings	848	1,996	1,515
Accounts receivable and other	1,417	2,346	1,228	Accounts payable	1,077	1,864	1,458
Accounts receivable from affiliates	207	191	156	A/P to affiliates	340	195	113
Gas inventory	562	1,424	897	Loan from affiliate	0	318	0
Total Current Assets	**2,195**	**3,971**	**2,290**	**Ltd. Due in One Year**	**350**	**352**	**126**
Property, plant, and equipment	17,968	17,601	16,662	Current liabilities	2,615	4,725	3,212
Deferred amounts and other assets	2,880	2,996	2,677	Long-term debt	9,616	9,625	9,352
Intangible assets	162	175	177	Other long-term liabilities	2,311	2,160	2,012
Goodwill	4,784	4,784	4,784	Deferred income taxes	1,931	1,854	1,666
Total Assets	**27,989**	**29,527**	**26,590**	Common equity	11,516	11,163	10,348
				Total Liab. & Equity	**27989**	**29527**	**26590**

Rating History

	Current	2022	2021	2020
Issuer Rating	A	A	A	A
Senior Unsecured Notes	A	A	A	A
Commercial Paper	R - 1(low)	R - 1(low)	R-1 (low)	R-1 (low)

*Note: EGI was formed in January 2019 after the amalgamation of EGD and Union Gas.

Previous Action

- Ratings confirmation, September 21, 2022.

Commercial Paper Limit

- $2.0 billion.

Previous Report

- Enbridge Gas Inc.: Rating Report, September 27, 2022.

Note:
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.

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 4,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why DBRS Morningstar is the next generation of credit ratings.

Learn more at dbrsmorningstar.com.

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). DBRS Morningstar does not hold an Australian financial services license. DBRS Morningstar credit ratings, and other types of credit opinions and reports, are not intended for Australian residents or entities. DBRS Morningstar does not authorize their distribution to Australian resident individuals or entities, and accepts no responsibility or liability whatsoever for the actions of third parties in this respect. For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: https://www.dbrsmorningstar.com/research/225752/highlights.pdf.

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

© 2023 DBRS Morningstar. All Rights Reserved. The information upon which DBRS Morningstar credit ratings and other types of credit opinions and reports are based is obtained by DBRS Morningstar from sources DBRS Morningstar believes to be reliable. DBRS Morningstar does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS Morningstar credit ratings, other types of credit opinions, reports and any other information provided by DBRS Morningstar are provided "as is" and without representation or warranty of any kind and DBRS Morningstar assumes no obligation to update any such ratings, opinions, reports or other information. DBRS Morningstar hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS Morningstar or its directors, officers, employees, independent contractors, agents, affiliates and representatives (collectively, DBRS Morningstar Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of credit ratings, other types of credit opinions and reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS Morningstar or any DBRS Morningstar Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. IN ANY EVENT, TO THE EXTENT PERMITTED BY LAW, THE AGGREGATE LIABILITY OF DBRS MORNINGSTAR AND THE DBRS MORNINGSTAR REPRESENTATIVES FOR ANY REASON WHATSOEVER SHALL NOT EXCEED THE GREATER OF (A) THE TOTAL AMOUNT PAID BY THE USER FOR SERVICES PROVIDED BY DBRS MORNINGSTAR DURING THE TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO LIABILITY, AND (B) U.S. $100. DBRS Morningstar does not act as a fiduciary or an investment advisor. DBRS Morningstar does not provide investment, financial or other advice. Credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar (a) are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities; (b) do not take into account your personal objectives, financial situations or needs; (c) should be weighed, if at all, solely as one factor in any investment or credit decision; (d) are not intended for use by retail investors; and (e) address only credit risk and do not address other investment risks, such as liquidity risk or market volatility risk. Accordingly, credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar are not a substitute for due care and the study and evaluation of each investment decision, security or credit that one may consider making, purchasing, holding, selling, or providing, as applicable. A report with respect to a DBRS Morningstar credit rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS Morningstar may receive compensation for its credit ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS Morningstar. ALL DBRS MORNINGSTAR CREDIT RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DEFINITIONS, LIMITATIONS, POLICIES AND METHODOLOGIES THAT ARE AVAILABLE ON https://www.dbrsmorningstar.com. Users may, through hypertext or other computer links, gain access to or from websites operated by persons other than DBRS Morningstar. Such hyperlinks or other computer links are provided for convenience only. DBRS Morningstar does not endorse the content, the operator or operations of third party websites. DBRS Morningstar is not responsible for the content or operation of such third party websites and DBRS Morningstar shall have no liability to you or any other person or entity for the use of third party websites.

S&P Global
Ratings

RatingsDirect®

Enbridge Gas Inc.

Primary Credit Analyst:
Andrew Ng, Toronto + 1 (416) 507 2545; andrew.ng@spglobal.com

Secondary Contacts:
Obioma Ugboaja, New York + 1 (212) 438 7406; obioma.ugboaja@spglobal.com
Shubham Jain5, Pune; shubham.jain5@spglobal.com

Table Of Contents

Credit Highlights

Outlook

Our Base-Case Scenario

Company Description

Business Risk

Financial Risk

Liquidity

Environmental, Social, And Governance

Group Influence

Issue Ratings - Subordination Risk Analysis

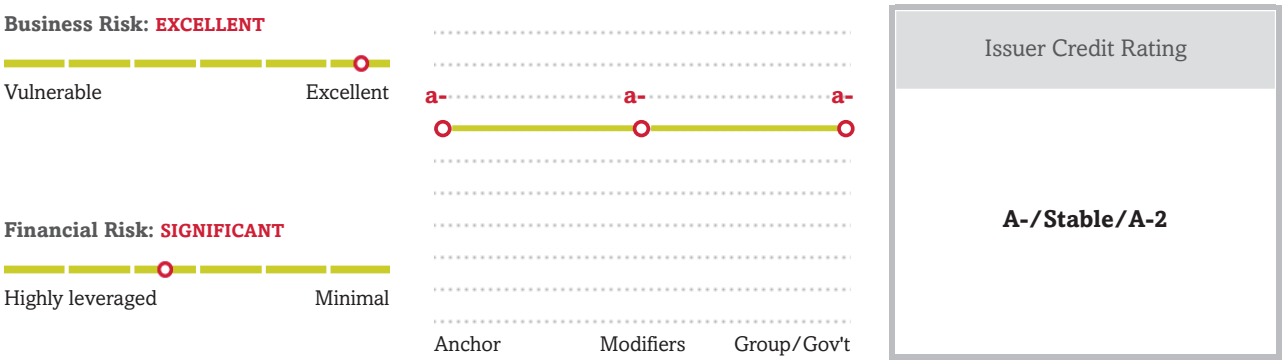
Reconciliation

Ratings Score Snapshot

Related Criteria

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Enbridge Gas Inc.



Credit Highlights

Overview

Key strengths	Key risks
Enbridge Gas Inc. (EGI) is a low-risk rate-regulated natural gas distribution and transmission company.	EGI operates only in Ontario, hence limited geographic and regulatory diversification.
About two-thirds of EGI's distribution revenue comes from residential and small business customers, providing stable cash flows.	Negative discretionary cash flow, indicating external funding needs.
Commodity costs are pass through to customers and recovered through quarterly adjustment mechanism, limiting EGI's exposure to commodity risk.	

The OEB established deferral accounts to record costs and losses arising from the COVID-19 pandemic. On March 25, 2020, The Ontario Energy Board (OEB), regulator of Ontario, acknowledges that utility distributors, including Enbridge Gas Inc. (EGI), may incur incremental costs related to the ongoing coronavirus pandemic. As a result, the OEB established deferral accounts for utilities, including EGI, to track any incremental costs and lost revenues related to the COVID-19 pandemic. This allows EGI to recover potential lost revenue, incremental expenses, or costs relating to bad debt expenses subject to OEB approval. The pandemic is likely to result in cash flow volatility and lag for EGI in the short-term but the deferral accounts provides a recovery mechanism for utilities.

EGI has sufficient liquidity sources to cover its uses over the next six-12 months. The utility has a C$2.0 billion credit facility, mostly undrawn, to backstop its commercial paper program. In addition, the company's long-term debt maturity is modest for 2020, with about C$400 million maturing in November 2020. Moreover, EGI recently issued about C$1.2 billion of long-term debt in late March. As a result, we expect EGI to have sufficient liquidity over the next six-12 months. Furthermore, we expect the utility to scale back on capital spending or dividends to the parent group if needed.

EGI lacks geographic and regulatory diversity.

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

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Outlook: Stable

The stable outlook on Enbridge Gas Inc. (EGI) reflects S&P Global Ratings' expectation that the company will continue to focus on and generate stable and predictable cash flows from its regulated gas distribution operation. We also expect EGI will execute its integration plans from the amalgamation and capital programs on time and on budget leading to funds from operations (FFO) to debt of about 11%-12% through 2021.

The stable outlook also reflects our view that Enbridge Inc. (Enbridge), the parent, will maintain FFO to debt in the 15%-18% range through 2021. Furthermore, the stable outlook on EGI reflects our expectation that both the utility's insulation features and Enbridge's strategy to preserve the utilities' credit strength will not change.

Downside scenario

We could lower the ratings on EGI if the utility's financial measures deteriorate, with FFO to debt approaching 10% with no prospects of improvement.

Alternatively, we could lower the rating on EGI if we lower our ratings on Enbridge. This could happen if Enbridge's consolidated adjusted FFO to debt stays below 13% or debt to EBITDA is sustained above 5x.

Upside scenario

Although unlikely, we can upgrade EGI over the next 18-24 months if we also upgrade Enbridge, and if EGI's stand-alone credit profile (SACP) indicates a higher SACP.

EGI could warrant a higher SACP if it improves its financial measures with FFO to debt consistently above 13%. An upgrade at the parent level would require Enbridge to maintain FFO to debt above 17% and adjusted debt to EBITDA of about 4x while maintaining its current level of cash flow stability.

Our Base-Case Scenario

Assumptions

- No material persistent impact from the COVID-19 pandemic.
- Stable regulatory regime in Ontario with no material adverse regulatory decisions.
- EGI will primarily operate under inflation-indexed rates through 2023, before starting a new rate application cycle in 2024.
- The annual revenue increases through 2023 will be

Key Metrics

	2019a	2020e	2021f
FFO to debt (%)	13.1	11-12	11-12
FFO cash interest coverage (x)	4.2	3.5-4.0	3.5-4.0

a--Actual. e--Estimate. f--Foremost. FFO--Funds from operations.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

subject to a productivity stretch factor constraint of 0.3%, that reduces the annual revenue increases by the equivalent.

- All earnings in excess of 150 basis points over the OEB-approved return on equity will be shared equally between EGI and its ratepayers.
- EGI will earn close to its authorized return on equity.
- EGI will maintain its deemed capital structure of 64/36 debt to equity.
- Natural gas cost remains a pass through to rate-payers.
- Capital expenditure of about C$1.0 billion to C$1.5 billion per year in each of 2020-2022.
- Dividends payout ratio reflects about 100% of EGI's cash flow from operations.

Company Description

Enbridge Gas Inc. (EGI) operates as a rate-regulated natural gas distribution utility company in Ontario, Canada. 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.

Business Risk: Excellent

Our assessment of EGI's business risk continues to reflect our view of the OEB's regulatory framework, which underpins the utility's predictable and steady cash flow. In our view, the regulatory process is transparent, consistent, and predictable. These factors collectively support EGI's timely recovery of prudently spent capital and operating expenses. In addition, commodity costs are recovered through a quarterly adjustment mechanism from rate payers, limiting EGI's exposure to commodity risk.

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

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Peer comparison

Table 1

Enbridge Gas Inc. -- Peer Comparison

Industry Sector: Gas

	Enbridge Gas Inc.	CU Inc.	Energir Inc.	Alectra Inc.	Washington Gas Light Co.
Ratings as of March 31, 2020	A-/Stable/A-2	A-/Stable/A-2	A/Stable/--	A/Stable/--	A-/Stable/A-2
	--Fiscal year ended Dec. 31, 2019--	--Fiscal year ended Dec. 31, 2019--	--Fiscal year ended Sept. 30, 2019--	--Fiscal year ended Dec. 31, 2018--	--Fiscal year ended Sept. 30, 2018--
(Mil. Mix curr.)	C$	C$	C$	C$	$
Revenue	5,075.0	2,787.0	2,739.6	3,452.0	1,248.1
EBITDA	1,639.0	1,557.0	756.6	363.5	367.6
Funds from operations (FFO)	1,239.5	1,178.5	615.6	296.7	308.6
Interest expense	394.5	378.5	155.6	71.8	75.9
Cash interest paid	387.5	384.5	164.8	65.8	62.0
Cash flow from operations	1,277.5	1,155.5	687.3	235.7	123.1
Capital expenditure	1,104.0	936.0	627.0	425.0	392.8
Free operating cash flow (FOCF)	173.5	219.5	60.3	(189.3)	(269.7)
Discretionary cash flow (DCF)	(1,076.5)	(171)	(175.9)	(263.3)	(358.0)
Cash and short-term investments	77.0	71.0	101.3	16.0	0.0
Debt	9,435.1	8,136.8	4,268.1	2,016.3	1,497.5
Equity	10,004.0	4,853.0	2,346.9	1,689.0	1,456.9
Adjusted ratios					
EBITDA margin (%)	32.3	55.9	27.6	10.5	29.5
Return on capital (%)	5.3	8.4	6.3	6.2	6.9
EBITDA interest coverage (x)	4.2	4.1	4.9	5.1	4.8
FFO cash interest coverage (x)	4.2	4.1	4.7	5.5	6.0
Debt/EBITDA (x)	5.8	5.2	5.6	5.5	4.1
FFO/debt (%)	13.1	14.5	14.4	14.7	20.6
Cash flow from operations/debt (%)	13.5	14.2	16.1	11.7	8.2
FOCF/debt (%)	1.8	2.7	1.4	(9.4)	(18.0)
DCF/debt (%)	(11.4)	(2.1)	(4.1)	(13.1)	(23.9)

Sources: S&P Global Ratings, company data.

Financial Risk: Significant

We assess EGI's financial measures using our low volatility financial benchmark table relative to the typical industrial issuer. This reflects the company's lower-risk regulated gas distribution operation and effective management of

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

regulatory risk. EGI has a large capital program--about 1.65x that of depreciation expense--that will result in negative discretionary cash flow and continually rely on external financing to fund its capital programs.

In respond to the current coronavirus pandemic, the OEB has setup deferral accounts for utilities, including EGI, to track incremental costs and lost revenues related to the pandemic for later disposition, subject to OEB review and approval. As a result, we expect there will be some cash flow volatility associated with EGI's financial measures for 2020.

Under our base case scenario that includes a short-term impact from the pandemic and a stable regulatory environment with no material adverse regulatory decisions, capital spending of about C$1.0 billion to C$1.5 billion in each of 2020 and 2021, and net dividend payments of about C$450 million annually, we expect EGI's FFO to debt to be about 11%-12% in 2020 and 2021.

Financial summary

Table 2

Enbridge Gas Inc. -- Financial Summary

Industry Sector: Gas		
	--Fiscal year ended Dec. 31--	
	2019	2018
(Mil. C$)		
Revenue	5,075.0	5,297.0
EBITDA	1,639.0	1,551.0
Funds from operations (FFO)	1,239.5	1,190.0
Interest expense	394.5	391.0
Cash interest paid	387.5	394.0
Cash flow from operations	1,277.5	1,725.0
Capital expenditure	1,104.0	1,288.0
Free operating cash flow (FOCF)	173.5	437.0
Discretionary cash flow (DCF)	(1,076.5)	(996.0)
Cash and short-term investments	77.0	17.0
Gross available cash	77.0	17.0
Debt	9,435.1	9,120.6
Equity	10,004.0	9,893.0
Adjusted ratios		
EBITDA margin (%)	32.3	29.3
Return on capital (%)	5.3	7.5
EBITDA interest coverage (x)	4.2	4.0
FFO cash interest coverage (x)	4.2	4.0
Debt/EBITDA (x)	5.8	5.9
FFO/debt (%)	13.1	13.0
Cash flow from operations/debt (%)	13.5	18.9
FOCF/debt (%)	1.8	4.8
DCF/debt (%)	(11.4)	(10.9)

Sources: S&P Global Ratings, company data.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Liquidity: Adequate

In our assessment, EGI's liquidity is adequate. We expect that liquidity sources will cover uses by more than 1.1x in the next 12 months. We also expect that in the event of a 10% EBITDA decline, the company's sources of funds would still exceed its uses. In our opinion, EGI has solid relationships with its banks and generally prudent financial risk management. In the event of unexpected financial stress, we believe the utility would scale back on its capital expenditures and has the flexibility to suspend dividend payments to preserve its liquidity.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash of about C$77 million as of Dec. 31, 2019; and • Committed credit facilities availability of about C$2 billion; and • Cash FFO of about C$1.2 billion	• Debt maturities of about C$1.3 billion as of Dec. 31, 2019, including current portion of long-term debt and outstanding commercial paper; and • Capital spending of about C$1.1 billion; and • Dividends of about C$450 million, net of ongoing group support.

Debt maturities

- 2020: C$400 million
- 2021: C$375 million
- 2022: C$125 million
- 2023: C$350 million
- 2024: C$300 million

Environmental, Social, And Governance

We view EGI's exposure to environmental, social, and governance-related risks as similar to the broader industry. EGI is a natural gas distributor. For natural gas network operators, environmental risks include gas leaks and explosions and emission of greenhouse gases (GHG), which can affect biodiversity. We believe EGI's environmental risk is consistent with the broader industry because the company continually monitors and replaces aging infrastructure to reduce the potential of gas leaks and explosions. In addition, the company also participates in the federal government's carbon levy program, to offset its GHG footprint in its gas distribution operations.

From a social perspective, EGI has a history of providing safe and reliable natural gas to its customers, which should enable it to maintain social cohesion. Governance factors are neutral. In our view, EGI's board is capably engaged in risk oversight on behalf of all stakeholders.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Group Influence

We view EGI as an insulated subsidiary within the Enbridge group. Specifically reflecting our views that EGI is incorporated as separate legal entities with financial performance and funding that are highly independent from the group, including issuing long- and short-term debt, maintaining its own separate credit facilities, and not commingling its funds, assets, or cash flows with the rest of the group. In addition, there is a strong economic basis for Enbridge to preserve EGI's credit strength, and we do not expect a default of the other group entities within Enbridge to directly lead to a default at EGI.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of Dec. 31, 2019, EGI's capital structure consists of about C$900 million of short-term debt in commercial paper and about C$8.2 billion of senior unsecured long-term debt.

Analytical conclusions

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

Reconciliation

Table 3

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

	--Fiscal year ended Dec. 31, 2019--						
Enbridge Gas Inc. reported amounts							
	Debt	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Capital expenditure**
	9,763.0	1,632.0	994.0	388.0	1,639.0	1,277.0	1,109.0
S&P Global Ratings' adjustments							
Cash taxes paid	--	--	--	--	(12.0)	--	--
Cash taxes paid: Other	--	--	--	--	--	--	--
Cash interest paid	--	--	--	--	(381.0)	--	--
Reported lease liabilities	46.0	--	--	--	--	--	--
Operating leases	--	7.0	1.5	1.5	(1.5)	5.5	--
Postretirement benefit obligations/deferred compensation	334.1	--	--	--	--	--	--
Accessible cash and liquid investments	(77.0)	--	--	--	--	--	--
Capitalized interest	--	--	--	5.0	(5.0)	(5.0)	(5.0)

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Table 3

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

Nonoperating income (expense)	--	--	30.0	--	--	--	--
Debt: Other	(631.0)	--	--	--	--	--	--
Total adjustments	(328.0)	7.0	31.5	6.5	(399.5)	0.5	(5.0)

S&P Global Ratings' adjusted amounts

Debt	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Capital expenditure
9,435.1	1,639.0	1,025.5	394.5	1,239.5	1,277.5	1,104.0

Sources: S&P Global Ratings, company data.

Ratings Score Snapshot

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-

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral
- **Liquidity:** Adequate
- **Management and governance:** Satisfactory
- **Comparable rating analysis:** Neutral

Stand-alone credit profile : a-

- **Group credit profile:** bbb+
- **Entity status within group:** Insulated (no impact)

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

Business Risk Profile	Financial 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 3, 2020)*

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+

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Ratings Detail (As Of April 3, 2020)*(cont.)	
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 LP	
Issuer Credit Rating	BBB+/Stable/NR
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.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

S&P Global
Ratings

RatingsDirect®

Enbridge Gas Inc.

Primary Credit Analyst:
Andrew Ng, Toronto + 1 (416) 507 2545; andrew.ng@spglobal.com

Secondary Contact:
Obioma Ugboaja, New York + 1 (212) 438 7406; obioma.ugboaja@spglobal.com

Research Contributor:
Debadrita Mukherjee, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

Table Of Contents

Credit Highlights

Outlook

Our Base-Case Scenario

Company Description

Peer comparison

Business Risk

Financial Risk

Liquidity

Environmental, Social, And Governance

Group Influence

Issue Ratings - Subordination Risk Analysis

Ratings Score Snapshot

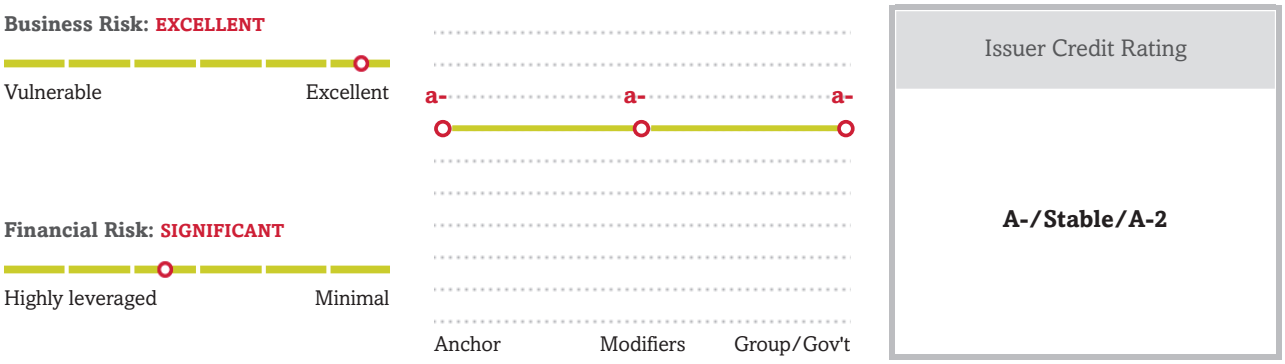
THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Table Of Contents (cont.)

Related Criteria

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Enbridge Gas Inc.



Credit Highlights

Overview

Key strengths	Key risks
Enbridge Gas Inc. (EGI) is a low-risk rate-regulated natural gas distribution and transmission company.	EGI operates only in Ontario, hence limited geographic and regulatory diversification.
About two-thirds of EGI's distribution revenue comes from residential and small business customers, providing stable cash flows.	Negative discretionary cash flow, indicating external funding needs.
Commodity costs are passed through to customers and recovered through quarterly adjustment mechanism, limiting EGI's exposure to commodity risk.	

COVID-19 has had a modest impact on EGI's operations and cash flow so far. We don't expect the pandemic to have a persistent material effect on Enbridge Gas Inc.'s (EGI's) financial measures. EGI's financial performance has been in line with our expectation with funds from operation (FFO) to debt of about 11% for the 12 months ending Sept. 30, 2020. In addition, in March 2020, EGI's regulator, Ontario Energy Board (OEB), established deferral accounts for utilities to track incremental costs and lost revenues related to COVID-19. This allows EGI to potentially recover lost revenue, incremental expenses, or costs relating to bad debt expenses subject to OEB approval but is likely to result in cash flow volatility and lag for EGI in the short term. In addition, decrease in gas consumption from large commercial and industrial customers as a result of the pandemic is partially offset by increase in consumption from the higher margin residential segment. Furthermore, the company's synergies realization from the amalgamation of Enbridge Gas Distribution Inc. and Union Gas Limited in 2019 also help to support financial measures.

Large capital spending plan over the outlook period. EGI continues to have large capital expenditures through the 2021-2022 outlook period that is about 1.8x its depreciation cost, which could pressure credit metrics and can lead to higher execution risks, including completing its key capital projects on time and within its budget.

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

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Outlook

The stable outlook on EGI reflects S&P Global Ratings' expectation that the company will continue to focus on and generate stable and predictable cash flows from its regulated gas distribution operation. We also expect EGI will execute its integration plans from the amalgamation and capital programs on time and on budget leading to FFO to debt of about 11%-12% during our two-year outlook period.

The stable outlook also reflects our view that Enbridge Inc. (Enbridge), the parent, will maintain FFO to debt in the 15%-17% range through 2022. Furthermore, the stable outlook on EGI reflects our expectation that both the utility's insulation features and Enbridge's strategy to preserve the utilities' credit strength will not change.

Downside scenario

We could lower the ratings on EGI if the utility's financial measures deteriorate, with FFO to debt approaching 10% with no prospects of improvement.

Alternatively, we could lower the rating on EGI if we lower our ratings on Enbridge. This could happen if Enbridge's consolidated adjusted FFO to debt stays below 13% or debt to EBITDA is sustained above 5x.

Upside scenario

Although unlikely, we can upgrade EGI over the next 18-24 months if we also upgrade Enbridge, and if EGI's stand-alone credit profile (SACP) indicates a higher SACP.

EGI could warrant a higher SACP if it improves its financial measures with FFO to debt consistently above 13%. An upgrade at the parent level would require Enbridge to maintain FFO to debt above 17% and adjusted debt to EBITDA of about 4x while maintaining its current level of asset mix and cash-flow stability.

Our Base-Case Scenario

Assumptions

- No material persistent impact from the COVID-19 pandemic.
- Stable regulatory regime in Ontario with no material adverse regulatory decisions.
- EGI will primarily operate under inflation-indexed rates through 2023, before starting a new rate application cycle in 2024.
- The annual revenue increases through 2023 will be subject to a productivity stretch factor constraint of 0.3%, that reduces the annual revenue increases by the equivalent amount.
- All earnings in excess of 150 basis points over the OEB-approved return on equity will be shared equally between EGI and its ratepayers.
- EGI will earn close to its authorized return on equity.
- EGI will maintain its deemed capital structure of 64%/36% debt to equity.
- Natural gas cost and the federal carbon levy remain a pass through to ratepayers.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

- Capital expenditure of about C$1.1 billion-C$1.6 billion in each of 2020 and 2022.
- Dividends of about C$450 million in 2020 and C$200 million in each of 2021 and 2022.

Key Metrics

	2019a	2020e	2021f
FFO to debt (%)	13.1	11-12	11-12
FFO cash interest coverage (x)	4.2	3.5-4.0	3.5-4.0

a--Actual. e--Estimate. f--Foremost. FFO--Funds from operations.

Company Description

EGI operates as a rate-regulated natural gas distribution utility company in Ontario, Canada. 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

Table 1

Enbridge Gas Inc.--Peer Comparison

Industry Sector: Gas

	Enbridge Gas Inc.	CU Inc.	Energir Inc.	Washington Gas Light Co.
Ratings as of Jan. 11, 2021	A-/Stable/A-2	A-/Stable/A-2	A/Stable	A-/Stable/A-2
	--Fiscal year ended Dec. 31, 2019--	--Fiscal year ended Dec. 31, 2019--	--Fiscal year ended Sept. 30, 2020--	--Fiscal year ended Dec. 31, 2019--
(Mil. Mix curr.)	C$	C$	C$	$
Revenue	5,075.0	2,787.0	2,569.3	1,330.7
EBITDA	1,639.0	1,557.0	786.4	333.5
Funds from operations (FFO)	1,239.5	1,178.5	685.4	254.3
Interest expense	394.5	389.7	163.5	75.3
Cash interest paid	387.5	384.5	163.8	63.6
Cash flow from operations	1,277.5	1,155.5	278.2	202.8
Capital expenditure	1,104.0	936.0	680.3	433.0
Free operating cash flow (FOCF)	173.5	219.5	(402.1)	(230.1)
Discretionary cash flow (DCF)	(1,076.5)	(171.0)	(872.4)	(359.0)
Cash and short-term investments	77.0	71.0	153.7	17.1
Debt	9,435.1	8,371.4	4,702.1	1,852.0
Equity	10,004.0	4,853.0	2,169.8	1,572.2

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Table 1

Enbridge Gas Inc.--Peer Comparison (cont.)

Adjusted ratios				
EBITDA margin (%)	32.3	55.9	30.6	25.1
Return on capital (%)	5.3	8.3	6.4	5.5
EBITDA interest coverage (x)	4.2	4.0	4.8	4.4
FFO cash interest coverage (x)	4.2	4.1	5.2	5.0
Debt/EBITDA (x)	5.8	5.4	6.0	5.6
FFO/debt (%)	13.1	14.1	14.6	13.7
Cash flow from operations/debt (%)	13.5	13.8	5.9	11.0
FOCF/debt (%)	1.8	2.6	(8.6)	(12.4)
DCF/debt (%)	(11.4)	(2.0)	(18.6)	(19.4)

Business Risk

Our assessment of EGI's business risk continues to reflect our view of the OEB's regulatory framework, which underpins the utility's predictable and steady cash flow. In our view, the regulatory process is transparent, consistent, and predictable. These factors collectively support EGI's timely recovery of prudently spent capital and operating expenses. In addition, the federal carbon levy is a flow through cost to customers and gas commodity costs are recovered through a quarterly adjustment mechanism from ratepayers, limiting EGI's exposure to commodity risk.

Further supporting our view is EGI's large customer base. EGI serves almost all of Ontario's gas distribution network with about 3.8 million of customers, most of whom are residential and small business customers. As such, we expect EGI's cash flows to remain stable. However, demand for natural gas in the residential customer class can vary due to weather-driven fluctuations that can result in some cash flow volatility. Our favorable view of EGI's business risk is slightly offset by the company's 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 relative to the typical industrial issuer. This reflects the company's lower-risk regulated gas distribution operation and effective management of regulatory risk. EGI has a large capital program--about 1.8x that of depreciation expense--that will result in negative discretionary cash flow and continually rely on external financing to fund its capital programs.

In response to the coronavirus pandemic, the OEB set up deferral accounts for utilities in early 2020, including EGI, to track incremental costs and lost revenues related to the pandemic for later disposition, subject to OEB review and approval. As a result, we expect there will be some cash flow volatility associated with EGI's financial measures for 2020.

Under our base-case scenario that includes a short-term impact from the pandemic and a stable regulatory

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

environment with no material adverse regulatory decisions, capital spending of about C$1.1 billion-C$1.6 billion in each of 2020 and 2022, and net dividend payments of about C$450 million in 2020 and about C$200 million in each of 2021 and 2022, we expect EGI's FFO to debt to be about 11%-12% in 2020 and 2022.

Financial summary

Table 2

Enbridge Gas Inc.--Financial Summary

Industry Sector: Gas

	--Fiscal year ended Dec. 31--		
	2019	**2018**	**2017**
(Mil. C$)			
Revenue	5,075.0	5,297.0	3,292.0
EBITDA	1,639.0	1,551.0	750.0
Funds from operations (FFO)	1,239.5	1,190.0	532.0
Interest expense	394.5	391.0	220.0
Cash interest paid	387.5	394.0	214.0
Cash flow from operations	1,277.5	1,725.0	558.0
Capital expenditure	1,104.0	1,288.0	794.0
Free operating cash flow (FOCF)	173.5	437.0	(236.0)
Discretionary cash flow (DCF)	(1,076.5)	(996.0)	(896.0)
Cash and short-term investments	77.0	17.0	20.0
Gross available cash	77.0	17.0	20.0
Debt	9,435.1	9,120.6	4,789.9
Equity	10,004.0	9,893.0	3,309.0
Adjusted ratios			
EBITDA margin (%)	32.3	29.3	22.8
Return on capital (%)	5.3	7.5	5.6
EBITDA interest coverage (x)	4.2	4.0	3.4
FFO cash interest coverage (x)	4.2	4.0	3.5
Debt/EBITDA (x)	5.8	5.9	6.4
FFO/debt (%)	13.1	13.0	11.1
Cash flow from operations/debt (%)	13.5	18.9	11.6
FOCF/debt (%)	1.8	4.8	(4.9)
DCF/debt (%)	(11.4)	(10.9)	(18.7)

Reconciliation

Table 3

Enbridge Gas Inc.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts

	--Fiscal year ended Dec. 31, 2019--						
Enbridge Gas Inc. reported amounts (mil. C$)							
	Debt	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Capital expenditure**
	9,763.0	1,632.0	994.0	388.0	1,639.0	1,277.0	1,109.0

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Table 3

Enbridge Gas Inc.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (cont.)

S&P Global Ratings' adjustments							
Cash taxes paid	--	--	--	--	(12.0)	--	--
Cash interest paid	--	--	--	--	(381.0)	--	--
Reported lease liabilities	46.0	--	--	--	--	--	--
Operating leases	--	7.0	1.5	1.5	(1.5)	5.5	--
Postretirement benefit obligations/deferred compensation	334.1	--	--	--	--	--	--
Accessible cash and liquid investments	(77.0)	--	--	--	--	--	--
Capitalized interest	--	--	--	5.0	(5.0)	(5.0)	(5.0)
Nonoperating income (expense)	--	--	30.0	--	--	--	--
Debt: Other	(631.0)	--	--	--	--	--	--
Total adjustments	(328.0)	7.0	31.5	6.5	(399.5)	0.5	(5.0)

S&P Global Ratings' adjusted amounts

	Debt	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Capital expenditure**
	9,435.1	1,639.0	1,025.5	394.5	1,239.5	1,277.5	1,104.0

Liquidity

In our assessment, EGI's liquidity is adequate. We expect liquidity sources will cover uses by more than 1.1x in the next 12 months. We also expect that in the event of a 10% EBITDA decline, the company's sources of funds would still exceed its uses. In our opinion, EGI has solid relationships with its banks and generally prudent financial risk management. In the event of unexpected financial stress, we believe the utility would scale back on its capital expenditures and has the flexibility to suspend dividend payments to preserve its liquidity.

Principal liquidity sources

- Cash of about C$10 million as of Sept. 30, 2020;
- Committed credit facilities availability of about C$2 billion; and
- Cash FFO of about C$1.2 billion.

Principal liquidity uses

- Debt maturities of about C$1.6 billion as of Sept. 30, 2020, including current portion of long-term debt and outstanding commercial paper;
- Maintenance capital spending of about C$370 million over the next 12 months; and
- Dividends of about C$260 million, net of ongoing group support.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Debt maturities

- 2021: C$375 million
- 2022: C$125 million
- 2023: C$350 million
- 2024: C$300 million

Environmental, Social, And Governance

We view EGI's exposure to environmental, social, and governance-related risks as similar to the broader industry. EGI is a natural gas utility distributor. For natural gas network operators, environmental risks include gas leaks and explosions and emission of greenhouse gases (GHG), which can affect biodiversity. We view EGI's environmental risk is consistent with the broader industry because the company continually monitors and replaces aging infrastructure to reduce the potential for gas leaks and explosions. In addition, the company also participates in the federal government's carbon levy program, to offset its GHG footprint in its gas distribution operations. Furthermore, the company recently launched a pilot initiative to blend renewable hydrogen gas into existing EGI natural gas network in an effort to reduce GHG.

From a social perspective, EGI has a history of providing safe and reliable natural gas to its customers, which should enable it to maintain social cohesion. Governance factors are neutral. In our view, EGI's board is capably engaged in risk oversight on behalf of all stakeholders.

Group Influence

We view EGI as an insulated subsidiary within the Enbridge group. Specifically reflecting our views that EGI is incorporated as separate legal entity with financial performance and funding that are highly independent from the group, including issuing long- and short-term debt, maintaining its own separate credit facilities, and not commingling its funds, assets, or cash flows with the rest of the group. In addition, there is a strong economic basis for Enbridge to preserve EGI's credit strength, and we do not expect a default of the other group entities within Enbridge to directly lead to a default at EGI.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of Sept. 30, 2020, EGI's capital structure consists of about C$970 million of short-term debt, including outstanding commercial paper and about C$9.4 billion of senior unsecured long-term debt.

Analytical conclusions

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

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Ratings Score Snapshot

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-

Modifiers

- **Diversification/portfolio effect:** Neutral
- **Capital structure:** Neutral
- **Financial policy:** Neutral
- **Liquidity:** Adequate
- **Management and governance:** Satisfactory
- **Comparable rating analysis:** Neutral

Stand-alone credit profile : a-

- **Group credit profile:** bbb+
- **Entity status within group:** Insulated (no impact)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Business And Financial Risk Matrix

Business Risk Profile	Financial 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 January 19, 2021)*

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/--

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Ratings Detail (As Of January 19, 2021)*(cont.)	
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 LP	
Issuer Credit Rating	BBB+/Stable/NR
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.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

S&P Global
Ratings

RatingsDirect®

Enbridge Gas Inc.

Primary Credit Analyst:
David S De Juliis, Toronto; david.de.juliis@spglobal.com

Secondary Contact:
Obioma Ugboaja, New York + 1 (212) 438 7406; obioma.ugboaja@spglobal.com

Table Of Contents

Credit Highlights

Outlook

Our Base-Case Scenario

Company Description

Peer Comparison

Business Risk

Financial Risk

Liquidity

Environmental, Social, And Governance

Group Influence

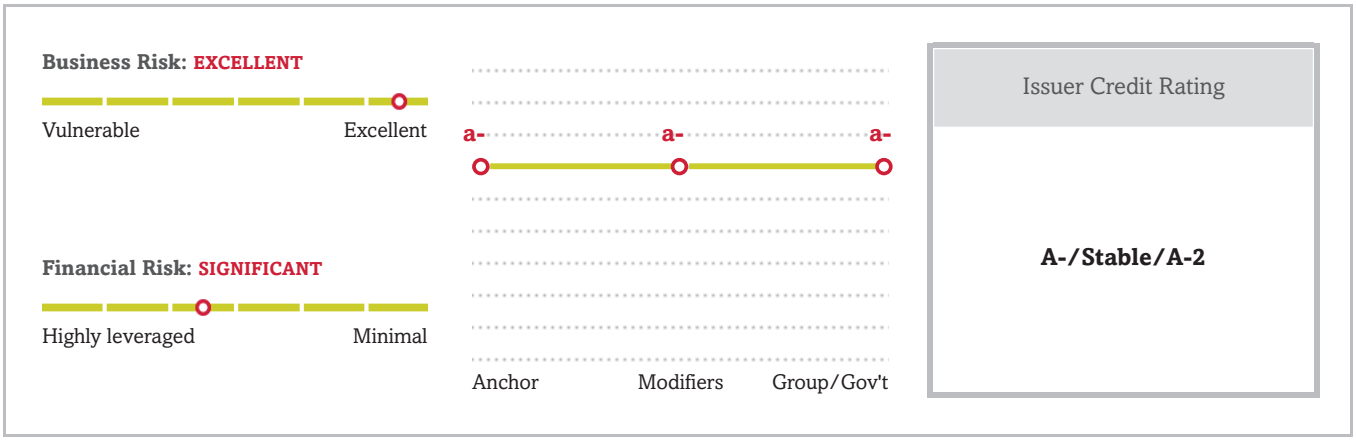
Issue Ratings--Subordination Risk Analysis

Ratings Score Snapshot

Related Criteria

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Enbridge Gas Inc.



Credit Highlights

Overview

Key strengths	Key risks
Enbridge Gas Inc. (EGI) is a low-risk, rate-regulated natural gas distribution and transmission company.	EGI operates only in Ontario and therefore has limited geographic and regulatory diversification.
About two-thirds of EGI's distribution revenue comes from residential and small business customers, providing stable cash flows.	EGI has negative discretionary cash flow linked with increasing capital expenditure activities, indicating external funding needs.
Commodity costs are passed through to customers and recovered through a quarterly adjustment mechanism, limiting EGI's exposure to commodity risk.	

We expect EGI's financial measures to remain within its financial risk profile category through 2023. This includes a projected funds from operations (FFO) to debt ratio of about 11% through 2023. In addition, we anticipate EGI's capital expenditures to remain elevated during 2022, largely reflecting new customer connections and system replacement projects such as the Lake Shore and St. Laurent natural gas pipeline replacement projects.

Additionally, as in prior years, we expect in 2022 EGI will realize positive synergies from the amalgamation of Enbridge Gas Distribution Inc. (EGD) and Union Gas Ltd. (Union Gas), by continuing to integrate operations and optimizing storage and transmission assets.

Large capital spending primarily results in negative discretionary cash flow over our outlook period. EGI continues to have large capital expenditures through the 2022-2023 outlook period. They are about 2x its depreciation cost, which we expect will lead to negative discretionary cash flow over our forecast period, resulting in external funding needs.

EGI lacks geographic and regulatory diversity. EGI operates only in Ontario. It is the largest gas distributor in Ontario and serves virtually all of Ontario with approximately 3.8 million residential, commercial, and industrial customers. However, compared with other utilities, EGI lacks geographic and regulatory diversity, making it reliant on the Ontario Energy Board (OEB) and its regulation to sustain its credit quality.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Outlook

The stable outlook on EGI reflects S&P Global Ratings' expectation that the company will continue to focus on and generate stable and predictable cash flows from its regulated gas distribution operation. We expect that EGI will continue to benefit from modest growth in new customers, the integration of EGD and Union Gas operations and assets, and the timely and on-budget completion of capital programs. This leads to estimated FFO to debt of 11%-12% during our two-year outlook period.

The stable outlook also reflects our view that Enbridge Inc. (Enbridge), the parent, will maintain FFO to debt of 15%-17% in 2022. Furthermore, the stable outlook on EGI reflects our expectation that both the utility's insulation features and Enbridge's strategy to preserve the utilities' credit strength will not change.

Downside scenario

We could lower the ratings on EGI if the utility's financial measures deteriorate, with FFO to debt approaching 10% with no prospects of improvement.

Alternatively, we could lower the ratings on EGI if we lower our ratings on Enbridge. This could happen if Enbridge's consolidated adjusted FFO to debt falls below 13% or debt to EBITDA is sustained above 5x.

Upside scenario

Although unlikely, we could upgrade EGI over the next 18-24 months if we also upgrade Enbridge, and if EGI's stand-alone credit profile (SACP) indicates a higher SACP.

EGI could warrant a higher SACP if it improves its financial measures with FFO to debt consistently above 13%. An upgrade at the parent level would require Enbridge to maintain FFO to debt above 17% and adjusted debt to EBITDA of about 4x while maintaining its current level of asset mix and cash-flow stability.

Our Base-Case Scenario

Assumptions

- Stable and predictable cash flows from its regulated gas distribution operation, also benefiting from modest new customer growth.
- Stable regulatory regime in Ontario with no material adverse regulatory decisions.
- EGI will primarily operate under inflation-indexed rates throughout 2022 and 2023, before starting a new rate application cycle in 2024.
- The annual revenue increases through 2023 will be subject to a productivity stretch factor constraint of 0.3%, which reduces the annual revenue increases by the equivalent amount.
- All earnings exceeding 150 basis points over the OEB-approved return on equity will be shared equally between EGI and its ratepayers.
- EGI will earn close to its authorized return on equity.
- EGI will operate at or close to its authorized capital structure of 64%/36% debt to equity for the duration of the

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

outlook period.

- Natural gas cost and the federal carbon levy remain a pass-through to ratepayers.
- Annual capital expenditure estimated to be about C$1.4 billion to C$1.6 billion between 2022 and 2024.
- Dividends of about C$200 million in 2021 and estimated to range from C$525 to C$575 million in each of 2022, 2023, and 2024.

Key metrics

	--Fiscal year end Dec. 31 --			
	2019a	**2020a**	**2021e**	**2022f**
FFO to debt (%)	13.1	11.3	11-12	11-12
FFO cash interest coverage (x)	4.2	3.9	4.0-4.5	4.0-4.5

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Company Description

EGI operates as a rate-regulated natural gas distribution utility company in Ontario, Canada. 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

Table 1

Enbridge Gas Inc.--Peer Comparison

Industry Sector: Gas

	Enbridge Gas Inc.	**CU Inc.**	**Energir Inc.**	**Washington Gas Light Co.**
Ratings as of Jan. 24, 2022	A-/Stable/A-2	A-/Stable/A-2	--/--/--	A-/Stable/A-2
	--Fiscal year ended Dec. 31, 2020--	**--Fiscal year ended Dec. 31, 2020--**	**--Fiscal year ended Sep. 30, 2021--**	**--Fiscal year ended Dec. 31, 2020--**
(Mil.)	**C$**	**C$**	**C$**	**$**
Revenue	4,515.0	2,730.0	2,434.2	1,234.3
EBITDA	1,575.0	1,421.0	796.9	370.7
Funds from operations (FFO)	1,117.5	1,045.5	577.5	307.6
Interest expense	404.5	389.7	145.6	76.0
Cash interest paid	391.5	376.5	143.7	66.0
Cash flow from operations	1,204.5	1,058.5	438.8	226.9
Capital expenditure	1,180.0	782.0	581.5	389.8
Free operating cash flow (FOCF)	24.5	276.5	(142.7)	(162.9)

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Table 1

Enbridge Gas Inc.--Peer Comparison (cont.)				
Discretionary cash flow (DCF)	(1,225.5)	(149)	(668.2)	(262.9)
Cash and short-term investments	9.0	78.0	46.8	0.0
Debt	9,912.2	8,516.9	4,178.8	1,899.8
Equity	10,017.0	4,816.0	2,151.5	1,855.9
Adjusted ratios				
EBITDA margin (%)	34.9	52.1	32.7	30.0
Return on capital (%)	4.7	6.8	6.1	6.0
EBITDA interest coverage (x)	3.9	3.6	5.5	4.9
FFO cash interest coverage (x)	3.9	3.8	5.0	5.7
Debt/EBITDA (x)	6.3	6.0	5.2	5.1
FFO/debt (%)	11.3	12.3	13.8	16.2
Cash flow from operations/debt (%)	12.2	12.4	10.5	11.9
FOCF/debt (%)	0.2	3.2	(3.4)	(8.6)
DCF/debt (%)	(12.4)	(1.7)	(16.0)	(13.8)

N.M.--Not meaningful

Business Risk

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

Further supporting our view is EGI's large customer base. EGI serves almost all of Ontario's gas distribution network with about 3.8 million customers, most of whom are residential and small business customers. As such, we expect EGI's cash flows to remain stable. However, demand for natural gas in the residential customer class can vary due to weather-driven fluctuations that can result in some cash flow volatility. Our favorable view of EGI's business risk is slightly offset by the company's 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 relative to the typical industrial issuer. This reflects the company's lower-risk regulated gas distribution operation and effective management of regulatory risk. EGI has a large capital program--about 2x that of depreciation expense--that will result in negative discretionary cash flow and continually rely on external financing to fund its capital programs.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Under our base-case scenario, which includes a stable regulatory environment with no material adverse regulatory decisions, we expect capital spending of about C$1.3 billion-C$1.6 billion through 2022; net dividend payments of about C$200 million in 2021 and C$500-C$550 million in 2022 and 2023; and FFO to debt of about 11%-12% between 2021 and 2023.

Financial summary

Table 2

Enbridge Gas Inc.--Financial Summary

Industry Sector: Gas

	--Fiscal year ended Dec. 31--			
	2020	**2019**	**2018**	**2017**
(Mil. C$)				
Revenue	4,515.0	5,075.0	5,297.0	3,292.0
EBITDA	1,575.0	1,639.0	1,551.0	750.0
Funds from operations (FFO)	1,117.5	1,239.5	1,190.0	532.0
Interest expense	404.5	394.5	391.0	220.0
Cash interest paid	391.5	387.5	394.0	214.0
Cash flow from operations	1,204.5	1,277.5	1,725.0	558.0
Capital expenditure	1,180.0	1,104.0	1,288.0	794.0
Free operating cash flow (FOCF)	24.5	173.5	437.0	(236)
Discretionary cash flow (DCF)	(1,225.5)	(1,076.5)	(996.0)	(896)
Cash and short-term investments	9.0	77.0	17.0	20.0
Gross available cash	9.0	77.0	17.0	20.0
Debt	9,912.2	9,435.1	9,120.6	4,789.9
Equity	10,017.0	10,004.0	9,893.0	3,309.0
Adjusted ratios				
EBITDA margin (%)	34.9	32.3	29.3	22.8
Return on capital (%)	4.7	5.3	7.5	5.6
EBITDA interest coverage (x)	3.9	4.2	4.0	3.4
FFO cash interest coverage (x)	3.9	4.2	4.0	3.5
Debt/EBITDA (x)	6.3	5.8	5.9	6.4
FFO/debt (%)	11.3	13.1	13.0	11.1
Cash flow from operations/debt (%)	12.2	13.5	18.9	11.6
FOCF/debt (%)	0.2	1.8	4.8	(4.9)
DCF/debt (%)	(12.4)	(11.4)	(10.9)	(18.7)

N.M.--Not meaningful

Reconciliation

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Table 3

Enbridge Gas Inc.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts

	--Fiscal year ended Dec. 31, 2020--						
Enbridge Gas Inc. reported amounts (mil. C$)							
	Debt	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Capital expenditure**
	10,103	1,566	911	398	1,575	1,202	1,185
S&P Global Ratings' adjustments							
Cash taxes paid	--	--	--	--	(66.00)	--	--
Cash interest paid	--	--	--	--	(385.00)	--	--
Reported lease liabilities	53.00	--	--	--	--	--	--
Operating leases	--	9.00	1.53	1.53	(1.53)	7.47	--
Postretirement benefit obligations/deferred compensation	424.15	--	--	--	--	--	--
Accessible cash and liquid investments	(9.00)	--	--	--	--	--	--
Capitalized interest	--	--	--	5.00	(5.00)	(5.00)	(5.00)
Nonoperating income (expense)	--	--	11.00	--	--	--	--
Debt: Other	(659.00)	--	--	--	--	--	--
Total adjustments	(190.85)	9.00	12.53	6.53	(457.53)	2.47	(5.00)
S&P Global Ratings' adjusted amounts							
	Debt	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Capital expenditure**
	9,912	1,575	924	405	1,117	1,204	1,180

Liquidity

In our assessment, EGI's liquidity is adequate. We expect liquidity sources will cover uses by more than 1.1x in the next 12 months. We also expect that in the event of a 10% EBITDA decline, the company's sources of funds would still exceed its uses. In our opinion, EGI has strong relationships with its banks and generally prudent financial risk management. In the event of unexpected financial stress, we believe the utility would scale back on its capital expenditures and has the flexibility to suspend dividend payments to preserve its liquidity.

Principal liquidity sources

- Cash of about C$8 million as of Sept. 30, 2021;
- Committed credit facilities availability of about C$2 billion;
- Cash FFO of about C$1.2 billion; and
- Working capital inflows of about C$31 million.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Principal liquidity uses

- Debt maturities of about C$1.51 billion as of Sept. 30, 2021;
- Assumed maintenance capital spending of about C$1.0 billion over the next 12 months; and
- Net dividends of about C$444 million.

Debt maturities

- 2022: C$125 million
- 2023: C$350 million
- 2024: C$300 million
- 2025: C$745 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 Indicators: Definition And Applications," published Oct. 13, 2021.

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

Group Influence

We view EGI as an insulated subsidiary within the Enbridge group. This is because EGI is incorporated as separate legal entity with financial performance and funding that are highly independent from the group, including issuing long- and short-term debt, maintaining its own separate credit facilities, and not commingling its funds, assets, or cash flows with the rest of the group. In addition, there is a strong economic basis for Enbridge to preserve EGI's credit strength, and we do not expect a default of the other group entities within Enbridge to directly lead to a default at EGI.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of Sept. 30, 2021, EGI's capital structure consists of about C$1.21 billion of short-term debt in outstanding commercial paper and about C$9.7 billion of senior unsecured long-term debt.

Analytical conclusions

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

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

ICR on EGI.

Ratings Score Snapshot

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-

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)

Stand-alone credit profile : a-

- **Group credit profile:** bbb+
- **Entity status within group:** Insulated (no impact)

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-

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Modifiers

- Diversification/Portfolio effect: Neutral
- Capital structure: Neutral
- Financial policy: Neutral
- Liquidity: Adequate
- Management and governance: Satisfactory
- Comparable rating analysis: Neutral

Stand-alone credit profile: a-

- Group credit profile: bbb+
- Entity status within group: Insulated (no impact)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Business And Financial Risk Matrix

Business Risk Profile	Financial 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 February 1, 2022)*

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+

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Ratings Detail (As Of February 1, 2022)*(cont.)	
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
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.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

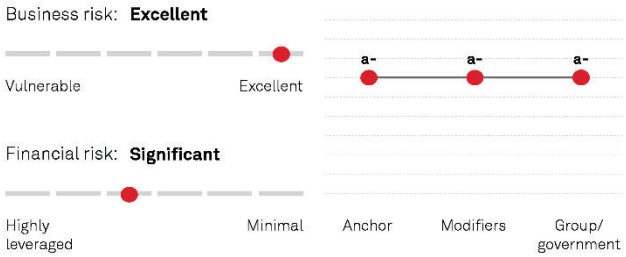
S&P Global
Ratings

RatingsDirect®

Enbridge Gas Inc.

July 21, 2022

Ratings Score Snapshot



PRIMARY CONTACT

David S De Juliis
Toronto
1-416-276-2610
david.de.juliis
@spglobal.com

SECONDARY CONTACT

Obioma Ugboaja
New York
1-212-438-7406
obioma.ugboaja
@spglobal.com

RESEARCH CONTRIBUTOR

Jesal K Gandhi
CRISIL Global Analytical Center,
an S&P Global Ratings affiliate
Mumbai

Credit Highlights

Overview

Key strengths	Key risks
Low-risk, rate-regulated natural gas distribution and transmission company.	Operates only in Ontario, thus it has limited geographic and regulatory diversity.
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 activities indicates external funding needs.
Passes 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 two-year outlook period.* This includes projected funds from operations (FFO) to debt of about 11% and dividends of about C$200 million through 2024. In addition, we anticipate EGI's capital expenditure will remain elevated at about C$1.6 billion during 2022, which largely reflects new customer connections and system replacement projects, such as the Lake Shore and St. Laurent natural gas pipeline replacement projects. The company's large 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.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

EGI continues to operate in a credit supportive regulatory framework as the Ontario Energy Board (OEB) recently approved its requested capital funding for 2022. In April 2022, the OEB issued its decision on phase 2 of the company's 2022 Rate Application addressing incremental capital module funding requirements, under which it approved C$127 million of EGI's requested capital funding. The approved capital funding was incorporated into the company's final rates and became effective on July 1, 2022. Phase 1 of EGI's 2022 Rate Application was approved in late 2021 and addressed the inflation-indexed price rate mechanism increase of 1.4% for its 2022 consumer rates.

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, and generate stable and predictable cash flows from, its regulated gas distribution operations. We also expect that the company will continue to benefit from modest growth in its new customers and the timely and on-budget completion of its capital programs. This leads us to forecast FFO to debt of 11%-12% during our two-year 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 2022 and 2023 before starting a new rate application cycle in 2024;

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

- Annual revenue increases through 2023 will be subject to a productivity stretch factor constraint of 0.3%, which reduces the annual revenue rise by the equivalent amount;
- All earnings exceeding 150 basis points over the OEB's approved return on equity will be shared equally between EGI and its ratepayers;
- EGI will earn close to its authorized return on equity;
- EGI will operate at or close to its authorized capital structure of 64%/36% debt to equity for the duration of the outlook period;
- The company continues to pass through its natural gas costs and the federal carbon levy to its ratepayers;
- Annual capital expenditure of about C$1.4 billion-C$1.6 billion between 2022 and 2024; and
- Annual dividends of about C$200 million in 2022, 2023, and 2024.

Key metrics

Enbridge Gas Inc. --Key Metrics*

	2021a	2022e	2023f
FFO to debt (%)	12.4	11-12	11-12
FFO cash interest coverage (x)	4.3	4.0-4.5	4.0-4.5
Debt to EBITDA (x)	6.2	6.0-6.5	6.0-6.5

*All figures 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, Canada. 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.	CU Inc.	Energir Inc.	Washington Gas Light Co.
Foreign currency issuer credit rating	A-/Stable/A-2	A-/Stable/A-2	A/Stable/--	A-/Stable/A-2
Local currency issuer credit rating	A-/Stable/A-2	A-/Stable/A-2	A/Stable/--	A-/Stable/A-2
Period	Annual	Annual	Annual	Annual
Period ending	2021-12-31	2021-12-31	2021-09-30	2021-12-31
Mil.	C$	C$	C$	C$

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Enbridge Gas Inc.--Peer Comparisons

Revenue	4,893	2,823	2,434	1,834
EBITDA	1,650	1,428	797	496
Funds from operations (FFO)	1,272	1,045	578	396
Interest	385	382	146	97
Cash interest paid	383	369	144	86
Operating cash flow (OCF)	739	1,011	439	402
Capital expenditure	1,373	994	581	599
Free operating cash flow (FOCF)	(634)	17	(143)	(197)
Discretionary cash flow (DCF)	(1,884)	(438)	(668)	(324)
Cash and short-term investments	9	121	47	0
Gross available cash	9	121	47	0
Debt	10,245	8,771	4,179	2,504
Equity	10,348	4,801	2,152	2,559
EBITDA margin (%)	33.7	50.6	32.7	27.0
Return on capital (%)	4.7	6.6	6.1	5.9
EBITDA interest coverage (x)	4.3	3.7	5.5	5.1
FFO cash interest coverage (x)	4.3	3.8	5.0	5.6
Debt/EBITDA (x)	6.2	6.1	5.2	5.1
FFO/debt (%)	12.4	11.9	13.8	15.8
OCF/debt (%)	7.2	11.5	10.5	16.1
FOCF/debt (%)	(6.2)	0.2	(3.4)	(7.9)
DCF/debt (%)	(18.4)	(5.0)	(16.0)	(12.9)

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.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Under our base-case scenario, which includes a stable regulatory environment with no material adverse regulatory decisions, we expect annual capital spending of about C$1.4 billion-C$1.6 billion, net dividend payments of about C$200 million annually, and FFO to debt of about 11%-12% between 2022 and 2024.

Debt maturities

- 2022: C$125 million;
- 2023: C$350 million;
- 2024: C$300 million;
- 2025: C$745 million; and
- 2026: C$650 million.

Financial Summary

Period ending	Dec-31-2019	Dec-31-2020	Dec-31-2021
Reporting period	2019a	2020a	2021a
Display currency (mil.)	CAD	CAD	CAD
Revenues	5,075	4,515	4,893
EBITDA	1,639	1,575	1,650
Funds from operations (FFO)	1,239	1,117	1,272
Interest expense	395	405	385
Cash interest paid	388	392	383
Operating cash flow (OCF)	1,277	1,204	739
Capital expenditures	1,104	1,180	1,373
Free operating cash flow (FOCF)	173	24	(634)
Discretionary cash flow (DCF)	(1,077)	(1,226)	(1,884)
Cash and short-term investments	77	9	9
Gross available cash	77	9	9
Debt	9,435	9,912	10,245
Common equity	10,004	10,017	10,348
Adjusted ratios			
EBITDA margin (%)	32.3	34.9	33.7
Return on capital (%)	5.3	4.7	4.7
EBITDA interest coverage (x)	4.2	3.9	4.3
FFO cash interest coverage (x)	4.2	3.9	4.3
Debt/EBITDA (x)	5.8	6.3	6.2
FFO/debt (%)	13.1	11.3	12.4
OCF/debt (%)	13.5	12.2	7.2
FOCF/debt (%)	1.8	0.2	(6.2)
DCF/debt (%)	(11.4)	(12.4)	(18.4)

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

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-31-2021									
Company reported amounts	10,993	10,348	4,893	1,642	965	376	1,650	740	200	1,380
Cash taxes paid	-	-	-	-	-	-	5	-	-	-
Cash interest paid	-	-	-	-	-	-	(374)	-	-	-
Lease liabilities	49	-	-	-	-	-	-	-	-	-
Operating leases	-	-	-	8	2	2	(2)	6	-	-
Postretirement benefit obligations/ deferred compensation	109	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(9)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	7	(7)	(7)	-	(7)
Nonoperating income (expense)	-	-	-	-	(5)	-	-	-	-	-
Debt: other	(897)	-	-	-	-	-	-	-	-	-
Total adjustments	(748)	-	-	8	(3)	9	(378)	(1)	-	(7)
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	10,245	10,348	4,893	1,650	962	385	1,272	739	200	1,373

Liquidity

We assess EGI's liquidity as adequate. We expect the company's liquidity sources will be more than 1.1x its uses over the next 12 months. We also expect that its net sources would remain positive even if its EBITDA declines by 10%. In our opinion, EGI has strong relationships with its banks and generally prudent financial risk management. In the event of unexpected financial stress, we believe the utility would scale back on its capital expenditure and suspend its dividend payments to preserve liquidity.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Principal liquidity sources

- Cash of about C$8 million as of March 31, 2022;
- Committed credit facility availability of about C$2 billion;
- Cash FFO of about C$1.2 billion; and
- Working capital inflows of about C$61 million.

Principal liquidity uses

- Debt maturities of about C$1.72 billion as of March 31, 2022;
- Assumed maintenance capital spending of about C$1.1 billion over the next 12 months; and
- Net dividends of about C$200 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

We view EGI as an insulated subsidiary in the Enbridge group. This is because EGI is incorporated as separate legal entity with a financial performance and funding that are highly independent from those of the group, including issuing long- and short-term debt, maintaining its own separate credit facilities, and not commingling its funds, assets, or cash flows with the rest of the group. In addition, there is a strong economic basis for Enbridge to preserve EGI's credit strength and we do not expect that a default at the other Enbridge group entities would directly lead to a default at EGI.

Issue Ratings--Subordination Risk Analysis

Capital structure

- As of March 31, 2022, EGI's capital structure comprised about C$1.60 billion of outstanding commercial paper and about C$9.4 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.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Enbridge Gas Inc.

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
- ARCHIVE | General Criteria: Group Rating 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
- ARCHIVE | Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, 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 21, 2022)*

Enbridge Gas Inc.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Canada National Scale Commercial Paper	A-1(LOW)

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Enbridge Gas Inc.

Ratings Detail (as of July 21, 2022)*

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
Senior Unsecured	BBB+
Texas Eastern Transmission L.P.	
Issuer Credit Rating	BBB+/Stable/--
Senior Unsecured	BBB+
Westcoast Energy Inc.	
Issuer Credit Rating	BBB+/Stable/--

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Ratings Detail (as of July 21, 2022)*

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.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

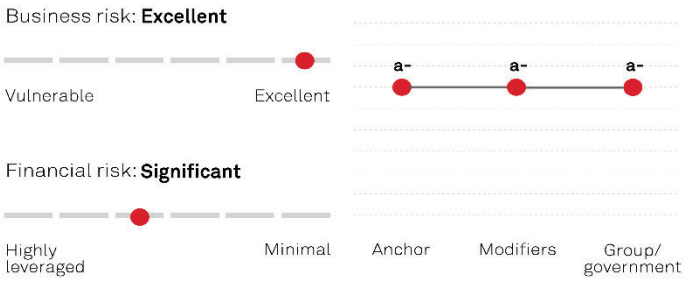
S&P Global
Ratings

RatingsDirect®

Enbridge Gas Inc.

July 14, 2023

Ratings Score Snapshot



A-/Stable/A-2

Issuer credit rating

Primary contact

David S De Juliis
Toronto
1-416-276-2610
david.de.juliis
@spglobal.com

Secondary contact

Obioma Ugboaja
New York
1-212-438-7406
obioma.ugboaja
@spglobal.com

Research contributor

Dhananjay Gaikwad
CRISIL Global Analytical Center, an S&P Global Ratings affiliate
Pune

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

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

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.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

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.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

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

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

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.

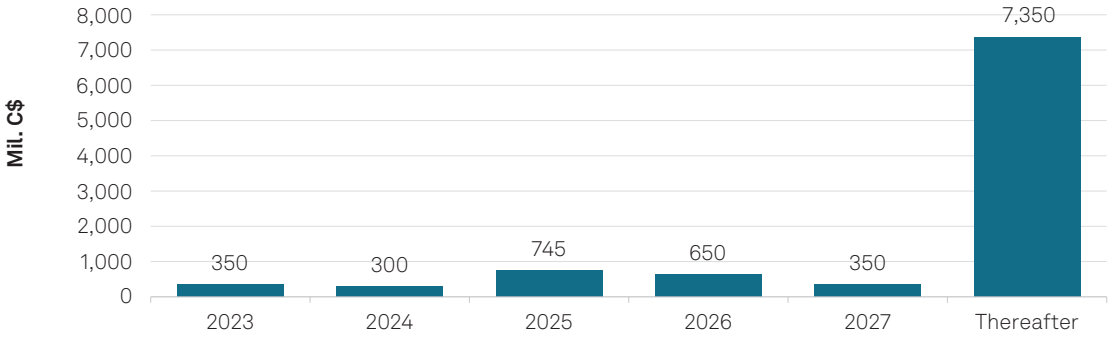
Financial Risk

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.

Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

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

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

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	-	-

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

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

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

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.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

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

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

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

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

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.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

S&P Global
Ratings

RatingsDirect®

Research Update:

Enbridge Gas Inc. Outlook Revised To Negative Following Outlook Revision On Parent; 'A-' Rating Affirmed

September 8, 2023

Rating Action Overview

- We revised our outlook on Ontario-based Enbridge Gas Inc. (EGI) to negative from stable following our recent outlook revision to negative from stable on its parent, Enbridge Inc. (Enbridge).
- We continue to assess EGI as having sufficient insulating measures in place to rate its issuer credit rating up to one notch above its parent.
- We affirmed our 'A-' issuer credit rating and 'A-2' short-term rating on EGI.
- At the same, we affirmed our 'A-' rating on EGI's senior unsecured debt and 'A-2' rating on its global commercial paper rating, which corresponds to an 'A-1(Low)' rating on the Canadian National scale.
- The negative outlook on EGI reflects the negative outlook on parent Enbridge and the likelihood that we would downgrade EGI if we downgrade Enbridge.

PRIMARY CREDIT ANALYST

David S De Juliis
Toronto
+1 (416) 276-2610
david.de.juliis
@spglobal.com

SECONDARY CONTACT

Obioma Ugboaja
New York
+ 1 (212) 438 7406
obioma.ugboaja
@spglobal.com

Rating Action Rationale

Our outlook revision on EGI to negative reflects the recent outlook revision on Enbridge to negative following the its announced acquisitions of three of Dominion Energy Inc.'s U.S. regulated gas utilities. On Sept. 6, we revised our outlook on Enbridge to negative from stable and affirmed our ratings on Enbridge. This followed the company's announcement that it had entered into definitive agreements with Dominion Energy Inc. to acquire The East Ohio Gas Co. d/b/a Dominion Energy Ohio, Questar Gas Co., and Public Service Co. of North Carolina, Inc. Our negative outlook on Enbridge reflects its minimal financial cushion in its credit metrics and the uncertainty regarding its financing plan. We rate EGI one notch higher than Enbridge, reflecting EGI's higher stand-alone credit profile and the cumulative value of the insulating measures in place. We assess the insulating measures as sufficient to rate EGI only up to one notch higher than Enbridge and accordingly a downgrade to Enbridge would result in a downgrade to EGI.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

We consider EGI as having sufficient insulating measures in place to rate its issuer credit rating one notch above Enbridge's group credit profile (GCP). The key insulating measures benefitting EGI 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.

We continue to assess EGI's business risk profile as excellent. This reflects the lower-risk nature of company's business, its effective regulatory risk management, and large size that is only partially offset by its limited regulatory diversity. Our view of the OEB's regulatory framework, which we believe to be transparent, consistent, and predictable, underpins EGI's steady and consistent cash flow. In addition, EGI's regulatory construct includes timely recovery of commodity costs, prudently spent capital, and operating expenses. Furthermore, the company has a large customer base, serving almost all of Ontario's gas distribution network with about 3.9 million customers, most of which are residential and small business customers.

We continue to assess EGI's financial risk profile as significant. We assess EGI's financial measures under our low volatility financial benchmark table, reflecting the company's low-risk regulated gas distribution operations and effective management of regulatory risk. Under our base-case scenario, which includes a stable regulatory environment with no material adverse regulatory decisions, annual capital spending that remains elevated at about C$1.5 billion to C$1.8 billion annually across our outlook period, and dividend payments that average about C$80 million annually, we expect EGI to generate funds from operations (FFO) to debt of 12%-13% between 2023 and 2025. Our base case also assumes negative discretionary cash flow over our forecast period, indicative of the company's external funding needs.

Outlook

The negative outlook on EGI reflects our negative outlook on its parent, Enbridge. We expect that EGI will continue to generate stable and predictable cash flows, such that its stand-alone FFO to debt will reflect 12%-13% through 2025.

Downside scenario

We could lower our ratings on EGI over the next 12 to 18 months if we lower our ratings on parent Enbridge or if EGI's stand-alone financial measures deteriorate, including FFO to debt consistently below 10%.

Upside scenario

We could affirm our ratings on EGI and revise the outlook to stable over the next 12 to 18 months if

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

we revise the outlook on parent Enbridge, with EGI maintaining stand-alone FFO to debt above 10%.

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 3.9 million customers.

Our Base-Case Scenario

- Stable and predictable cash flows from EGI's 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 cycle in 2024.
- EGI will earn close to its authorized return on equity.
- 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.
- Annual capital spending of C$1.5 billion to C$1.8 billion across the outlook period.

Liquidity

We assess EGI's liquidity as adequate, with liquidity sources covering liquidity uses by 1.1x over the coming 12 months, and that its sources will cover its uses even if forecasted EBITDA declines by 10%. We believe the predictable regulatory framework for EGI provides cash flow stability for the company even in times of economic stress, giving it the ability to absorb high-impact, low-probability events and 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 per year over the next three years) during periods of stress. Furthermore, our assessment reflects the company's sound relationships with its banking group, and a generally satisfactory standing in the credit markets (bond yields are in line with other investment-grade peer utilities). Overall, we believe the company will be able to withstand adverse market circumstances over the next 12 months with sufficient liquidity to meet its obligations.

Principal liquidity sources

- Cash balances of about C$9 million;
- Committed credit facility availability of C$2.5 billion; and
- Cash FFO of about C$1.36 billion.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Principal liquidity uses

- Long-term debt maturities of about C$350 million as of June 2023;
- Outstanding commercial paper of about C$850 million;
- Annual capital spending of about C$1.6 billion; and
- About C$26 million in dividend payments over the next 12 months.

Environmental, Social, And Governance

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

Issue Ratings - Subordination Risk Analysis

Capital structure

EGI's capital structure comprises about C$850 million 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.

Ratings Score Snapshot

Issuer credit rating: A-/Negative/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-

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: a-

- Group credit profile: bbb+
- Entity status within group: (Insulated)

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Enbridge Inc. Outlook Revised To Negative On Announced Acquisition Of Natural Gas Utilities; 'BBB+' Rating Affirmed, Sept. 6, 2023

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Enbridge Gas Inc.		
Issuer Credit Rating	A-/Negative/A-2	A-/Stable/A-2

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Issue-Level Ratings Affirmed

Enbridge Gas Inc.	
Senior Unsecured	A-
Commercial Paper (Canada National Scale)	A-1(LOW)
Commercial Paper	A-2

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

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

S&P Global
Ratings

RatingsDirect®

Research Update:

Enbridge Gas Inc. 'A-' Rating Affirmed; Outlook Remains Negative

June 28, 2024

Rating Action Overview

- On June 3, 2024, Enbridge Inc. announced that it had completed the acquisition of Questar Gas Co. On June 18, S&P Global Ratings revised the outlook on Enbridge to stable from negative and affirmed our ratings, including the 'BBB+' issuer credit rating.
- Our outlook on Enbridge subsidiary Enbridge Gas Inc. (EGI) remains negative, and we affirmed the 'A-' issuer credit rating and 'A-2' short-term rating.
- We continue to assess EGI as having sufficient insulating measures to rate it up to one notch above its parent.
- At the same, we affirmed our 'A-' rating on EGI's senior unsecured debt and 'A-2' rating on its global commercial paper, which corresponds to an 'A-1(low)' rating on the Canadian national scale.
- The negative outlook reflects the uncertainty around upcoming regulatory outcomes related to EGI's gas utility operations and the potential for increased business risk from the energy transition.

PRIMARY CREDIT ANALYST

Shiny A Rony
Toronto
+1-437-247-7036
shiny.rony
@spglobal.com

SECONDARY CONTACT

Gerrit W Jepsen, CFA
New York
+ 1 (212) 438 2529
gerrit.jepsen
@spglobal.com

Rating Action Rationale

Our negative outlook on EGI reflects the potential for a gradual increase in its business risk given the Ontario Energy Board's (OEB) view on the future of gas local distribution companies in Ontario. In 2022, EGI filed an application with OEB to set new rates for 2024-2028. OEB addressed this in two phases: phase 1 to primarily establish 2024 rates, and phase 2 primarily establish rates for 2025-2028. In December 2023, OEB issued an order on the phase 1 application, which included a reduced capital budget, revised depreciation rate, excluding undepreciated capital costs related to integration capital from the 2024 rate base, reduced customer revenue horizon associated with new natural gas connections for small commercial and residential developments from 40 years to zero, and determination of equity thickness at 38%. The order stated that the energy transition poses a risk and that gas assets used to serve existing and new EGI customers run the risk of becoming stranded.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

In January 2024, EGI filed a notice of motion with OEB, requesting review of certain aspects of the decision. While the outcome of this appeal is uncertain, OEB's order suggested higher operating risk for EGI. Additionally, in May 2024, the Government of Ontario passed a legislation which effectively reversed OEB's decision related to the customer revenue horizon period, allowing EGI to continue to add new customers.

OEB is scheduled to address phase 2 this year to establish the incentive rate-making mechanism. While EGI has taken adequate measures to trim costs and capital spending in 2024, the impact of OEB's regulatory decisions on EGI's business long-term is uncertain. We expect more clarity during phase 2 and notice of motion proceedings.

We continue to assess EGI's business risk profile as excellent. This reflects the low-risk nature of the company's business, effective regulatory risk management, and large size that is partially offset by its limited regulatory diversity. Our view of OEB's regulatory framework, which we believe to be transparent, consistent, and predictable, underpins EGI's steady and consistent cash flow. Largely, we believe that regulatory support remains credit supportive, given the approval of 2024 rates and the increase of equity thickness to 38% from 36%. EGI's regulatory construct includes timely recovery of commodity costs, prudently spent capital, and operating expenses.

The company has a large customer base, serving almost all of Ontario's gas distribution network with about 3.9 million customers, most of which are residential and small business customers.

We continue to assess EGI's financial risk profile as significant. We use our low-volatility financial benchmark table, reflecting the company's low-risk regulated gas distribution operations and effective management of regulatory risk. Our base-case scenario includes a stable regulatory environment with no material adverse regulatory decisions, annual capital spending remains elevated at about C$1.3 billion-C$1.5 billion annually through 2026, and dividend payments averaging about C$130 million annually through 2026. We expect funds from operations (FFO) to debt of 11%-13% between 2024 and 2026. Our base case also assumes a discretionary cash flow deficit over our forecast period, indicating external funding needs.

Outlook

The negative outlook on EGI over the next 12 months reflects the uncertainty around upcoming regulatory outcomes related to EGI's gas utility operations and the potential for increased business risk from the energy transition. OEB believes this is underway, creating a risk of stranded assets for EGI, which could impede EGI's long-term capital spending initiatives, indicating higher business risk. Our base case assumes stand-alone FFO to debt will remain 11%-13% through 2026.

Downside scenario

We could lower our ratings on EGI over the next 12 months if:

- Stand-alone financial measures deteriorate, including FFO to debt consistently below 10%; or
- Business risk increases from adverse regulatory developments or elevated risk concerning OEB's view of the long-term prospects for capital investment in the Ontario gas utility business.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Upside scenario

We could affirm our ratings on EGI and revise our outlook to stable over the next 12 months if:

- EGI maintains stand-alone FFO to debt above 10%, with no increase in business risk; and
- There is a clear indication of OEB's long-term support for the Ontario gas business.

Company Description

EGI operates as a rate-regulated natural gas distribution, storage, and transmission utility in Canada. Its distribution system carries natural gas from the point of local supply to customers and consists of approximately 151,000 kilometers of main and service pipelines, as well as 3,800 kilometers of high-pressure transmission pipelines and five mainline compressor stations. The company distributes natural gas to approximately 3.9 million residential, commercial, and industrial heating customers in Ontario. It also provides natural gas storage and transportation services. The company was founded in 1848 and is headquartered in North York, Ontario. EGI operates as a subsidiary of Enbridge.

Our Base-Case Scenario

- Stable and predictable cash flow from EGI's regulated gas distribution operations and modest new customer growth.
- A stable regulatory regime in Ontario with no material adverse regulatory decisions.
- EGI earning close to its authorized return on equity.
- EGI operating at or close to its authorized capital structure across the outlook period.
- Continuing to pass through natural gas costs to ratepayers.
- Annual capital spending of C$1.3 billion-C$1.5 billion through 2026.

Liquidity

We base the 'A-2' short-term rating on our long-term issuer credit rating on EGI. We assess EGI's liquidity as adequate, with sources covering uses by 1.1x in the coming 12 months, and that sources will cover uses even if forecast EBITDA declines 10%.

We believe the predictable regulatory framework provides cash flow stability even in economic stress, giving it the ability to absorb high-impact, low-probability events and supporting our use of slightly lower thresholds to assess liquidity. EGI maintains $2.5 billion in committed credit facilities through July 2025. We believe the company can reduce capital spending (averaging about C$1.4 billion per year over the next three years) during stress.

Furthermore, our assessment reflects sound relationships with its banking group and a generally satisfactory standing in the credit markets. Overall, we believe EGI will be able to withstand adverse market circumstances over the next 12 months with sufficient liquidity to meet its obligations. We expect EGI to manage upcoming long-term debt maturities and refinance well in advance of scheduled due dates.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Principal sources of liquidity:

- Cash balances of about C$10 million;
- Committed credit facility availability of C$2.5 billion; and
- Cash FFO of about C$1.35 billion.

Principal uses of liquidity:

- Long-term debt maturities over the next 12 months of about C$635 million, as of March 2024;
- Working capital outflow of about C$10 million;
- Capital spending of about C$1.3 billion; and
- Dividend payments of about C$40 million over the next 12 months.

Environmental, Social, And Governance

Environmental factors are a negative consideration in our credit rating analysis of EGI, reflecting energy transition risk. We believe that EGI could likely face a gradual increase in business risk given OEB's long-term view on the future of gas local distribution companies.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of March 31, 2024, EGI's capital structure consists of about C$335 million of commercial paper outstanding and C$10.6 billion of long-term debt.

Analytical conclusions

We rate EGI's senior unsecured debt 'A-', the same as our issuer credit rating on EGI, because the debt is issued by a qualifying investment-grade regulated utility.

Ratings Score Snapshot

Issuer credit rating: A-/Negative/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-

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Neutral (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: a-

- Group credit profile: bbb+
- Entity status within group: Core (insulated)

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Enbridge Inc. Outlook Revised To Stable From Negative On Close Of Acquisitions, Financing; Ratings Affirmed, June 18, 2024

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Ratings List

Ratings Affirmed	
Enbridge Gas Inc.	
Issuer Credit Rating	A-/Negative/A-2
Enbridge Gas Inc.	
Senior Unsecured	A-
Commercial Paper	A-1(LOW)
Commercial Paper	A-2

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 criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

THIS WAS PREPARED EXCLUSIVELY FOR USER ANDREW WU.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Rating Report

Ontario Power Generation Inc.

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

Ravikanth Rai
+1 416 597 7388
rrai@dbrs.com

Insight beyond the rating.

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A (low)	Confirmed	Stable
Unsecured Debt	A (low)	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating Update

On April 5, 2019, DBRS Limited (DBRS) confirmed the Issuer Rating and the Unsecured Debt rating of Ontario Power Generation Inc. (OPG or the Company) at A (low) and the rating of the Company's Commercial Paper (CP) at R-1 (low). All trends are Stable. The ratings of OPG continue to be supported by (1) the reasonable regulatory regime in place for the Company's regulated generation facilities, (2) strong cash flow-to-debt and debt-to-capital ratios and (3) continuing financial support from its shareholder, the Province of Ontario (the Province; rated AA (low) with a Stable trend by DBRS). The Province, through its agent, the Ontario Electricity Financial Corporation (OEFC; rated AA (low) with a Stable trend by DBRS), provides most of OPG's financing (approximately 43% of consolidated debt). The Company's remaining debt includes project financing (31%), non-recourse debt issued by Fair Hydro Trust (Senior Notes rated AAA (sf), Under Review with Negative Implications by DBRS; 11%), CP (2%) and Senior Notes issued under the Medium Term Note Program (12%).

In March 2019, the Province introduced Bill 87, *Fixing the Hydro Mess Act, 2019*, which includes winding down the Fair Hydro Plan. OPG will remain the Financial Services Manager for the outstanding Fair Hydro Trust debt, which will become obligations of the Province. DBRS does not expect this development to have a material impact on the Company as (1) the Fair Hydro Trust debt will continue to be bankruptcy remote and ring-fenced from OPG (all debt is non-recourse to the Company) and (2) the credit rating on the Company's investment in the Subordinated Notes (rated AA (sf), Under Review with Negative Implications by DBRS) will likely remain investment grade while the Junior Subordinated Notes (rated A (sf), Under Review with Developing Implications by DBRS) will not necessarily be negatively affected by this change (see the DBRS press release dated March 26, 2019, titled "DBRS Maintains Fair Hydro Trust, Series 2018-1 and Series 2018-2 Notes Under Review" for more details).

OPG's key credit metrics improved in 2018, following the approval of its 2017–2021 rates application by the Ontario Energy Board (OEB) in December 2017. The Company's profitability strengthened significantly, with corporate return on equity (ROE) of 7.8% (adjusted for a $205 million gain on sale of property; 5.1% in 2017) closer to the regulatory allowed ROE of 8.78%. However, DBRS continues to view a positive rating action as unlikely in the short term because of the ongoing capex program, including the $12.8 billion Darlington Refurbishment project (the Darlington Refurbishment). A downgrade could occur should there be significant cost overruns with the Darlington Refurbishment that then result in stranded costs. DBRS notes that the Darlington Refurbishment is currently on budget and on schedule.

Financial Information

	For the year ended December 31				
	2018	2017	2016	2015	2014
Cash flow/Total debt 1, 2	45.0%	40.0%	40.6%	31.9%	28.7%
Total debt in capital structure 1, 2, 3	26.9%	26.2%	34.3%	35.8%	37.3%
EBIT gross interest coverage (times) 1, 2, 4	1.00	(0.24)	(0.14)	(0.86)	0.27
(Cash flow - n.w.f.)/Total debt 1, 2, 5	39.3%	33.7%	32.9%	25.4%	22.5%

1 Including operating leases. 2 Excludes non-recourse debt. 3 Adjusted for Accumulated Other Comprehensive Income. 4 Excluding earnings from nuclear fixed asset removal and nuclear waste management funds. 5 Includes nuclear waste funding (n.w.f.) payments as they are not discretionary.

Issuer Description

Ontario Power Generation is an electricity-generating company with a diverse portfolio of over 16,000 megawatts of in-service generating capacity. The Company is wholly owned by the Province of Ontario.

Rating Considerations

Strengths

1. Support of shareholder (the Province)

The Province indirectly provides OPG with a large portion of its long-term funding requirements through the OEFC, a government-financing arm for provincial power companies. However, this debt is not directly guaranteed by the Province. As at December 31, 2018, OPG had approximately $3.4 billion of notes payable to the OEFC, comprising 43% of the Company's outstanding debt. DBRS believes that the Province will continue to support its investment since OPG is a creation of the Province and is integral to fulfilling Ontario's energy needs. DBRS additionally believes that the Province will, in exceptional circumstances, provide support to OPG.

2. Dominant market position in Ontario

OPG's importance in Ontario is demonstrated by the fact that it is the primary electricity generator in the Province, accounting for approximately 50% of electricity produced in Ontario in 2018.

3. Reasonable regulatory framework

The reasonable regulatory framework has allowed the Company to recover prudently incurred costs; however, DBRS notes that the unsuccessful appeal of the OEB's decision to disallow labour compensation costs related to OPG's nuclear operations has increased uncertainty regarding the Company's ability to fully recover its nuclear cost through future regulated prices (refer to the Regulation section for details). DBRS also notes that, under an incentive rate (IR) framework, OPG's profitability could come under further pressure because of the need to meet efficiency and productivity benchmarks.

4. Limited nuclear waste management liabilities

As a result of the Ontario Nuclear Funds Agreement with the Province, OPG's exposure relating to nuclear waste management liabilities has been capped at $5.94 billion (in 1999 dollar terms) for the initial 2.23 million used fuel bundles produced. The Company is, however, responsible for the incremental costs related to the management of used fuel bundles in excess of 2.23 million bundles (currently 2.68 million). The used fuel obligation is funded by the used fuel fund, which is substantially fully funded. The Province provides a guarantee for any shortfall between the value of the nuclear fund and the Canadian Nuclear Safety Commission consolidated financial guarantee requirement.

Challenges

1. Significant capex program

OPG has a significant capex program underway (approximately $2.1 billion planned for 2019). The Company also faces significant execution risk as well as the potential for cost overruns associated with the Darlington Refurbishment because of the project's complexity and scale. DBRS expects that OPG will not undertake any major capex without having financing and a cost-recovery mechanism in place, thus minimizing financial risks.

2. Nuclear generation risks

Nuclear generation faces higher operating risks than other types of generation because of its complex technology (approximately 55% of OPG's production in 2018). Financial implications of forced outages, especially with older units (e.g., the Pickering Nuclear Generating Station (GS)), are greater given the high fixed-cost nature of these plants as well as the fact that lost revenues resulting from outages are not recoverable through rates.

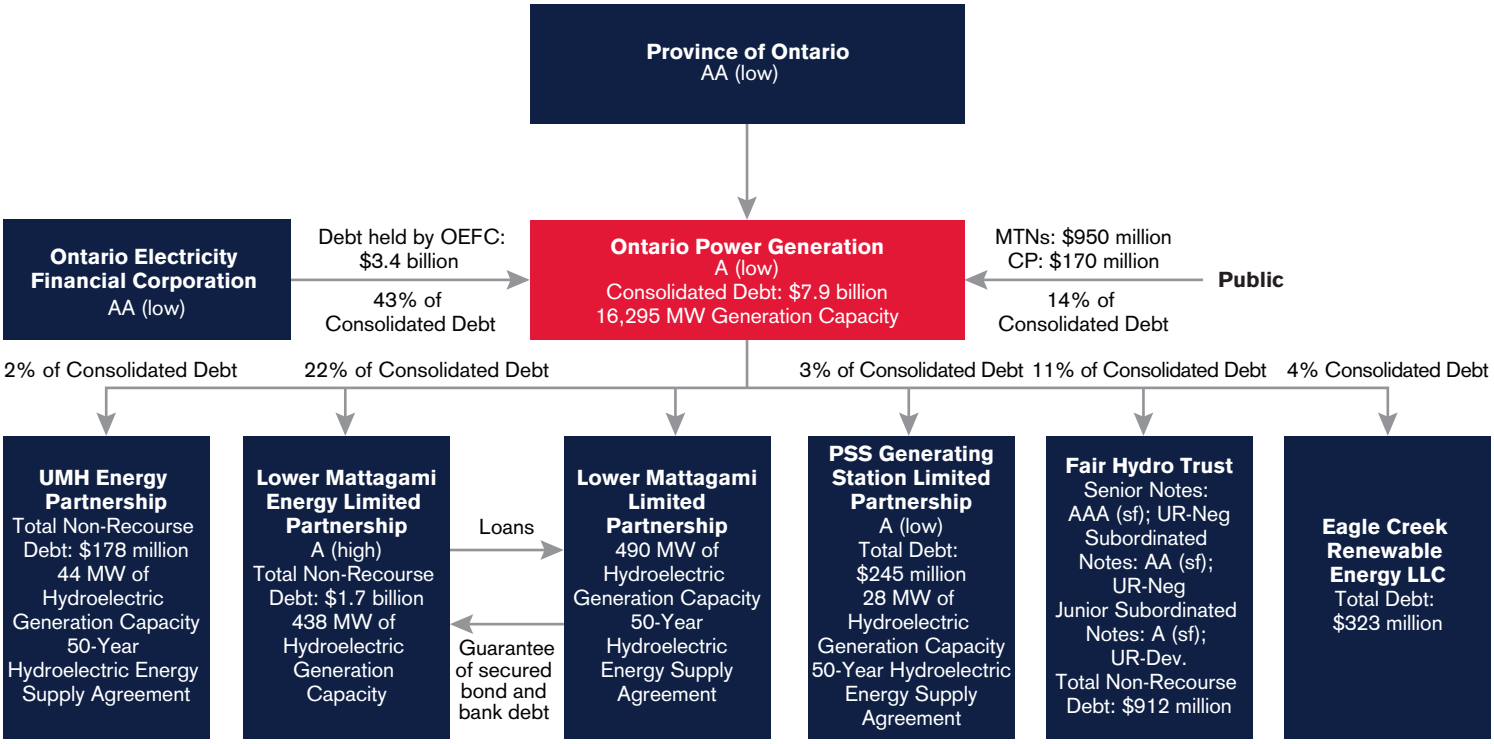
3. High cost base

OPG's high cost base has resulted in several disallowances by the OEB. For the most recent 2017–2021 rates decision, the OEB disallowed recovery of $100 million in the operations, maintenance and administration (OM&A) budget annually. DBRS believes that OPG's inability to fully recover compensation costs in future regulated prices could have a negative impact on earnings and affect the Company's ability to achieve its approved ROE. DBRS notes that OPG has been combatting this issue through its cost-reduction and efficiency-improvement initiative, which has saved $1.0 billion through a reduction in headcount of over 2,800 since 2011.

4. Political intervention

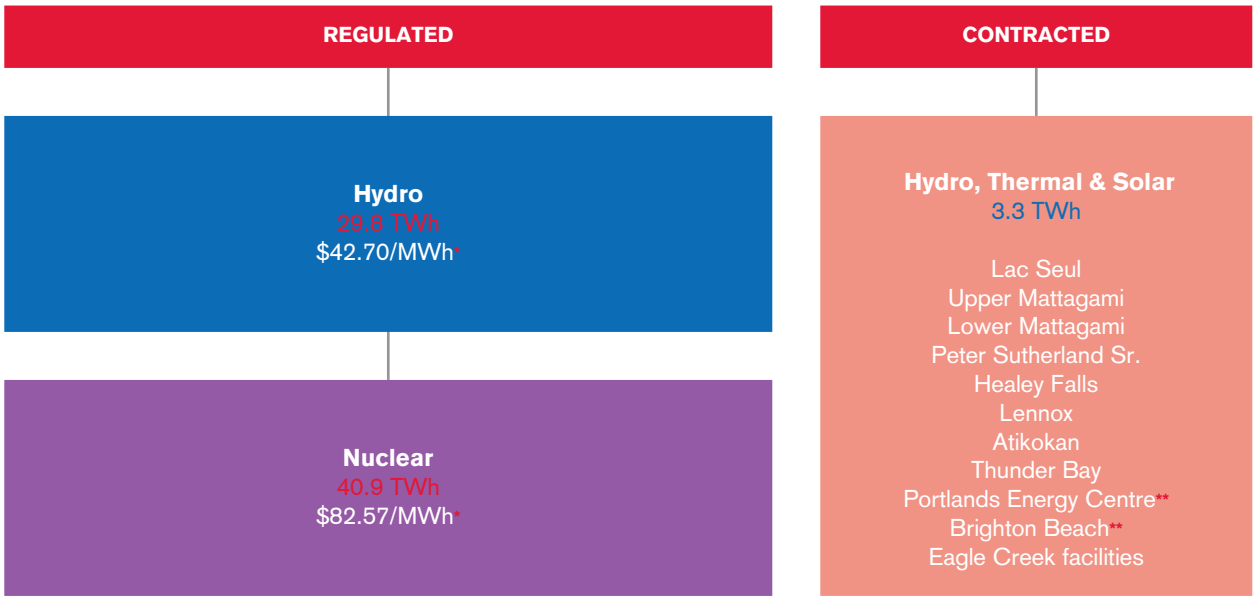
OPG is subject to political intervention, largely because of its ownership by the Province and changes in government mandates and policies. DBRS notes that though the Province has committed to having the Company run more autonomously, the risk of further government intervention still exists.

Simplified Organizational Chart



As of December 31, 2018.

OPG's Price Structure



* Rates as of December 31, 2018.
** 50% ownership interest.

For the year ended December 31, 2018.

OPG's Price Structure (CONTINUED)

- OPG sells electricity to consumers through the IESO.
- Regulated facilities sell at rates set by the OEB, which could include rate riders used for the recovery of nuclear deferral and hydroelectric variance account balances.
- The Contracted and Other Generation Portfolio includes (1) assets in Ontario that sell electricity at prices set through Energy Supply Agreements or other long-term contracts with the Independent Electricity System Operator (IESO); and (2) Eagle Creek Renewable Energy LLC (Eagle Creek), which holds interest in 76 hydroelectric GS and two solar facilities throughout the United States.
  - The Eagle Creek facilities either sell into the merchant market or operate under long-term energy or capacity supply contracts.

Major Projects

Project	Estimated Cost (CAD millions)	Spent as of Dec. 31, 2018 (CAD millions)	In-Service Target Date
Darlington Refurbishment	12,800	5,513	2026*
Ranney Falls Hydroelectric GS	77	57	2019
Nanticoke Solar Facility	107	89	2019**

* Four units with staged in-service. Last unit scheduled to be completed by 2026. ** Completed in March 2019.

- **Darlington Refurbishment:** The Darlington Refurbishment will extend the operating life of the Darlington Nuclear GS by approximately 30 years. The execution of the refurbishment for the first unit began in October 2016 and the last unit is scheduled to be completed by 2026. The project is currently on schedule and on budget.
- **Ranney Falls Hydroelectric GS:** The Ranney Falls Hydroelectric GS project will replace an existing generation unit at Ranney Falls with a ten megawatt (MW) single-unit powerhouse. Construction commenced in 2017 and is currently on schedule and on budget.
- **Nanticoke Solar Facility:** The Nanticoke Solar Facility is a 44 MW solar facility near the Nanticoke GS. Site preparation commenced in March 2018, with the project completed on schedule and on budget in March 2019.
- OPG additionally acquired Eagle Creek in November 2018 for USD 298 million. DBRS views the business risk profile of Eagle Creek to be weaker than OPG as it is not regulated and not all of its facilities operate under long-term contracts, resulting in higher volume and price risk. However, DBRS does not expect the acquisition to have a material impact on the Company's overall business and financial risk assessment as its 226 MW capacity represents only around 1% of OPG's total generating capacity.

Regulation

- OPG benefits from a reasonable regulated environment. As at December 31, 2018, approximately 75% of its installed in-service capacity is regulated.
- OPG, regulated by the OEB under the *Electricity Restructuring Act, 2004 (Ontario)*, is allowed to receive regulated prices for all electricity generated from its nuclear facilities (5,728 MW) as well as most of its hydroelectric power facilities (6,426 MW).
- In May 2016, OPG filed its application with the OEB for rates effective January 1, 2017. The OEB issued its decision in December 2017.
  - The OEB approved for rates to be effective June 1, 2017, rather than the applied-for effective date of January 1, 2017.
  - Capital structure will remain at 55% debt (the Company had requested a change to 51% debt) and an allowed ROE of 8.78%. The ROE will not be updated throughout the five-year term.
  - For hydroelectric facilities, the Price Cap IR methodology is used. Under Price Cap IR, rates for the hydroelectric facilities are subject to a formula price cap that allows for an annual increase in the payment amount based on inflation less productivity and a utility-specific stretch factor, which can be reset annually (productivity factor of 0%, stretch factor of 0.3%).
  - Under Price Cap IR, OPG could file an Incremental Capital Module application to potentially recover any material and

Regulation (CONTINUED)

necessary prudently spent incremental capex during the IR period of five years. Additionally, the Company could initiate a regulatory review of its application if actual ROE falls 300 basis points below the approved ROE.

– For nuclear facilities, OPG requested the use of a Custom IR methodology and a rate-smoothing deferral account. Under its Custom IR methodology, nuclear revenue requirements were determined by a five-year forecast cost-of-service approach, but with a stretch factor of 0.6% applied to the Company's OM&A expenditures. The reduction to OM&A costs as a result of the stretch factor will accumulate for the five-year period. The rate smoothing deferral account (as required under Ontario Regulation 53/05) will stabilize year-to-year changes to weighted-average payment amounts as the Darlington Refurbishment continues. OPG will defer a portion of its approved nuclear revenue requirements into the rate-smoothing deferral account and will be allowed to recover the deferred amount, and any amount to be deferred from 2022–2026, over a ten-year period once the Darlington Refurbishment has been completed.

  – The OEB reduced the nuclear OM&A budget by $100 million per year for a total of $500 million over five years. Additionally, the OEB did not approve for a mid-term review (prior to July 1, 2019) to update the nuclear production forecast.

  – The OEB approved for the inclusion of $5.5 billion into the rate base over the five-year period of the Custom IR for the Darlington Refurbishment. Any cost overruns will be subject to a prudence review before being added to the rate base.

  – The OEB also approved the recovery of balances as at December 31, 2015, in OPG's deferral and variance accounts.

• In December 2018 and February 2019, the OEB approved the Company's Application for 2019 Hydroelectric Payment Amount Adjustment and Recovery of Deferral and Variance Account Balances effective January 1, 2019.

  – The OEB approved a 1.1% base rate increase based on an inflation factor of 1.4%.

  – The OEB also approved for the recovery of balances as at December 31, 2017, in OPG's deferral and variance accounts.

Earnings and Outlook

	For the year ended December 31				
(CAD millions where applicable)	2018	2017	2016	2015	2014
Revenues	5,537	5,158	5,653	5,476	4,963
EBITDA 1	1,017	642	1,207	848	826
EBIT 1	233	(37)	(50)	(252)	72
Gross interest expense	301	296	298	293	300
Earning before taxes 1	225	(92)	(116)	(407)	36
Net income before non-recurring items 1	361	(14)	(106)	(271)	88
Reported net income	1,195	860	436	402	804
Return on equity	2.9%	-0.1%	-1.0%	-2.8%	1.0%
Hydroelectric rate base	N/A	N/A	7,447	7,490	7,526
Nuclear rate base	3,607	3,628	3,573	3,655	3,714
Approved regulated ROE	8.78%	8.78%	9.19%	9.30%	9.36%
Achieved regulated ROE	N/A	N/A	3.80%	2.67%	6.32%

1 Excluding earnings from nuclear fixed asset removal and nuclear waste management funds.

2018 Summary

- EBITDA and EBIT increased significantly in 2018 largely because of the December 2017 approval of new rates by the OEB in a payment order dated March 2018 and effective June 1, 2017. EBITDA also benefitted from a full year's earnings from the Peter Sutherland Sr. GS, which was placed in service March 2017, and contributions from Eagle Creek, which was acquired in November 2018.
  - This was partly offset by (1) higher depreciation from the growing asset base and (2) higher hydroelectric foregone generation and outages compared with 2017.
- Tracking the stronger EBIT for the year, net income before non-recurring items also increased significantly in 2018. OPG also reported a corporate ROE of 9.5%. Excluding an after-tax $205 million gain on sale of the Lakeview GS site, this corporate ROE would still be at 7.8%, a large improvement from the adjusted 5.1% corporate ROE in 2017.
  - ROE of 7.8% would also be more in line with the allowed regulated ROE of 8.78%. DBRS notes the difference can be partly attributed to OPG's capitalization at around 35% versus the regulatory capital structure of 55% debt.

2019 Outlook

- Earnings for OPG are expected to remain relatively stable in 2019.
  - Effective January 1, 2019, base rates for the hydroelectric generation segment increased by 1.1%. Rates for the nuclear generation segment will increase as per the Custom IR decision.
- DBRS does not expect legislative changes to the Fair Hydro Plan by the Province to have a material financial impact on OPG. The Company is expected to continue to collect interest from its investment in the Fair Hydro Trust. DBRS notes that earnings from Fair Hydro Trust in 2018 were $27 million, increasing to $30 million in 2019 until the notes mature.
- Earnings volatility going forward will come from (1) forecast risk as part of the IR process and (2) macro factors such as weather, unexpected outages and Ontario's economic conditions.

Financial Profile

	For the year ended December 31				
(CAD millions where applicable)	2018	2017	2016	2015	2014
Net income before non-recurring items 4	361	(14)	(106)	(271)	88
Depreciation & amortization	784	679	1,257	1,100	754
Deferred income taxes and other	1,060	1,070	1,081	956	775
Cash flow (bef. working cap. changes)	**2,205**	**1,735**	**2,232**	**1,785**	**1,617**
Nuclear waste funding	(307)	(313)	(425)	(361)	(351)
Dividends paid	(283)	0	0	0	0
Capital expenditures	(1,826)	(1,853)	(1,816)	(1,376)	(1,545)
Free cash flow (bef. working cap. changes)	**(211)**	**(431)**	**(9)**	**48**	**(279)**
Changes in non-cash working cap. items	(160)	80	180	(129)	212
Change in regulatory assets/liabilities	(51)	(558)	(170)	170	(45)
Net free cash flow	**(422)**	**(909)**	**1**	**89**	**(112)**
Long-term investments	(358)	0	(213)	(180)	0
Proceeds on asset sales	289	554	110	3	0
Acquisition of Fair Hydro Trust receivables	(609)	(1,179)	0	0	0
Change in Fair Hydro Trust debt	306	601	0	0	0
Net equity change	268	519	0	0	0
Net debt change	622	458	(162)	(33)	165
Other	(17)	4	(14)	(25)	(5)
Change in cash	**79**	**48**	**(278)**	**(146)**	**48**
Total debt	7,878	6,579	5,522	5,684	5,730
Total debt 2	4,730	4,053	5,340	5,499	5,543
Cash & equivalents	349	418	398	464	610
Cash flow/Total debt 1, 2	45.0%	40.0%	40.6%	31.9%	28.7%
Total debt in capital structure 1, 2, 3	26.9%	26.2%	34.3%	35.8%	37.3%
EBIT gross interest coverage (times) 1, 2, 4	1.00	(0.24)	(0.14)	(0.86)	0.27
(Cash flow - n.w.f.)/Total debt 1, 2, 5	39.3%	33.7%	32.9%	25.4%	22.5%
Dividend payout ratio	78.4%	0.0%	0.0%	0.0%	0.0%

1 Including operating leases. 2 Excludes non-recourse debt. 3 Adjusted for accumulated other comprehensive income. 4 Excluding earnings from nuclear fixed-asset removal and nuclear waste management funds. 5 Includes nuclear waste funding (NWF) payments as they are not discretionary.

2018 Summary

- OPG's key credit metrics exclude non-recourse debt from UMH Energy Partnership (UMH; recourse released in 2014), Lower Mattagami Energy Limited Partnership (LMELP; rated A (high) with a Stable trend by DBRS; recourse released in 2017), Fair Hydro Trust and Eagle Creek.
  - The Company's cash flow-to-debt and debt-to-capital ratios remained strong in 2018, tracking the increase in earnings and cash flows. Additionally, the EBIT-interest coverage ratio improved significantly because of the stronger results for the year.
- Cash flow from operations increased largely because of the new regulated prices in place beginning March 2018.
- Capex remained elevated at $1.8 billion as OPG continued work on the Darlington Refurbishment.
- While the Company is not expected to make dividend payments to the Province during this period of high capex requirements, a special dividend was declared to transfer proceeds from the sale of the head office premises and associated parking facility to the Province.
- Long-term investments of $358 million represent the acquisition of Eagle Creek, which was completed in November 2018.
- Proceeds on asset sales largely represent the sale of the Lakeview GS site.
- The Fair Hydro Trust acquired $609 million of financing receivable assets from the IESO in 2018. This was funded with $306 million through a revolving warehouse facility (non-recourse to the Company), $268 million of equity injection from the Province and $35 million from OPG.

Financial Profile (CONTINUED)

– Fair Hydro Trust issued $900 million of debt in 2018 to repay the revolving warehouse facility.

- The Company issued $600 million of debt to the OEFC and $450 million of Senior Notes under a Medium Term Note Program. The proceeds were partly used to refinance $395 million of debt owed to the OEFC and to fund OPG's portion of the Fair Hydro Trust financing receivable assets.

2019 Outlook

- OPG has planned capex of $2.1 billion for 2019, including approximately $1.3 billion for the Darlington Refurbishment.
- Cash flow from operations is expected to see a modest increase for the year, tracking the overall expected higher regulated rates.
  – With no distributions expected in 2019, the Company should see a positive net free cash flow. As such, DBRS expects the Company's key credit metrics to strengthen modestly for the year.
- In February 2019, OPG issued $500 million of Senior Notes under its Medium Term Note Program. Proceeds from the offering were used partly to fund the Eagle Creek acquisition.

Long-Term Debt and Credit Facilities

(CAD millions)	Maturity	Dec. 31, 2018	Dec. 31, 2017
Notes payable to the OEFC	2019–2048	3,400	3,195
Medium Term Note Program	2027–2048	950	500
UMH Energy Partnership 1	2041	178	181
PSS Generating Station Limited Partnership 2	2067	245	245
Lower Mattagami Energy Limited Partnership 1	2021–2052	1,595	1,595
Fair Hydro Trust 1	2033–2038	900	601
Eagle Creek 1	2025–2030	323	0
Other		21	19
Subtotal		**7,612**	**6,336**
Less: Fair value discount		(31)	0
Less: Bond issuance fees		(25)	(17)
Less: Current portion		(368)	(398)
Total long-term debt		**7,188**	**5,921**

1 Non-recourse to OPG as debt is secured by assets of the associated project. 2 Secured by assets of the project; recourse to OPG until the recourse release date.

- 78% of the long-term debt issued at the parent level ($3.4 billion of $4.35 billion) is held by the OEFC, which is wholly owned by the Province. As a result, DBRS does not expect any material refinancing risk.
- In 2019, OPG issued $600 million of senior notes to the OEFC with a maturity date of 2048 and effective interest rates ranging from 3.87% to 4.00%.
  – Proceeds were partly used to repay $395 million of notes to the OEFC that matured or will mature throughout the year.
- In June 2018, OPG issued $450 million of senior notes with a maturity date of 2048 and an effective interest rate of 3.84% under its Medium Term Note Program.
  – In February 2019, the Company issued $500 million of senior notes with a maturity date of 2049 and an effective interest rate of 4.25%.
- The amortizing UMH notes were issued in 2009 with a maturity date of 2041 and an effective interest rate of 7.86%. The notes are secured by the assets of the Upper Mattagami and Hound Chute project and are non-recourse to OPG.
- The amortizing PSS GS notes were issued in 2015 with a maturity date of 2067 and an effective interest rate of 4.90%. The notes are secured by the assets of PSS GS and are recourse to OPG until the recourse release date (expected in 2020).
- The LMELP notes are secured by the assets of the project and are non-recourse to OPG.

Long-Term Debt and Credit Facilities (CONTINUED)

- Fair Hydro Trust senior notes are secured by the assets of the Fair Hydro Trust and are non-recourse to OPG.
  - In February 2018, Fair Hydro Trust issued $500 million of senior notes, maturing in 2033, to repay the majority of the balance under the revolving warehouse facility. In April 2018, an additional $400 million of senior notes, maturing in 2038, was issued.
- OPG assumed $323 million of long-term debt upon acquiring Eagle Creek. The notes are secured by assets of Eagle Creek and are non-recourse to the Company.

Maturity Profile

As at December 31, 2018

(CAD millions)	2019	2020	2021	2022	2023	Thereafter	Total
Long-term Debt	690	663	416	177	46	5,942	**7,934**
	9%	8%	5%	2%	1%	75%	**100%**

- OPG's maturity profile is fairly spread out.

Liquidity

Credit Facilities as at December 31, 2018

(CAD millions)	Maturity	Amount	Outstanding	Available
Committed credit facility - Tranche 1	20-May-23	500	170	330
Committed credit facility - Tranche 2	20-May-23	500	0	500
Short-term uncommitted credit facilities	Demand	476	404	72
Short-term uncommitted overdraft facilities	Demand	25	0	25
Lower Mattagami River Project - Tranche 1 1	17-Aug-23	300	195	105
Lower Mattagami River Project - Tranche 2 1	17-Aug-19	100	0	100
UMH Energy Partnership credit facilities 1	15-Oct-19	16	15	1
UMH Energy Partnership overdraft facilities 1	15-Oct-19	8	0	8
Total		**1,925**	**784**	**1,141**

1 Non-recourse to OPG as debt is secured by assets of the associated project.

- OPG has a reasonable liquidity profile.
- The Company has a $1.0 billion CP program backed by two tranches of bank facilities (extended due dates of May 20, 2023). OPG had $170 million of CP outstanding as at December 31, 2018.
- As at December 31, 2017, OPG had issued $404 million of letters of credit, about $364 million of which was attributed to its supplementary pension plan.
- The Company's $2,350 million credit facility provided by the OEFC matured at December 31, 2018. The Company is currently working with the OEFC for a new facility.
- The LMELP and UMH facilities are used to support the respective projects and are non-recourse to OPG.

Company Profile

As at December 31, 2018

Generation Portfolio

	Percent (%)	Capacity (MW)
Nuclear		
Darlington	*16%*	2,634
Pickering A	*6%*	1,030
Pickering B	*13%*	2,064
	35%	**5,728**
Thermal		
Atikokan (Biomass)	*1%*	205
Portlands Energy Centre 1	*2%*	275
Brighton Beach 1	*2%*	280
Lennox (Dual oil & gas)	*13%*	2,100
	18%	**2,860**
Hydroelectric		
Contracted 2	*8%*	1,280
Regulated	*39%*	6,426
	47%	**7,706**
Other (Wind) 3	*0%*	1
Total Capacity	**100%**	**16,295**

1 Represents OPG's share of in-service generation. 2 Includes plants under an ESA or a long-term contract. 3 One wind-power turbine.

- OPG is the largest generator of electricity in Ontario.
- In 2018, OPG generated 74.0 terawatt hours of electricity with total in-service capacity of 16,295 MW as at December 31, 2018.
  - The increase in generating capacity is largely attributed Eagle Creek, offset by the closure of the Thunder Bay biomass GS.
- OPG partnerships consist of the following:
  - OPG and ATCO Power Canada Ltd. co-own the Brighton Beach GS, a 560 MW natural gas-fired generating station.
  - OPG and TransCanada Energy Ltd. jointly own the Portlands Energy Centre, a 550 MW natural gas-fired generating station.
  - OPG owns the Bruce A and Bruce B nuclear GS, which are leased on a long-term basis to Bruce Power L.P. (rated BBB with a Stable trend by DBRS).
  - OPG and the Lac Seul First Nation (LSFN) jointly own the Lac Seul GS, with LSFN owning 25% of the facility.
  - OPG and the Moose Cree First Nation (MCFN), through its wholly owned subsidiary, Amisk-oo-Skow Finance Corporation, jointly own the Little Long, Harmon, Kipling and Smoky Falls GS, with MCFN owning 25% of the facilities.
  - OPG and Coral Rapids Power Corporation (CRP), a wholly owned subsidiary of the Taykwa Tagamou Nation, jointly own PSS GS, with CRP owning 33% of the facility.
  - OPG, a subsidiary of the Six Nations of the Grand River Development Corporation and Mississaugas of the Credit First Nation jointly own the Nanticoke Solar facility (in service March 2019), with OPG owning 80% of the facility.

Ontario Power Generation Inc.

(CAD millions)	December 31				December 31		
Assets	**2018**	**2017**	**2016**	**Liabilities & Equity**	**2018**	**2017**	**2016**
Cash & equivalents	349	418	398	S.T. borrowings	322	260	2
Accounts receivable	483	369	429	Accounts payable	1,161	1,228	1,164
Inventories	397	412	410	Current portion L.T.D.	368	398	1,103
Regulatory assets	490	0	0	Regulatory liabilities	36	0	0
Prepaid expenses & other	419	365	520	Deferred revenue & other	46	92	135
Total Current Assets	**2,138**	**1,564**	**1,757**	**Total Current Liab.**	**1,933**	**1,978**	**2,404**
Net fixed assets	22,987	21,322	19,998	Long-term debt	7,188	5,921	4,417
Intangibles	363	133	99	Deferred income taxes	1,018	879	829
Financing receivables	1,788	1,179	0	Pension & post-retirement benefits	6,339	6,515	5,909
Nuclear removal/waste mgmt. funds	17,464	16,701	15,960	Nuclear removal/waste mgmt. funds	21,225	20,421	19,484
Regulatory assets	6,769	7,231	5,855	Regulatory liabilities	762	594	310
Investments, materials & other	743	692	703	Payables & other L.T. liab.	660	603	511
				Shareholders' equity	13,127	11,911	10,508
Total Assets	**52,252**	**48,822**	**44,372**	**Total Liab. & SE**	**52,252**	**48,822**	**44,372**

Balance Sheet & Liquidity & Capital Ratios	For the year ended December 31				
	2018	**2017**	**2016**	**2015**	**2014**
Current ratio	1.11	0.79	0.73	1.33	1.09
Total debt in capital structure	37.5%	35.6%	34.4%	36.1%	37.7%
Total debt in capital structure 1, 2, 3	26.9%	26.2%	34.3%	35.8%	37.3%
Cash flow/Total debt	28.0%	26.4%	40.4%	31.4%	28.2%
Cash flow/Total debt 1, 2	45.0%	40.0%	40.6%	31.9%	28.7%
(Cash flow - dividends)/Capex (times)	1.05	0.94	1.23	1.30	1.05
(Cash flow - n.w.f.)/Total debt 1, 2, 5	39.3%	33.7%	32.9%	25.4%	22.5%
Dividend payout ratio	78.4%	0.0%	0.0%	0.0%	0.0%
Coverage Ratios (times)					
EBIT gross interest coverage 4	0.77	(0.13)	(0.17)	(0.86)	0.24
EBIT gross interest coverage 1, 2, 4	1.00	(0.24)	(0.14)	(0.86)	0.27
EBITDA gross interest coverage 4	3.38	2.17	4.05	2.89	2.75
Fixed-charges coverage 4	0.77	(0.13)	(0.17)	(0.86)	0.24
Profitability Ratios					
EBITDA margin 4	18.4%	12.4%	21.4%	15.5%	16.6%
EBIT margin 4	4.2%	-0.7%	-0.9%	-4.6%	1.5%
Profit margin 4	6.5%	-0.3%	-1.9%	-5.0%	1.8%
Return on equity 4	2.9%	-0.1%	-1.0%	-2.8%	1.0%
Return on capital 1, 3, 4	2.2%	0.5%	0.1%	-0.8%	1.4%

1 Including operating leases. 2 Excludes non-recourse debt. 3 Adjusted for accumulated other comprehensive income. 4 Excluding earnings from nuclear fixed-asset removal and nuclear waste management funds. 5 Includes NWF payments as they are not discretionary.

Rating History

Debt	Current	2018	2017	2016	2015	2014
Issuer Rating	A (low)	A (low)	A (low)	A (low)	A (low)	A (low)
Unsecured Debt	A (low)	A (low)	A (low)	A (low)	A (low)	A (low)
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Commercial Paper Limit

- $1.0 billion.

Previous Report

- Ontario Power Generation: Rating Report, April 26, 2018.

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.

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.

The DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(CRA, NRSRO affiliate, DRO affiliate). For more information on regulatory registrations, recognitions and approvals, please see: http://www.dbrs.com/research/highlights.pdf.

© 2019, DBRS. All rights reserved. The information upon which DBRS ratings and other types of credit opinions and reports are based is obtained by DBRS from sources DBRS believes to be reliable. DBRS does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS ratings, other types of credit opinions, reports and any other information provided by DBRS are provided "as is" and without representation or warranty of any kind. DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS or any DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. Ratings, other types of credit opinions, other analysis and research issued or published by DBRS are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment advice or recommendations to purchase, sell or hold any securities. A report with respect to a DBRS rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS may receive compensation for its ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. DBRS is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS. ALL DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT http://www.dbrs.com/about/disclaimer. ADDITIONAL INFORMATION REGARDING DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON http://www.dbrs.com.

MORNINGSTAR | DBRS

Rating Report
Ontario Power Generation Inc.

DBRS Morningstar
April 16, 2020

Contents

1 Ratings
1 Rating Update
2 Financial Information
2 Issuer Description
2 Rating Considerations
5 Organizational Chart
6 Price Structure
7 Major Projects
8 Regulation
11 Earnings and Outlook
12 Financial Profile
14 Long-term Debt and Credit Facilities
16 Company Profile
19 Rating History
19 Previous Actions
19 Previous Report
19 Related Research

Tom Li
+1 416 597-7378
tom.li@dbrsmorningstar.com

Vipin Pal
+1 416 597-7572
vipin.pal@dbrsmorningstar.com

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A (low)	Confirmed	Stable
Unsecured Debt	A (low)	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating Update

On April 7, 2020, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating and Unsecured Debt rating of Ontario Power Generation Inc. (OPG or the Company) at A (low) as well as OPG's Commercial Paper (CP) rating at R-1 (low), all with Stable trends. The ratings of OPG are based on the Company's stable regulated operations under the Ontario Energy Board (OEB), which contribute stable cash flow. The ratings are also supported by the continued financial support from the shareholder, the Province of Ontario (Ontario or the Province; rated AA (low) with a Stable trend by DBRS Morningstar), which, through its agent, the Ontario Electricity Financial Corporation (OEFC; rated AA (low) with a Stable trend by DBRS Morningstar), provides 37% of the Company's consolidated debt. OPG's remaining debt includes nonrecourse project financing (35%), CP (1%), and the Senior Notes issued under the Medium Term Note (MTN) Program (27%).

In July 2019, the Company announced it had acquired the remaining 50% interest in the Brighton Beach Generating Station (GS) for $200 million and was in the process of acquiring three natural gas-fired assets in Ontario for $2.9 billion. In October 2019, OPG also completed its acquisition of Cube Hydro Partners, LLC and Helix Partners LLC (collectively, Cube Hydro) for USD 845 million. At the time, DBRS Morningstar noted that these acquisitions have a higher business risk than the Company's incumbent regulated assets because (1) the Cube Hydro assets face merchant power risk and thus more volatile cash flows, and (2) the natural gas-fired assets in Ontario are nonregulated, albeit under long-term contracts with strong investment-grade counterparties that should generate relatively stable cash flows. While the acquisitions are expected to be fully debt funded and lead to around a $4 billion increase in debt load, the overall impact on OPG's credit will be minimal because regulated operations and assets under regulatory-style contracts will continue to contribute over 80% of EBITDA, while the cash flow-to-debt and debt-to-capital metrics are forecast to remain strong for the A (low) ratings. DBRS Morningstar notes that the Company has indicated that growth in its nonregulated business will be at a more moderate pace following these acquisitions, with most planned capital expenditures (capex) for its regulated operations. However, should OPG pursue acquisitions that result in a significant shift in the EBITDA mix between regulated and nonregulated operations or lead to credit metrics deteriorating to a

level no longer supportive of the current rating category, DBRS Morningstar may take negative rating action.

In March 2020, OPG announced the completion of construction on Unit 2 of the Darlington Refurbishment project (the Darlington Refurbishment), with Unit 2 scheduled to return to service in Q2 2020. While the $12.8 billion project was on budget and on schedule, the Company announced it would postpone refurbishment on the next unit because of the ongoing Coronavirus Disease (COVID-19) situation. As such, this may lead to a delay in the schedule and a modest increase in costs. DBRS Morningstar does not expect the decision to defer the Unit 3 refurbishment to affect OPG in achieving its operating and financial results in 2020. DBRS Morningstar continues to view a positive rating action as unlikely in the short term because of the ongoing capex program, including that for the Darlington Refurbishment. A downgrade could occur should there be significant cost overruns with the Darlington Refurbishment that result in stranded costs.

Financial Information

	For the year ended December 31				
	2019	**2018**	**2017**	**2016**	**2015**
Cash flow/Total debt (%)[1, 2]	41.4	45.0	40.0	40.6	31.9
Total debt in capital structure (%)[1, 2, 3]	28.8	26.9	26.2	34.3	35.8
EBIT gross interest coverage (times)[1, 2, 4]	0.85	1.00	(0.24)	(0.14)	(0.86)
(Cash flow – n.w.f.)/Total debt (%)[1, 2, 5]	38.6	39.3	33.7	32.9	25.4

1 Including operating leases.
2 Excludes nonrecourse debt.
3 Adjusted for Accumulated Other Comprehensive Income.
4 Excluding earnings from nuclear fixed asset removal and nuclear waste management funds.
5 Includes nuclear waste funding (n.w.f.) payments as they are not discretionary.

Issuer Description

OPG is an electricity generation company with a diverse portfolio of over 17,000 megawatts (MW) of in-service generating capacity. The Company is wholly owned by the Province of Ontario.

Rating Considerations

Strengths

1. Support of shareholder (the Province)

The Province indirectly provides OPG with a large portion of its long-term funding requirements through the OEFC, a government-financing arm for provincial power companies. However, this debt is not directly guaranteed by the Province. As at December 31, 2019, OPG had approximately $3.1 billion of notes payable to the OEFC, comprising 37% of the Company's outstanding debt. DBRS Morningstar believes that the Province will continue to support its investment since OPG is a creation of the Province and is integral to fulfilling Ontario's energy needs. While this financial support does not, in itself, result in any uplift to the Company's ratings, the ratings do incorporate DBRS Morningstar's belief that the Province will, in exceptional circumstances, provide support to OPG.

2. Dominant market position in Ontario

OPG's importance in Ontario is demonstrated by the fact that it is the primary electricity generator in the province, accounting for approximately 52% of electricity produced in 2019.

3. Reasonable regulatory framework

The reasonable regulatory framework has allowed the Company to recover prudently incurred costs; however, DBRS Morningstar notes that the unsuccessful appeal of the OEB's decision to disallow labour compensation costs related to OPG's nuclear operations has increased uncertainty regarding the Company's ability to fully recover its nuclear cost through future regulated prices. DBRS Morningstar also notes that, under an incentive rate (IR) framework, OPG's profitability could come under further pressure because of the need to meet efficiency and productivity benchmarks.

4. Limited nuclear waste management liabilities

As a result of the Ontario Nuclear Funds Agreement with the Province, OPG's exposure to the costs to dispose of the initial 2.23 million used fuel bundles produced has been capped at $5.94 billion (in 1999 dollar terms). The used fuel obligation is funded by the used fuel fund, which was fully funded as at December 31, 2019. The Province provides a guarantee for any shortfall between the value of the nuclear fund and the Canadian Nuclear Safety Commission consolidated financial guarantee requirement.

Challenges

1. Significant capex program

OPG has a significant capex program underway (approximately $2.2 billion planned for 2020). The Company also faces significant execution risk as well as the potential for cost overruns associated with the Darlington Refurbishment because of the project's complexity and scale. DBRS Morningstar expects that OPG will not undertake any major capex without having financing and a cost-recovery mechanism in place, thus minimizing financial risks.

2. Nuclear generation risks

Nuclear generation faces higher operating risks than other types of power generation because of its complex technology (approximately 56% of OPG's production in 2019). Financial implications of forced outages, especially with older units (e.g., the Pickering Nuclear GS), are greater given the high fixed-cost nature of these plants and since lost revenues resulting from outages are not recoverable through rates.

3. High cost base

OPG's high cost base has resulted in several disallowances by the OEB. For the most recent 2017–21 rates decision, the OEB disallowed recovery of $100 million in the operations, maintenance, and administration (OM&A) budget annually. DBRS Morningstar believes that OPG's inability to fully recover compensation costs in future regulated prices could have a negative impact on earnings and affect the Company's ability to achieve its approved return on equity (ROE). DBRS Morningstar notes that OPG has been combatting this issue through its cost-reduction and efficiency-improvement initiative, which has saved $1.0 billion through a reduction in headcount of over 2,800 since 2011.

4. Political intervention

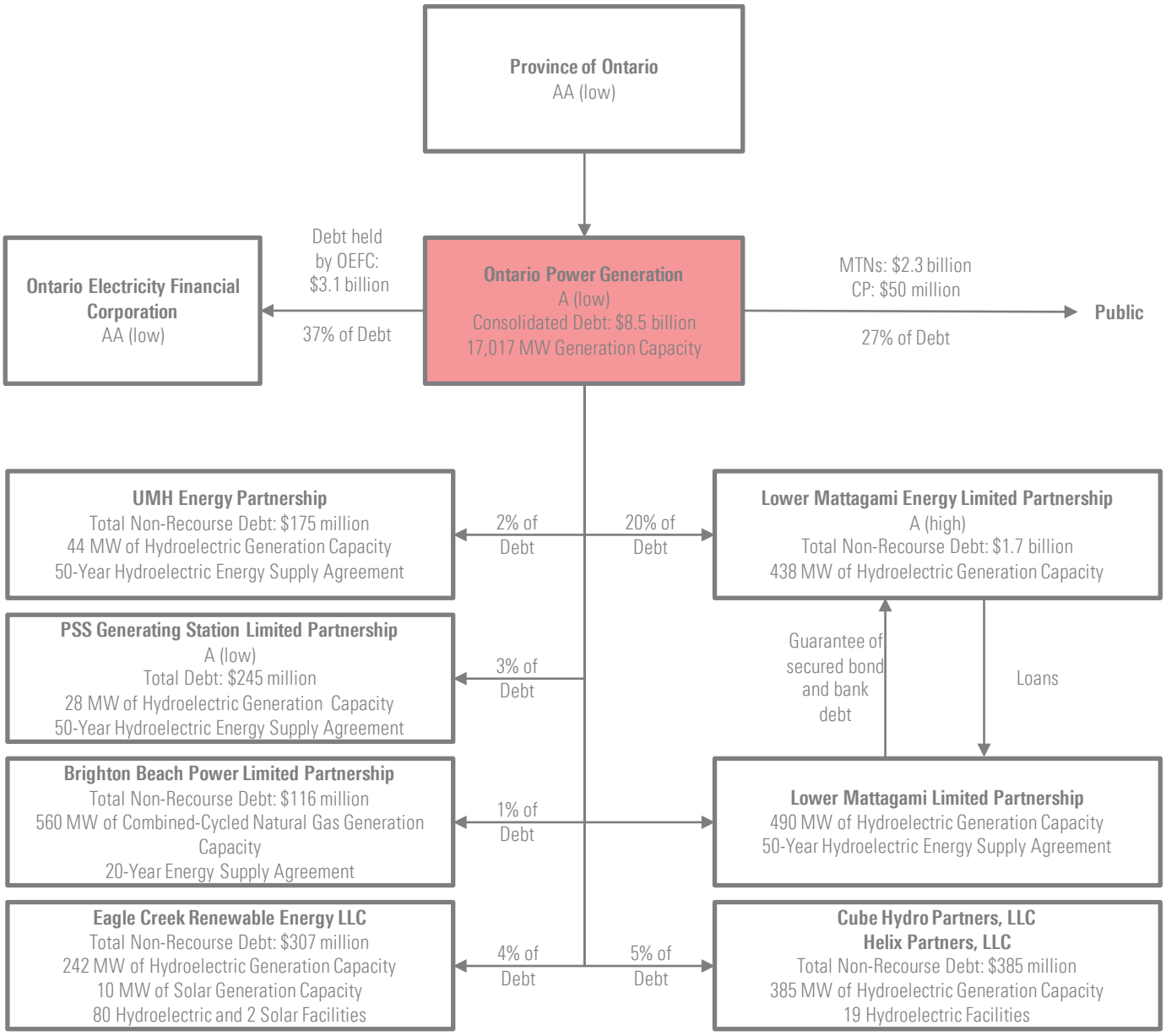
OPG is subject to political intervention, largely because of its ownership by the Province and changes in government mandates and policies. DBRS Morningstar notes that though the Province has committed to having the Company run more autonomously, the risk of further government intervention still exists. In March 2020, the Province proposed to freeze OPG's hydroelectric rates at the 2021 level for the next regulatory period of 2022 to 2026. If passed, DBRS Morningstar expects the Company's earnings to be moderately pressured as OPG will have to find efficiencies to offset inflationary cost increases.

5. Increased exposure to nonregulated operations

OPG has in recent years acquired multiple nonregulated generation assets, including gas-fired plants in Ontario and two renewable facility operators in the United States (Eagle Creek Renewable Energy LLC (Eagle Creek) and Cube Hydro). The Company also owns nonregulated natural gas, oil, solar, wind, and biomass generation assets in the province. While the Ontario assets are largely under long-term contracts with strong investment-grade counterparties (such as the Independent Electricity System Operator (IESO; rated A (high) with a Stable trend by DBRS Morningstar)) and contribute relatively stable earnings and cash flow, DBRS Morningstar does view nonregulated assets as generally having higher business risks than the incumbent regulated operations because there is less cost recovery certainty and potentially more volatile cash flow. DBRS Morningstar notes that, following the acquisition of the three Ontario natural gas-fired assets (expected in Q2 2020), earnings contributed by nonregulated operations will remain moderate at below 20% and are expected to decrease as most future capex is for regulated operations. DBRS Morningstar also considers assets under regulatory-styled contracts (such as Lower Mattagami Energy Limited Partnership (LMELP; rated A (high) with a Stable trend by DBRS Morningstar), PSS Generating Station Limited Partnership (PSS; rated A (low) with a Stable trend by DBRS Morningstar) and UMH Energy Partnership (UMH; not rated by DBRS Morningstar)) to have similar credit risks as regulated operations because those contracts mimic the current regulatory construct under the OEB.

Organizational Chart

Simplified Organizational Chart



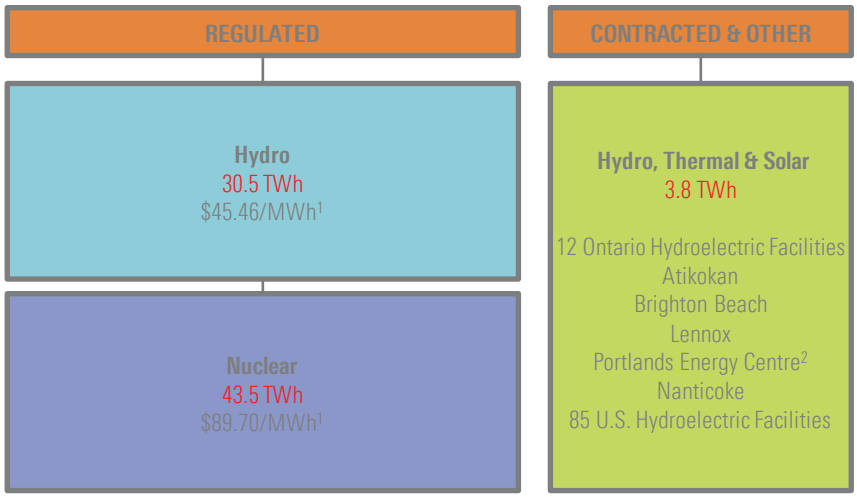
As of December 31, 2019.

Source: OPG.

- As at December 31, 2019, debt at the OPG corporate level consists of $3.1 billion held by the OEFC, $2.3 billion of MTNs, and $50 million of CP outstanding.
  - Debt at UMH, LMELP, Brighton Beach GS, Eagle Creek, and Cube Hydro are secured by the assets at each corresponding subsidiary and are nonrecourse to OPG.

- Debt at PSS GS is recourse to OPG until the recourse release date.

Price Structure



1 Rates as of December 31, 2019.
2 50% ownership interest.
For the year ended December 31, 2019.

Source: OPG.

- OPG sells electricity to consumers through the IESO.
- Regulated facilities sell at rates set by the OEB, which could include rate riders used for the recovery of nuclear deferral and hydroelectric variance account balances.
- The Contracted and Other Portfolio includes (1) assets in Ontario that sell electricity at prices set through Energy Supply Agreements (ESA) or other long-term contracts with the IESO; (2) Eagle Creek, which holds interest in 76 hydroelectric GS and two solar facilities throughout the United States; and (3) Cube Hydro, which holds interest in 19 hydroelectric GS in the United States.
  - OPG plans to merge Eagle Creek and Cube Hydro to operate under the Eagle Creek name.
  - The Eagle Creek and Cube Hydro facilities either sell into the merchant market or operate under long-term energy or capacity supply contracts.

Major Projects

Project	Estimated Cost (CAD millions)	Spent as of Dec. 31, 2019 (CAD millions)	In-Service Target Date
Darlington Refurbishment	12,800	6,664	2026[1]
Little Long Dam Safety Project	650	8	2023
Ranney Falls Hydroelectric GS	77	70	2020

1 Four units with staged in-service. Last unit scheduled to be completed by 2026.

- **Darlington Refurbishment**: The Darlington Refurbishment will extend the operating life of the Darlington Nuclear GS by approximately 30 years. The execution of the refurbishment of the first unit began in October 2016 and the last unit is scheduled to be completed by 2026. Construction on the first unit was completed in March 2020 and it is targeted to be in service in Q2 2020. While the project was on schedule and on budget, OPG decided to postpone the refurbishment of the second unit because of the COVID-19 situation, which may lead to a delay in schedule and a modest increase in costs.
- **Little Long Dam Safety Project**: This project is intended to make reliability and operational improvements and increase the discharge capacity at the Little Long Dam. The Little Long Dam supports hydroelectric GSs on the Lower Mattagami River.
- **Ranney Falls Hydroelectric GS**: This project will replace an existing generation unit at Ranney Falls with a 10 MW single-unit powerhouse. Construction was completed in 2019 and the unit is expected to be commissioned in 2020. The project is currently on schedule and on budget.
- In July 2019, OPG announced its acquisition of the Napanee and Halton Hills GSs and the remaining 50% interest in the Portlands Energy Centre from affiliates of TC Energy Corporation (rated Pfd-2 (low) with a Stable trend by DBRS Morningstar) for approximately $2.9 billion. These assets are combined-cycle natural gas-fired plants located in Ontario and will add 1,858 MW of generating capacity to the Company. DBRS Morningstar notes that, although these assets have a higher business risk than OPG's incumbent regulated operations, earnings and cash flows from these assets are expected to be relatively stable as they are supported by long-term contracts with an investment-grade counterparty (IESO).
- In August 2019, OPG acquired the remaining 50% interest in the Brighton Beach GS for $200 million. The Brighton Beach GS is a 560 MW combined-cycle natural gas-fired facility and operates under an ESA with the IESO expiring in 2024.
- In October 2019, OPG acquired Cube Hydro for USD 845 million. DBRS Morningstar views the business risk of Cube Hydro to be weaker as its facilities are not regulated and face merchant power risk, resulting in potentially more volatile earnings and cash flow. However, DBRS Morningstar does not expect this to have a material impact on the Company's overall business and financial risk assessment as its 385 MW capacity represents only around 2% of OPG's total generating capacity.

Regulation

- OPG benefits from a reasonable regulated environment. As at December 31, 2019, approximately 71% of its installed in-service capacity is regulated.
- OPG, regulated by the OEB under the *Electricity Restructuring Act, 2004 (Ontario)*, is allowed to receive regulated prices for all electricity generated from its nuclear facilities (5,728 MW) as well as most of its hydroelectric power facilities (6,420 MW).
- In May 2016, OPG filed its application with the OEB for rates effective January 1, 2017. The OEB issued its decision in December 2017.
  - The OEB approved rates to be effective June 1, 2017, rather than the applied-for effective date of January 1, 2017.
  - Capital structure will remain at 55% debt (the Company had requested a change to 51% debt) and an allowed ROE of 8.78%. The ROE will not be updated throughout the five-year term.
  - For hydroelectric facilities, the Price Cap IR methodology is used. Under Price Cap IR, rates for the hydroelectric facilities are subject to a formula price cap that allows for an annual increase in the payment amount based on inflation less productivity and a utility-specific stretch factor, which can be reset annually (productivity factor of 0%, stretch factor of 0.3%).
  - Under Price Cap IR, OPG could file an Incremental Capital Module (ICM) application to potentially recover any material and necessary prudently spent incremental capex during the IR period of five years. Additionally, the Company could ask to initiate a regulatory review of its application if actual ROE falls 300 basis points below the approved ROE.
  - For nuclear facilities, OPG requested the use of a Custom IR methodology and a rate-smoothing deferral account. Under its Custom IR methodology, nuclear revenue requirements were determined by a five-year forecast cost-of-service (COS) approach, but with a stretch factor of 0.6% applied to the Company's OM&A expenditures. The reduction in OM&A costs as a result of the stretch factor will accumulate for the five-year period. The rate-smoothing deferral account (as required under Ontario Regulation 53/05) will stabilize year-to-year changes to weighted-average payment amounts as the Darlington Refurbishment continues. OPG will defer a portion of its approved nuclear revenue requirements into the rate-smoothing deferral account and will be allowed to recover the deferred amount, and any amount to be deferred from 2022–26, over a 10-year period once the Darlington Refurbishment has been completed.
  - The OEB reduced the nuclear OM&A budget by $100 million per year for a total of $500 million over five years. Additionally, the OEB did not approve a mid-term review (prior to July 1, 2019) to update the nuclear production forecast.
  - The OEB approved the inclusion of $5.5 billion to the rate base over the five-year period of the Custom IR for the Darlington Refurbishment. Any cost overruns will be subject to a prudence review before being added to the rate base.
  - The OEB also approved the recovery of balances as at December 31, 2015, in OPG's deferral and variance accounts.
- In December 2018 and February 2019, the OEB approved the Company's Application for 2019 Hydroelectric Payment Amount Adjustment and Recovery of Deferral and Variance Account Balances effective January 1, 2019.
  - The OEB approved a 1.1% base rate increase based on an inflation factor of 1.4%.

  - The OEB also approved the recovery of balances as at December 31, 2017, in OPG's deferral and variance accounts.
- In December 2019, the OEB approved the Company's Application for 2020 Hydroelectric Payment Amount Adjustment to be effective January 1, 2020.
  - The OEB approved a 1.5% base rate increase based on an inflation factor of 1.8%.
- In March 2020, the Province proposed to freeze hydroelectric rates for OPG at the 2021 level for the next regulatory period of 2022 to 2026.
  - Rates for nuclear facilities will not be frozen and will continue to be set by the OEB.
  - DBRS Morningstar notes that, if passed, a hydroelectric rate freeze will moderately pressure the Company's earnings as OPG will have to find efficiencies in its regulated hydroelectric operations to offset inflationary cost increases.

Assessment of Regulatory Framework

Criteria	Score	Analysis
1. Deemed Equity	Excellent	The OEB allows OPG to have a deemed equity of 45%.
	Good	
	Satisfactory	
	Below Average	
	Poor	
2. Allowed ROE	Excellent	OPG has an allowed ROE of 8.78% for 2017 to 2021, which is in line with the other regulated utilities in Ontario. Any difference in ROE between the Company and other regulated utilities in the province is mainly because of the timing of the regulatory filings and the interest environment prevalent at that time.
	Good	
	Satisfactory	
	Below Average	
	Poor	
3. Energy Cost Recovery	Excellent	N/A; energy costs are recovered through rates for OPG.
	Good	
	Satisfactory	
	Below Average	
	Poor	
4. Capital and Operating Cost Recovery	Excellent	Under Price-Cap IR for the hydroelectric facilities, major capital costs are pre-approved at the time of the COS application. If incremental costs are significant and prudent, OPG can file under ICM to request recovery of the costs. Under Custom IR for the nuclear facilities, the capex program for OPG is pre-approved for a five-year period by the OEB and recovered through base rates. Future test years are utilized for both hydroelectric and nuclear rates applications. Some volume risk exists but this is partly mitigated by (a) historically stable throughputs for the hydroelectric facilities, (b) use of deferral accounts for volumetric differences, and (c) for nuclear facilities, rates are based on forecasts which include scheduled outages. However, lost revenues resulting from forced outages are not recoverable through rates.
	Good	
	Satisfactory	
	Below Average	
	Poor	
5. COS versus IRM	Excellent	The hydroelectric facilities are regulated under the Price Cap IR framework, with four years between the COS rebasing years. The nuclear facilities operate under Custom IR, which is a hybrid of COS and the IR framework, for a five-year term. DBRS Morningstar considers the inflation, productivity (0%), and stretch (0.3% for hydroelectric and 0.6% for nuclear) factors as reasonable.
	Good	
	Satisfactory	
	Below Average	
	Poor	
6. Political Interference	Excellent	The Government of Ontario plays a significant role in the electricity sector in Ontario, given that most of the utilities are government owned (OPG is owned by the Province). 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.
	Good	
	Satisfactory	
	Below Average	
	Poor	
7. Stranded Cost Recovery	Excellent	Regulated utilities in Ontario have a limited history of stranded costs. Most prudently incurred or budgeted capex are approved by the OEB. While OPG has seen some write-downs, these have been because the OEB had deemed the costs overruns to have been imprudent.
	Good	
	Satisfactory	
	Below Average	
	Poor	
8. Rate Freeze	Excellent	OPG's rates have never been frozen. However, DBRS Morningstar notes that in March 2020, the Province proposed an amendment to Ontario Regulation 53/05 to freeze hydroelectric rates for the Company at the 2021 level for the next regulatory period from 2022 to 2026. Rates for nuclear facilities will not be frozen and will continue to be set by the OEB. DBRS Morningstar notes that, if passed, a hydroelectric rate freeze will moderately pressure OPG's earnings as the Company will have to find efficiencies to offset inflation.
	Good	
	Satisfactory	
	Below Average	
	Poor	

Earnings and Outlook

	For the year ended December 31				
(CAD millions where applicable)	**2019**	**2018**	**2017**	**2016**	**2015**
Revenues	6,019	5,535	5,158	5,653	5,476
EBITDA[1]	1,493	1,017	642	1,207	848
EBIT[1]	420	233	(37)	(50)	(252)
Gross interest expense	345	301	296	298	293
Earning before taxes[1]	436	225	(92)	(116)	(407)
Net income before nonrecurring items[1]	467	274	(14)	(106)	(271)
Reported net income	1,126	1,195	860	436	402
Return on equity (%)	3.4	2.2	-0.1	-1.0	-2.8
Hydroelectric rate base	N/A	N/A	N/A	7,447	7,490
Nuclear rate base	3,374	3,446	3,628	3,573	3,655
Approved regulated ROE (%)	8.78	8.78	8.78	9.19	9.30
Achieved regulated ROE (%)	N/A	10.69	5.88	3.80	2.67

1 Excluding earnings from nuclear fixed asset removal and nuclear waste management funds.

2019 Summary

- EBITDA and EBIT for OPG increased in 2019 largely because of (1) higher electricity generation and lower outage-related activities for the nuclear generation segment, (2) higher base rates for the hydroelectric segment effective January 1, 2019, and (3) contributions from newly acquired assets.
  - This was partly offset by (1) lower heavy water sales and (2) higher depreciation from the growing rate base and from the acquired hydroelectric facilities in the United States.
- Net income before nonrecurring items also increased, tracking the higher EBITDA and EBIT.
  - OPG reported a corporate ROE of 8.2% for the year, an increase from the 7.8% (excluding an after-tax $205 million gain on sale of the Lakeview GS site) in 2018.
  - ROE of 8.2% is more in line with the allowed regulated ROE of 8.78%. DBRS Morningstar notes that the difference can be partly attributed to the Company's capitalization at around 35% versus the regulatory capital structure of 55% debt.

2020 Outlook

- OPG had forecast net income in 2020 to be lower than in 2019 because of the cyclical outage schedule for the Pickering GS and the Darlington Refurbishment, and higher interest expense.
  - As a result of the ongoing COVID-19 situation, the Company has delayed starting the next unit of the Darlington Refurbishment in order to maintain maximum generation availability in the province in case of an emergency. Thus, generation output for 2020 may be higher than originally forecast.
  - Effective January 1, 2020, base rates for the hydroelectric segment increased by 1.5%. Rates for the nuclear generation segment increased per the Custom IR decision.
  - Earnings should also benefit from a full-year's contribution from acquisitions made in 2019 and the acquisition of contracted natural-gas fired assets expected to close in Q2 2020.

  - These will be more than offset by higher interest expense from debt to be issued during the year to fund the acquisitions.
- DBRS Morningstar does not expect the ongoing COVID-19 situation to have a material impact on OPG's earnings as even with potentially lower electricity demand in the province, volume risk for hydroelectric generation is limited though deferral accounts which allow the Company to recover any foregone production because of surplus baseload generation conditions.
- Earnings volatility going forward will come from (1) forecast risk as part of the IR process and (2) macro factors such as weather, unexpected outages, and Ontario's economic conditions.

Financial Profile

	For the year ended December 31				
(CAD millions where applicable)	**2019**	**2018**	**2017**	**2016**	**2015**
Net income before nonrecurring items[4]	467	274	(14)	(106)	(271)
Depreciation & amortization	1,073	784	679	1,257	1,100
Deferred income taxes and other	1,028	1,147	1,070	1,081	956
Cash flow (bef. working cap. changes)	**2,568**	**2,205**	**1,735**	**2,232**	**1,785**
Nuclear waste funding	(336)	(307)	(313)	(425)	(361)
Dividends paid	0	(283)	0	0	0
Capital expenditures	(2,058)	(1,826)	(1,853)	(1,816)	(1,376)
Free cash flow (bef. working cap. changes)	**174**	**(211)**	**(431)**	**(9)**	**48**
Changes in noncash working cap. items	99	(160)	80	180	(129)
Change in regulatory assets/liabilities	275	(51)	(558)	(170)	170
Net free cash flow	**548**	**(422)**	**(909)**	**1**	**89**
Long-term investments	(1,232)	(358)	0	(213)	(180)
Proceeds on asset sales	11	289	554	110	3
Acquisition of Fair Hydro Trust receivables	0	(609)	(1,179)	0	0
Change in Fair Hydro Trust debt	0	306	601	0	0
Net equity change	0	268	519	0	0
Net debt change	866	622	458	(162)	(33)
Other	(8)	(17)	4	(14)	(25)
Change in cash	**185**	**79**	**48**	**(278)**	**(146)**

Total debt	8,468	7,878	6,579	5,522	5,684
Total debt[2]	5,776	4,730	4,053	5,340	5,499
Cash flow/Total debt (%)[1, 2]	41.4	45.0	40.0	40.6	31.9
Total debt in capital structure (%)[1, 2, 3]	28.8	26.9	26.2	34.3	35.8
EBIT gross interest coverage (times)[1, 2, 4]	0.85	1.00	(0.24)	(0.14)	(0.86)
(Cash flow - n.w.f.)/Total debt (%)[1, 2, 5]	38.6	39.3	33.7	32.9	25.4

1 Including operating leases.
2 Excludes nonrecourse debt.
3 Adjusted for Accumulated Other Comprehensive Income.
4 Excluding earnings from nuclear fixed asset removal and nuclear waste management funds.
5 Includes nuclear waste funding (n.w.f.) payments as they are not discretionary.

2019 Summary

- OPG's key credit metrics exclude nonrecourse debt from UMH (recourse released in 2014), LMELP (recourse released in 2017), Fair Hydro Trust (derecognized in 2019), Eagle Creek, Cube Hydro, and Brighton Beach GS.
  - The cash flow-to-debt and debt-to-capital metrics remained strong, although both ratios weakened modestly because of debt issued to fund acquisitions. The EBIT-to-interest coverage ratio weakened modestly as well because of lower cash distributions received from the nonregulated subsidiaries.
- Cash flow from operations increased, tracking the higher net income.
- Capex remained elevated at $2.1 billion as the Company continued work on the Darlington Refurbishment ($1.2 billion spent in 2019).
- Long-term investments of $1.3 billion included $1.1 billion for the acquisition of Cube Hydro and $200 million for the acquisition of the remaining 50% interest in Brighton Beach GS.
- OPG issued $100 million of debt to the OEFC and $1.3 billion of Senior Notes under the MTN program.
  - Proceeds were used to repay $365 million of OEFC debt and to finance acquisitions, including Eagle Creek (acquired in November 2018).
  - Total recourse and nonrecourse debt increased because of the assumption of $116 million of Senior Notes at Brighton Beach GS and $385 million of Senior Notes at Cube Hydro as at December 31, 2019. This was offset by the derecognition of $912 million of debt at the Fair Hydro Trust following legislative changes in May 2019.

2020 Outlook

- Key credit metrics are expected to weaken in 2020 but remain in line with the current ratings.
  - The weaker credit metrics are largely because of the expected acquisition of three natural gas-fired generation plants in Ontario for $2.8 billion in Q2 2020, which will likely be fully debt funded.
- Cash flow from operations is expected to remain steady because of the regulated nature of the Company's operations.
- OPG had forecast capex of $2.2 billion for 2020 largely because of work on the Little Long Dam Safety Project, offset by lower spending for the Darlington Refurbishment with the completion of construction on Unit 2 in March 2020.
  - As a result of the postponement of the next unit of the Darlington Refurbishment, capex for the year is expected to be lower than forecast.
  - DBRS Morningstar also expects the Company may delay capex on non-essential projects during the COVID-19 situation.
- In April 2020, OPG issued $1.2 billion of debt, with the proceeds used to finance the Cube Hydro acquisition (acquired in October 2019).

Long-term Debt and Credit Facilities

Long-Term Debt

(CAD millions)	Maturity	Dec. 31, 2019	Dec. 31, 2018
Notes payable to the OEFC	2020-2048	3,135	3,400
Medium Term Note Program	2027-2050	2,250	950
UMH Energy Partnership[1]	2041	175	178
PSS Generating Station Limited Partnership[2]	2067	245	245
Lower Mattagami Energy Limited Partnership[1]	2021-2052	1,595	1,595
Fair Hydro Trust[1]	2033-2038	0	900
Brighton Beach Power Limited Partnership[1]	2020-2024	116	0
Eagle Creek[1]	2025-2030	307	323
Cube Hydro[1]	2025-2035	385	0
Other		25	21
Subtotal		**8,233**	**7,612**
Less: Fair value discount		20	(31)
Less: Bond issuance fees		(27)	(25)
Less: Current portion		(693)	(368)
Total long-term debt		**7,533**	**7,188**

1 Nonrecourse to OPG as debt is secured by assets of the associated project.
2 Secured by assets of the project; recourse to OPG until the recourse release date.

- 57% of the long-term debt issued at the parent level ($3.1 billion of $5.4 billion) is held by the OEFC, which is wholly owned by the Province. As a result, DBRS Morningstar does not expect any material refinancing risk.
- In July 2019, OPG issued $100 million of Senior Notes to the OEFC with a maturity date of 2039 at an effective interest rate of 3.49%.
  - The Company also repaid $365 million of Senior Notes owed to the OEFC during 2019.
- In January 2019, OPG issued $500 million of Senior Notes with a maturity date of 2049 and an effective interest rate of 4.25% under its MTN program. In September 2019, the Company issued an additional $800 million of Senior Notes with $500 million maturing in 2029 with an effective interest rate of 2.98% and $300 million maturing in 2050 with an effective interest rate of 3.65%.
  - In April 2020, the Company issued $1.2 billion of Senior Notes with $400 million maturing in 2025 at an effective interest rate of 2.89% and $800 million maturing in 2030 at an effective interest rate of 3.22%.
- The amortizing UMH notes were issued in 2009 with a maturity date of 2041 and an effective interest rate of 7.86%. The notes are secured by the assets of the Upper Mattagami and Hound Chute project and are nonrecourse to OPG.
- The amortizing PSS GS notes were issued in 2015 with a maturity date of 2067 and an effective interest rate of 4.90%. The notes are secured by the assets of PSS GS and are recourse to OPG until the recourse release date (expected in 2020).
- The LMELP notes are secured by the assets of the project and are nonrecourse to OPG.
- The Fair Hydro Trust Senior Notes were secured by the assets of the Fair Hydro Trust and were nonrecourse to OPG.

  - In May 2019, following legislative changes, the Fair Hydro Trust was derecognized from the Company's financial statements.
- OPG recognized $116 million of Senior Notes at year end 2019 after acquiring the remaining 50% interest in the Brighton Beach GS. The notes are secured by the assets of the Brighton Beach GS and are nonrecourse to the Company.
- OPG assumed $307 million of long-term debt at year end 2019 after acquiring Eagle Creek. The notes are secured by the assets of Eagle Creek and are nonrecourse to the Company.
- OPG assumed $385 million of long-term debt at year end 2019 after acquiring Cube Hydro. The notes are secured by the assets of Cube Hydro and are nonrecourse to the Company.

Maturity Profile

(CAD millions - as at December 31, 2019)	2020	2021	2022	2023	2024	Thereafter	Total
Long-Term Debt	693	448	207	75	215	6,595	**8,233**
	8%	5%	3%	1%	3%	80%	**100%**

- OPG's maturity profile is fairly spread out.

Credit Facilities

(CAD millions - as at December 31, 2019)	Maturity	Amount	Outstanding	Available
Committed credit facility - Tranche 1	20-May-2023	50	0	50
Committed credit facility - Tranche 2	20-May-2024	950	50	900
Committed credit facility - USD 750 million	27-Nov-2020	750	0	750
OEFC general corporate credit facility	31-Dec-2021	800	100	700
Short-term uncommitted credit facilities	Demand	503	447	56
Short-term uncommitted overdraft facilities	Demand	25	0	25
Securitization facility	30-Nov-2020	150	150	0
Lower Mattagami River Project – Tranche 1[1]	17-Aug-2024	300	169	131
Lower Mattagami River Project – Tranche 2[1]	17-Aug-2020	100	0	100
UMH Energy Partnership credit facilities[1]	15-Oct-2019	16	16	0
UMH Energy Partnership overdraft facilities[1]	15-Oct-2019	8	0	8
Cube Hydro credit facility – USD 20 million[1]	23-Oct-2028	20	0	20
Total		**3,672**	**932**	**2,740**

1 Nonrecourse to OPG as debt is secured by assets of the associated project.

- OPG has a reasonable liquidity profile.
- The Company has a $1.0 billion Canadian CP program ($50 million of CP outstanding as at December 31, 2019) and a USD 750 million CP program in the United States (unrated by DBRS Morningstar). These CP programs are supported by the following facilities:
  - Two tranches of bank facilities (with due dates of May 2023, and May 2024) totalling $1 billion;
  - A USD 750 million bank facility (due date of November 2020, with a one year term-out option); and
  - An OEFC facility (due date of December 2021) with available capacity of $700 million as of December 31, 2019.

- As at December 31, 2019, OPG had issued $447 million in letters of credit under its corporate facilities, of which $392 million was attributed to its supplementary pension plan.
- The Company has a $800 million credit facility provided by the OEFC maturing on December 31, 2021. OPG is currently working with the OEFC to expand this facility to $1.3 billion.
  - The Company has $100 million of Senior Notes outstanding under this facility.
- The securitization facility represents an agreement by OPG to sell a co-ownership interest in the Company's current and future accounts receivable from the IESO to an independent trust.
  - There were $150 million in letters of credit issued under this facility as at December 31, 2019.
- The LMELP, UMH, and Cube Hydro facilities are used to support the respective projects and are nonrecourse to OPG.

Company Profile

Generation Profile

As at December 31, 2019	Percent (%)	Capacity (MW)
Nuclear		
Darlington	15	2,634
Pickering A	6	1,030
Pickering B	12	2,064
	34	**5,728**
Thermal		
Atikokan (Biomass)	1	205
Portlands Energy Centre[1]	2	275
Brighton Beach	3	560
Lennox (Dual oil & gas)	12	2,100
	18	**3,140**
Hydroelectric		
Nonregulated	10	1,674
Regulated	38	6,420
	48	**8,104**
Other		
Wind and Solar[2]	0	55
Total Capacity	**100**	**17,017**

1 Represents OPG's share of in-service generation.
2 One wind-power turbine and three solar facilities.

- OPG is the largest generator of electricity in Ontario.
- In 2019, the Company generated 77.8 terawatt hours of electricity with total in-service capacity of 17,017 MW as at December 31, 2019.
  - The increase in generating capacity can be attributed to the acquisition of Cube Hydro and the 50% remaining interest in the Brighton Beach GS.
- OPG partnerships consist of the following:

- OPG and TransCanada Energy Ltd. jointly own the Portlands Energy Centre, a 550 MW natural gas-fired generating station. The Company is currently in the process of acquiring the remaining 50% interest in this asset.
- OPG owns the Bruce A and Bruce B Nuclear GS, which are leased on a long-term basis to Bruce Power L.P. (rated BBB with a Stable trend by DBRS Morningstar).
- OPG and the Lac Seul First Nation (LSFN) jointly own the Lac Seul GS, with LSFN owning 25% of the facility.
- OPG and the Moose Cree First Nation (MCFN), through its wholly owned subsidiary, Amisk-oo-Skow Finance Corporation, jointly own the Little Long, Harmon, Kipling, and Smoky Falls GS, with MCFN owning 25% of the facilities.
- OPG and Coral Rapids Power Corporation (CRP), a wholly owned subsidiary of the Taykwa Tagamou Nation, jointly own PSS GS, with CRP owning 33% of the facility.
- OPG, a subsidiary of the Six Nations of the Grand River Development Corporation, and Mississaugas of the Credit First Nation jointly own the Nanticoke Solar facility, with OPG owning 80% of the facility.

Balance Sheet

(CAD millions)	Dec. 31	Dec. 31	Dec. 31		Dec. 31	Dec. 31	Dec. 31
Assets	**2019**	**2018**	**2017**	**Liabilities & Equity**	**2019**	**2018**	**2017**
Cash & equivalents	648	349	418	Short-term borrowings	179	322	260
Accounts receivable	468	483	369	Accounts payable	1,094	1,170	1,228
Inventories	325	397	412	Current portion L.T.D.	693	368	398
Regulatory assets	486	490	0	Regulatory liabilities	103	36	0
Prepaid expenses & other	320	419	365	Deferred revenue & other	0	37	92
Total Current Assets	**2,247**	**2,138**	**1,564**	**Total Current Liab.**	**2,069**	**1,933**	**1,978**
Net fixed assets	26,047	22,987	21,322	Long-term debt	7,596	7,188	5,921
Intangibles	471	363	133	Deferred income taxes	1,154	1,018	879
Financing receivables	0	1,788	1,179	Pension & post-retirement benefits	6,667	6,339	6,515
Nuclear removal/waste mgmt. funds	18,252	17,464	16,701	Nuclear removal/waste mgmt. funds	22,081	21,225	20,421
Regulatory assets	6,770	6,769	7,231	Regulatory liabilities	949	762	594
Investments & other	1,617	743	692	Payables & other L.T. liab.	613	660	603
				Shareholders' equity	14,275	13,127	11,911
Total Assets	**55,404**	**52,252**	**48,822**	**Total Liab. & SE**	**55,404**	**52,252**	**48,822**

Ratios

	For the year ended December 31				
Balance Sheet & Liquidity & Capital Ratios	**2019**	**2018**	**2017**	**2016**	**2015**
Current ratio	1.09	1.11	0.79	0.73	1.33
Total debt in capital structure (%)	37.2	37.5	35.6	34.4	36.1
Total debt in capital structure (%)[1, 2, 3]	28.8	26.9	26.2	34.3	35.8
Cash flow/Total debt (%)	30.3	28.0	26.4	40.4	31.4
Cash flow/Total debt (%)[1, 2]	41.4	45.0	40.0	40.6	31.9
(Cash flow - dividends)/Capex (times)	1.25	1.05	0.94	1.23	1.30
(Cash flow - n.w.f.)/Total debt (%)[1, 2, 5]	38.6	39.3	33.7	32.9	25.4
Dividend payout ratio (%)	0.0	103.3	0.0	0.0	0.0
Coverage Ratios (times)					
EBIT gross interest coverage[4]	1.22	0.77	(0.13)	(0.17)	(0.86)
EBIT gross interest coverage[1, 2, 4]	0.85	1.00	(0.24)	(0.14)	(0.86)
EBITDA gross interest coverage[4]	4.33	3.38	2.17	4.05	2.89
Fixed-charges coverage[4]	1.22	0.77	(0.13)	(0.17)	(0.86)
Profitability Ratios					
EBITDA margin (%)[4]	24.8	18.4	12.4	21.4	15.5
EBIT margin (%)[4]	7.0	4.2	-0.7	-0.9	-4.6
Profit margin (%)[4]	7.8	4.9	-0.3	-1.9	-5.0
Return on equity (%)[4]	3.4	2.2	-0.1	-1.0	-2.8
Return on capital (%)[1, 3, 4]	2.5	1.8	0.5	0.1	-0.8

1 Including operating leases.
2 Excludes nonrecourse debt.
3 Adjusted for Accumulated Other Comprehensive Income.
4 Excluding earnings from nuclear fixed asset removal and nuclear waste management funds.
5 Includes nuclear waste funding (n.w.f.) payments as they are not discretionary.

Rating History

	Current	2019	2018	2017	2016	2015
Issuer Rating	A (low	A (low	A (low	A (low	A (low	A (low
Unsecured Debt	A (low)	A (low)	A (low)	A (low)	A (low)	A (low)
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Related Research

- DBRS Comments on Ontario Power Generation's Acquisition of Natural Gas Assets from TC Energy and ATCO, July 30, 2019.
- DBRS Comments on Ontario Power Generation's Acquisition of Cube Hydro, June 25, 2019.

Commercial Paper Limit

- $1.0 billion and USD 750 million.

Previous Actions

- DBRS Assigns Ratings of A (low) with Stable Trends to Ontario Power Generation Inc.'s $500 Million Series 4 and $300 Million Series 5 Medium-Term Notes, September 13, 2019.

Previous Report

- Ontario Power Generation Inc.: Rating Report, April 16, 2019.

About DBRS Morningstar

DBRS Morningstar is a global credit ratings business with approximately 700 employees in eight offices globally.

On July 2, 2019, Morningstar, Inc. completed its acquisition of DBRS. Combining DBRS' strong market presence in Canada, Europe, and the U.S. with Morningstar Credit Ratings' U.S. footprint has expanded global asset class coverage and provided investors with an enhanced platform featuring thought leadership, analysis, and research. DBRS and Morningstar Credit Ratings are committed to empowering investor success, serving the market through leading-edge technology and raising the bar for the industry.

Together as DBRS Morningstar, we are the world's fourth largest credit ratings agency and a market leader in Canada, the U.S., and Europe in multiple asset classes. We rate more than 2,600 issuers and 54,000 securities worldwide and are driven to bring more clarity, diversity, and responsiveness to the ratings process. Our approach and size provide the agility to respond to customers' needs, while being large enough to provide the necessary expertise and resources.

The DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(CRA, NRSRO affiliate, DRO affiliate). Morningstar Credit Ratings, LLC is a NRSRO affiliate of DBRS, Inc.

For more information on regulatory registrations, recognitions and approvals of the DBRS group of companies and Morningstar Credit Ratings, LLC, please see: http://www.dbrs.com/research/highlights.pdf.

The DBRS group and Morningstar Credit Ratings, LLC are wholly-owned subsidiaries of Morningstar, Inc.

© 2020 Morningstar. All rights reserved. The information upon which DBRS ratings and other types of credit opinions and reports are based is obtained by DBRS from sources DBRS believes to be reliable. DBRS does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS ratings, other types of credit opinions, reports and any other information provided by DBRS are provided "as is" and without representation or warranty of any kind. DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS or any DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. No DBRS entity is an investment advisor. DBRS does not provide investment, financial or other advice. Ratings, other types of credit opinions, other analysis and research issued or published by DBRS are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities. A report with respect to a DBRS rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS may receive compensation for its ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. DBRS is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS. ALL DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT http://www.dbrs.com/about/disclaimer. ADDITIONAL INFORMATION REGARDING DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON http://www.dbrs.com.

MORNINGSTAR | DBRS

Rating Report
Ontario Power Generation Inc.

DBRS Morningstar
April 21, 2021

Contents

1 Ratings
1 Rating Update
2 Financial Information
2 Issuer Description
2 Rating Considerations
5 Organizational Chart
6 Price Structure
6 Major Projects
7 Regulation
10 Earnings and Outlook
11 Financial Profile
13 Long-term Debt and Credit Facilities
15 Company Profile
18 Rating History
18 Commercial Paper Limit
18 Previous Actions
18 Previous Report

Tom Li
+1 416 597-7378
tom.li@dbrsmorningstar.com

Vipin Pal
+1 416 597-7572
vipin.pal@dbrsmorningstar.com

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A (low)	Confirmed	Stable
Unsecured Debt	A (low)	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating Update

DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating and Unsecured Debt rating of Ontario Power Generation Inc. (OPG or the Company) at A (low) and the Commercial Paper (CP) rating at R-1 (low). All trends are Stable. The ratings of OPG are primarily based on the Company's regulated electricity generation business under the Ontario Energy Board (OEB), which provides a stable stream of cash flows.

In November 2020, the Province amended Ontario Regulation (O. Reg.) 53/05 to freeze OPG's regulated hydroelectric payment amounts for the next regulatory period of 2022–26 at the 2021 level. DBRS Morningstar does not expect this change to have a material impact on the Company although earnings may be modestly pressured as efficiencies must be found to offset inflationary cost increases. In December 2020, OPG filed its application with the OEB for 2022–26 payment amounts related to its regulated nuclear business. In its application, the Company largely applied for the continuation of its current Custom Incentive Rate-setting (IR) framework for its nuclear operations. If approved as requested, the decision would provide certainty for OPG's capital expenditures (capex) program for the remainder of the Darlington Refurbishment project (the Darlington Refurbishment; total capex of $12.8 billion).

In June 2020, OPG returned the first unit of the Darlington Nuclear Generating Station (GS) to service. DBRS Morningstar notes that the refurbishment of the first unit was completed on budget and largely on schedule. In September 2020, the Company began refurbishment of the second unit. While the overall project remains on schedule and on budget, OPG has noted that uncertainty about the Coronavirus Disease (COVID-19) pandemic could lead to delays and cost increases. DBRS Morningstar will continue to monitor the Darlington Refurbishment and any changes in scheduling and budget. Should there be significant cost overruns with the Darlington Refurbishment that result in stranded costs, a negative rating action may occur.

Despite the coronavirus pandemic, OPG was able to achieve its operational and financial results in 2020. The Company's earnings benefitted from higher regulated rates for nuclear operations and increased contributions from nonregulated operations. In April 2020, OPG completed a $2.8 billion acquisition of a portfolio of natural gas-fired generation assets in Ontario totalling 1,864 megawatts (MW). DBRS Morningstar noted that the overall impact of this acquisition was minimal on the Company's credit profile as regulated operations and assets under regulatory-style contracts will continue to contribute more than 80% of EBITDA. Although the acquisition was fully debt funded, OPG's key credit metrics remain in line with the A (low) ratings. DBRS Morningstar notes that the Company has indicated that growth in its nonregulated business will be at a more moderate pace following these acquisitions, with most planned capex for its regulated operations. However, should OPG pursue acquisitions that result in a significant shift in the EBITDA mix between regulated and nonregulated operations or lead to credit metrics deteriorating to a level no longer supportive of the current rating category, DBRS Morningstar may take negative rating action. Conversely, a positive rating action is unlikely in the medium term, given the ongoing capex program, including that for the Darlington Refurbishment.

Financial Information

	For the year ended December 31				
	2020	**2019**	**2018**	**2017**	**2016**
Cash flow/Total debt (%)[1, 2]	39.3	41.7	45.0	40.0	40.6
Total debt in capital structure (%)[1, 2, 3]	33.8	28.6	26.9	26.2	34.3
EBIT gross interest coverage (times)[1, 2, 4]	3.66	0.86	1.00	(0.24)	(0.14)
(Cash flow – n.w.f.)/Total debt (%)[1, 2, 5]	36.3	39.0	39.3	33.7	32.9

1 Including operating leases.
2 Excludes nonrecourse debt.
3 Adjusted for Accumulated Other Comprehensive Income.
4 Excluding earnings from nuclear fixed asset removal and nuclear waste management funds.
5 Includes nuclear waste funding (n.w.f.) payments as they are not discretionary.

Issuer Description

OPG is an electricity generation company with a diverse portfolio of over 18,000 MW of in-service generating capacity. The Company is wholly owned by the Province of Ontario.

Rating Considerations

Strengths

1. Reasonable regulatory framework that provides stable cash flow

The reasonable regulatory framework has allowed the Company to recover prudently incurred costs and provided stable cash flows. DBRS Morningstar notes, however, that there have been disallowances by the OEB in the past on labour compensation costs related to OPG's nuclear operations. DBRS Morningstar also notes that, under an IR framework, OPG's profitability could come under further pressure because of the need to meet efficiency and productivity benchmarks.

2. Support of shareholder (the Province)

The Province indirectly provides OPG with some of its long-term funding requirements through the Ontario Electricity Financial Corporation (OEFC; rated AA (low) with a Stable trend by DBRS

Morningstar), a government financing arm for provincial power companies. DBRS Morningstar believes that the Province will continue to support its investment because OPG is a creation of the Province and is integral to fulfilling Ontario's energy needs. OPG's importance in Ontario is also demonstrated by the fact that it is the primary electricity generator in the province, accounting for approximately 54% of electricity produced in 2020.

DBRS Morningstar notes that OPG's debt is not directly guaranteed by the Province. As at December 31, 2020, OPG had approximately $2.9 billion of notes payable to the OEFC, comprising 28% of the Company's outstanding debt. While this financial support does not, in itself, result in any uplift to the Company's ratings, the ratings do incorporate DBRS Morningstar's belief that the Province will, in exceptional circumstances, provide support to OPG.

3. Limited nuclear waste management liabilities

As a result of the Ontario Nuclear Funds Agreement with the Province, OPG's exposure to the costs to dispose of the initial 2.23 million used fuel bundles produced has been capped at $5.94 billion (in 1999 dollar terms). The used fuel obligation is funded by the used fuel fund, which was fully funded as at December 31, 2020. The Province provides a guarantee for any shortfall between the value of the nuclear fund and the Canadian Nuclear Safety Commission consolidated financial guarantee requirement.

Challenges

1. Significant capex program

OPG has a significant capex program underway (approximately $2.5 billion planned for 2021). The Company also faces significant execution risk as well as the potential for cost overruns associated with the Darlington Refurbishment because of the project's complexity and scale. While DBRS Morningstar is encouraged because the first unit of the Darlington Refurbishment was completed on budget and on schedule, there are still three more units to be refurbished. DBRS Morningstar expects that OPG will not undertake any major capex without having financing and a cost-recovery mechanism in place, thus minimizing financial risks.

2. Nuclear generation risks

Nuclear generation (approximately 53% of OPG's production in 2020) faces higher operating risks than other types of power generation because of its complex technology. The financial implications of forced outages, especially with older units (e.g., the Pickering Nuclear GS), are greater, given the high fixed-cost nature of these plants and because lost revenues resulting from outages are not recoverable through rates.

3. High cost base

OPG's high cost base has resulted in several disallowances by the OEB. For the most recent 2017–21 rates decision, the OEB disallowed recovery of $100 million in the operations, maintenance, and administration (OM&A) budget annually. DBRS Morningstar believes that OPG's inability to fully recover compensation costs in future regulated prices could have a negative impact on earnings and affect the

Company's ability to achieve its approved return on equity (ROE). DBRS Morningstar notes that OPG has been combatting this issue through its cost-reduction and efficiency-improvement initiative, which has saved $1.0 billion through a reduction in headcount of over 2,800 since 2011.

4. Political intervention

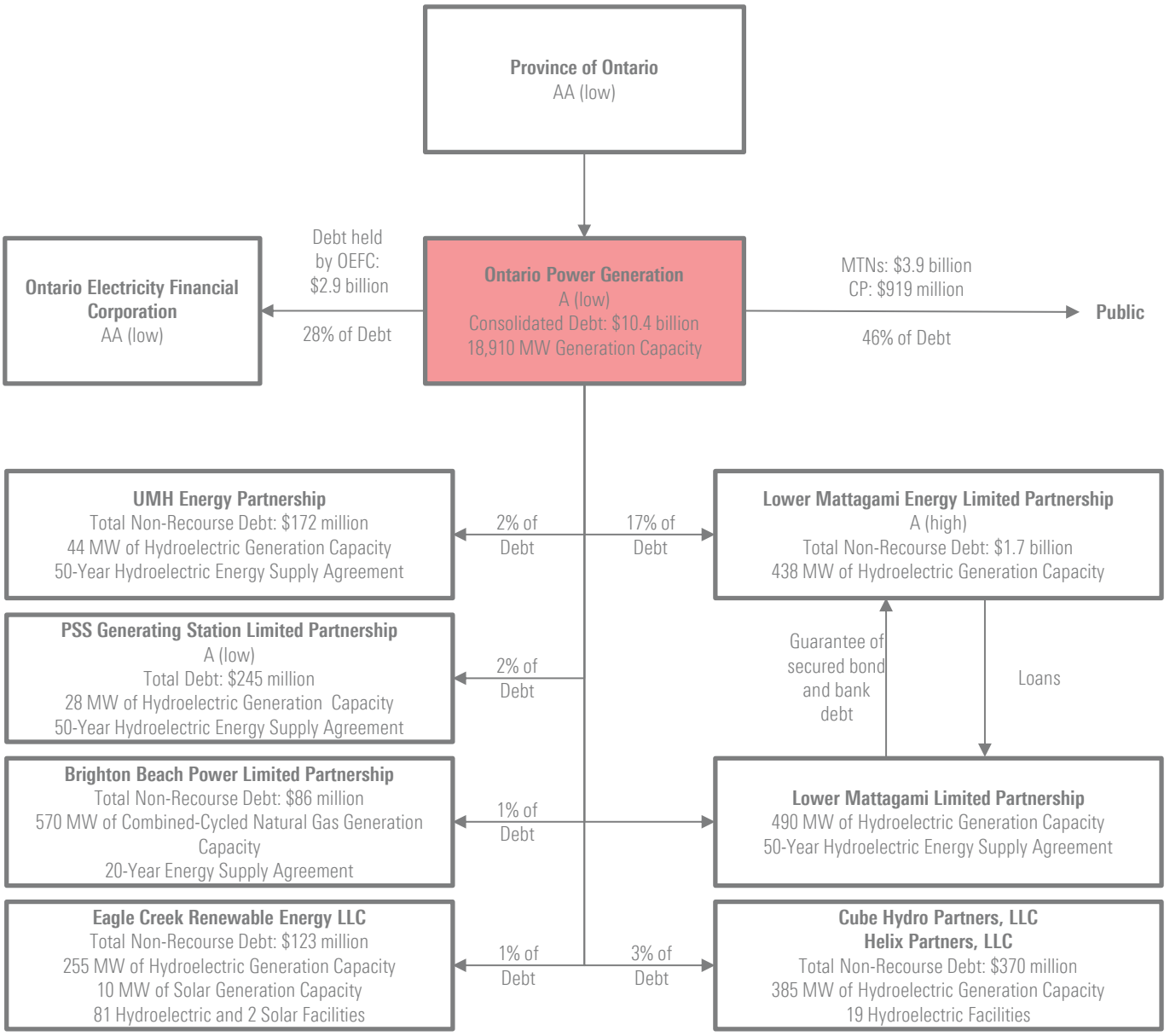
OPG is subject to political intervention, largely because of its ownership by the Province and changes in government mandates and policies. DBRS Morningstar notes that, though the Province has committed to having the Company run more autonomously, the risk of further government intervention still exists. In November 2020, the Province amended legislation to freeze OPG's hydroelectric rates at the 2021 level for the next regulatory period of 2022–26. DBRS Morningstar expects the Company's earnings to be modestly pressured as OPG will have to find efficiencies to offset inflationary cost increases.

5. Increased exposure to nonregulated operations

OPG has in recent years acquired multiple nonregulated generation assets, including gas-fired plants in Ontario and two renewable facility operators in the United States (Eagle Creek Renewable Energy LLC (Eagle Creek) and Cube Hydro). The Company also owns nonregulated natural gas, oil, solar, and biomass generation assets in the province. While the Ontario assets are largely under long-term contracts with strong investment-grade counterparties (such as the Independent Electricity System Operator (IESO; rated A (high) with a Stable trend by DBRS Morningstar)) and contribute relatively stable earnings and cash flow, DBRS Morningstar does view nonregulated assets as generally having higher business risks than the incumbent regulated operations because there is less cost recovery certainty and potentially more volatile cash flow. DBRS Morningstar notes that, following the acquisition of three Ontario natural gas-fired assets in 2020, earnings contributed by nonregulated operations will remain moderate at below 20% and are expected to decrease as most future capex is for regulated operations. DBRS Morningstar also considers assets under regulatory-styled contracts (such as Lower Mattagami Energy Limited Partnership (LMELP; rated A (high) with a Stable trend by DBRS Morningstar), PSS Generating Station Limited Partnership (PSS; rated A (low) with a Stable trend by DBRS Morningstar) and UMH Energy Partnership (UMH; not rated by DBRS Morningstar)) to have similar credit risks as regulated operations because those contracts mimic the current regulatory construct under the OEB.

Organizational Chart

Simplified Organizational Chart

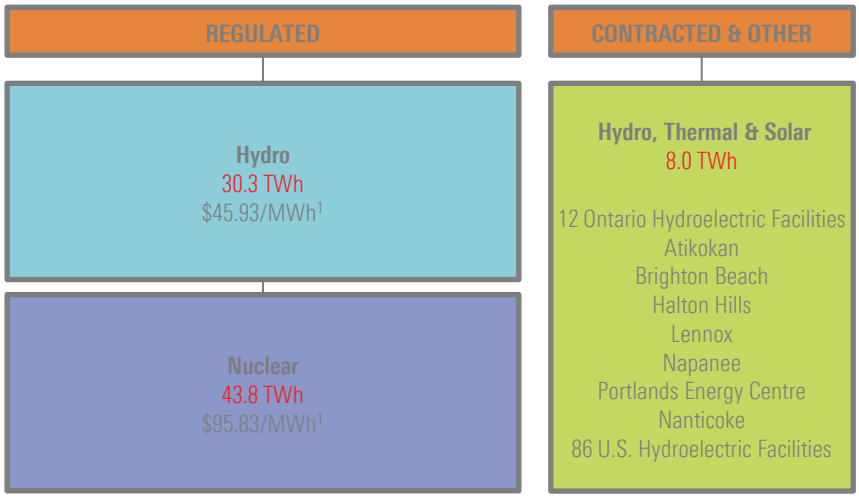


As of December 31, 2020.

Source: OPG.

- As at December 31, 2020, debt at the OPG corporate level consists of $2.9 billion held by the OEFC, $3.9 billion of medium term notes (MTNs), and $919 million of CP outstanding.
  - Debt at UMH, LMELP, Brighton Beach GS, Eagle Creek, and Cube Hydro are secured by the assets at each corresponding subsidiary and are nonrecourse to OPG.
  - Debt at PSS GS is recourse to OPG until the recourse release date.

Price Structure



1 Rates as of January 1, 2021.
For the year ended December 31, 2020.

Source: OPG.

- OPG sells electricity to consumers through the IESO.
- Regulated facilities sell at rates set by the OEB, which could include rate riders used for the recovery of nuclear deferral and hydroelectric variance account balances.
- The Contracted and Other Portfolio includes (1) assets in Ontario that sell electricity at prices set through Energy Supply Agreements (ESA) or other long-term contracts with the IESO and (2) Eagle Creek, which holds interest in 100 hydroelectric GS and two solar facilities throughout the United States.
    - The Eagle Creek and Cube Hydro facilities either sell into the merchant market or operate under long-term energy or capacity supply contracts.

Major Projects

Project	Estimated Cost (CAD millions)	Spent as of Dec. 31, 2020 (CAD millions)	In-Service Target Date
Darlington Refurbishment	12,800	7,446	2026[1]
Little Long Dam Safety Project	650	102	2023
Sir Adam Beck I GS Units G1 and G2 Replacement	128	54	2022
Calabogie Hydroelectric GS	137	30	2022
Ranney Falls Hydroelectric GS	77	71	2021

1 Four units with staged in-service. Last unit scheduled to be completed by 2026.

- **Darlington Refurbishment**: The Darlington Refurbishment will extend the operating life of the Darlington Nuclear GS by approximately 30 years. The execution of the refurbishment of the first unit began in October 2016 and the last unit is scheduled to be completed by 2026. Construction on the first unit was completed in March 2020 and returned in service in June 2020. Refurbishment on the second unit

began in September 2020 after a short delay related to the coronavirus pandemic. The project remains on schedule and on budget.

- **Little Long Dam Safety Project**: This project is intended to make reliability and operational improvements and increase the discharge capacity at the Little Long Dam. The Little Long Dam supports hydroelectric GSs on the Lower Mattagami River.
- **Sir Adam Beck 1 GS Units G1 and G2 Replacement**: This project is intended to replace two older generators at the Sir Adam Beck 1 GS, adding 125 MW of incremental capacity.
- **Calabogie Hydroelectric GS**: This project is intended to redevelop the Calabogie GS by replacing the powerhouse to 11 MW from 5 MW.
- **Ranney Falls Hydroelectric GS**: This project will replace an existing generation unit at Ranney Falls with a 10 MW single-unit powerhouse. While construction was completed in 2019, the unit was damaged during commissioning. The vendor will disassemble, repair, and reassemble the unit at their own cost.
- In April 2020, OPG completed its acquisition of the Napanee and Halton Hills GSs and the remaining 50% interest in the Portlands Energy Centre from affiliates of TC Energy Corporation (rated Pfd-2 (low) with a Stable trend by DBRS Morningstar) for approximately $2.8 billion. These assets are combined-cycle natural gas-fired plants located in Ontario and added 1,864 MW of generating capacity to the Company. DBRS Morningstar notes that, although these assets have a higher business risk than OPG's incumbent regulated operations, earnings and cash flows from these assets are expected to be relatively stable as they are supported by long-term contracts with an investment-grade counterparty (IESO).

Regulation

- OPG benefits from a reasonable regulated environment. As at December 31, 2020, approximately 64% of its installed in-service capacity is regulated.
- OPG, regulated by the OEB under the Electricity Restructuring Act, 2004 (Ontario), is allowed to receive regulated prices for all electricity generated from its nuclear facilities (5,728 MW) as well as most of its hydroelectric power facilities (6,420 MW).
- In December 2017, the OEB issued its decision on OPG's application for rates effective January 1, 2017.
  - The OEB approved rates to be effective June 1, 2017, rather than the applied-for effective date of January 1, 2017.
  - Capital structure will remain at 55% debt (the Company had requested a change to 51% debt) and an allowed ROE of 8.78%. The ROE will not be updated throughout the five-year term.
  - For hydroelectric facilities, the Price Cap IR methodology is used. Under Price Cap IR, rates for the hydroelectric facilities are subject to a formula price cap that allows for an annual increase in the payment amount based on inflation less productivity and a utility-specific stretch factor, which can be reset annually (productivity factor of 0%, stretch factor of 0.3%).
  - Under Price Cap IR, OPG could file an Incremental Capital Module (ICM) application to potentially recover any material and necessary prudently spent incremental capex during the IR period of five years. Additionally, the Company could ask to initiate a regulatory review of its application if actual ROE falls 300 basis points below the approved ROE.
  - For nuclear facilities, OPG requested the use of a Custom IR methodology and a rate-smoothing deferral account. Under its Custom IR methodology, nuclear revenue requirements were determined by a five-year forecast cost-of-service (COS) approach, but with a stretch factor of 0.6%

applied to the Company's OM&A expenditures. The reduction in OM&A costs as a result of the stretch factor will accumulate for the five-year period. The rate-smoothing deferral account (as required under O. Reg. 53/05) will stabilize year-to-year changes to weighted-average payment amounts as the Darlington Refurbishment continues. OPG will defer a portion of its approved nuclear revenue requirements into the rate-smoothing deferral account and will be allowed to recover the deferred amount, and any amount to be deferred from 2022 to 2026, over a 10-year period once the Darlington Refurbishment has been completed.
    - The OEB reduced the nuclear OM&A budget by $100 million per year for a total of $500 million over five years. Additionally, the OEB did not approve a mid-term review (prior to July 1, 2019) to update the nuclear production forecast.
    - The OEB approved the inclusion of $5.5 billion to the rate base over the five-year period of the Custom IR for the Darlington Refurbishment. Any cost overruns will be subject to a prudence review before being added to the rate base.
    - The OEB also approved the recovery of balances as at December 31, 2015, in OPG's deferral and variance accounts.
- In December 2019, the OEB approved the Company's Application for 2020 Hydroelectric Payment Amount Adjustment to be effective January 1, 2020.
    - The OEB approved a 1.5% base rate increase based on an inflation factor of 1.8%.
- In December 2020, the OEB approved the Company's Application for 2021 Hydroelectric Payment Amount Adjustment to be effective January 1, 2021.
    - The OEB approved a 1.7% base rate increase based on an inflation factor of 2.0%.
- In November 2020, the Province amended O. Reg. 53/05 to freeze hydroelectric rates for OPG at the 2021 level for the next regulatory period of 2022–26.
    - Rates for nuclear facilities will not be frozen and will continue to be set by the OEB.
    - DBRS Morningstar notes the hydroelectric rate freeze may modestly pressure the Company's earnings as OPG will have to find efficiencies in its regulated hydroelectric operations to offset inflationary cost increases.
- In December 2020, OPG filed its application with the OEB for rates effective January 1, 2022.
    - As per O. Reg. 53/05, OPG has requested hydroelectric base payment amounts to remain at the 2021 level.
    - The Company requested a change to its capital structure to 50% debt (currently 55% debt) and for the allowed ROE to be determined by the 2022 cost of capital parameters.
    - For nuclear facilities, OPG has requested the continuation of the current Custom IR methodology, but with the stretch factor reduced to 0.45% for 2023–25, and 0.3% for 2026.
    - The Company has requested the continuation of the rate-smoothing deferral account and has proposed one additional deferral account related to the closing of the Pickering Nuclear GS.
    - OPG requested the following for its nuclear facilities:

Effective Date	January 1, 2022	January 1, 2023	January 1, 2024	January 1, 2025	January 1, 2026
Revenue requirement, net of stretch factor (CAD millions)	3,611.4	3,540.8	3,644.2	3,324.5	2,550.9
Rate base (CAD millions)	8,720.4	8,788.7	11,260.7	12,468.5	13,312.0
Payment amount ($ per MWh)	101.51	105.13	104.42	106.70	120.67

Assessment of Regulatory Framework

Criteria	Score	Analysis
1. Deemed Equity	Excellent	The OEB allows OPG to have a deemed equity of 45%.
	Good	
	Satisfactory	
	Below Average	
	Poor	
2. Allowed ROE	Excellent	OPG has an allowed ROE of 8.78% for 2017–21, which is in line with the other regulated utilities in Ontario. Any difference in ROE between the Company and other regulated utilities in the province is mainly because of the timing of the regulatory filings and the interest environment prevalent at that time.
	Good	
	Satisfactory	
	Below Average	
	Poor	
3. Energy Cost Recovery	Excellent	N/A; energy costs are recovered through rates for OPG.
	Good	
	Satisfactory	
	Below Average	
	Poor	
4. Capital and Operating Cost Recovery	Excellent	Under Price-Cap IR for the hydroelectric facilities, major capital costs are pre-approved at the time of the COS application. If incremental costs are significant and prudent, OPG can file under ICM to request recovery of the costs. Under Custom IR for the nuclear facilities, the capex program for OPG is pre-approved for a five-year period by the OEB and recovered through base rates. Future test years are utilized for both hydroelectric and nuclear rates applications. Some volume risk exists but this is partly mitigated by (a) historically stable throughputs for the hydroelectric facilities, (b) use of deferral accounts for volumetric differences, and (c) for nuclear facilities, rates are based on forecasts which include scheduled outages. However, lost revenues resulting from forced outages are not recoverable through rates.
	Good	
	Satisfactory	
	Below Average	
	Poor	
5. COS versus IRM	Excellent	The hydroelectric facilities are regulated under the Price Cap IR framework, with four years between the COS rebasing years. The nuclear facilities operate under Custom IR, which is a hybrid of COS and the IR framework, for a five-year term. DBRS Morningstar considers the inflation, productivity (0%), and stretch (0.3% for hydroelectric and 0.6% for nuclear) factors as reasonable.
	Good	
	Satisfactory	
	Below Average	
	Poor	
6. Political Interference	Excellent	The Government of Ontario plays a significant role in the electricity sector in Ontario, given that most of the utilities are government owned (OPG is owned by the Province). 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.
	Good	
	Satisfactory	
	Below Average	
	Poor	
7. Stranded Cost Recovery	Excellent	Regulated utilities in Ontario have a limited history of stranded costs. Most prudently incurred or budgeted capex is approved by the OEB. While OPG has seen some write-downs, these have been because the OEB had deemed the costs overruns to have been imprudent.
	Good	
	Satisfactory	
	Below Average	
	Poor	
8. Rate Freeze	Excellent	DBRS Morningstar notes that, in November 2020, the Province amended O. Reg. 53/05 to freeze hydroelectric rates for the Company at the 2021 level for the next regulatory period from 2022 to 2026. Rates for nuclear facilities will not be frozen and will continue to be set by the OEB. DBRS Morningstar notes that the hydroelectric rate freeze may modestly pressure OPG's earnings as the Company will have to find efficiencies to offset inflation.
	Good	
	Satisfactory	
	Below Average	
	Poor	

Earnings and Outlook

	For the year ended December 31				
(CAD millions where applicable)	**2020**	**2019**	**2018**	**2017**	**2016**
Revenues	7,240	6,022	5,535	5,158	5,653
EBITDA[1]	2,459	1,496	1,017	642	1,207
EBIT[1]	1,137	423	233	(37)	(50)
Gross interest expense	416	345	301	296	298
Earning before taxes[1]	835	439	225	(92)	(116)
Net income before nonrecurring items[1]	679	469	274	(14)	(106)
Reported net income	1,361	1,126	1,195	860	436
Return on equity (%)	4.6	3.4	2.2	-0.1	-1.0
Hydroelectric rate base	N/A	N/A	N/A	N/A	7,447
Nuclear rate base	7,347	3,374	3,446	3,628	3,573
Approved regulated ROE (%)	8.78	8.78	8.78	8.78	9.19
Achieved regulated ROE (%)	N/A	15.72	10.69	5.88	3.80

1 Excluding earnings from nuclear fixed asset removal and nuclear waste management funds.

2020 Summary

- EBITDA and EBIT increased significantly in 2020 for OPG because of higher regulated rates for nuclear facilities, and higher contracted revenues following the acquisition of natural gas assets in April 2020.
  - This was partly offset by higher depreciation from the growing rate base and regulatory commitments in support for the continued operation of the Pickering Nuclear GS.
- Net income from nonrecurring items increased as well, tracking the higher EBIT.
  - OPG reported a corporate ROE of 9.0% for 2020, in line with the approved regulatory ROE of 8.78%.

2021 Outlook

- OPG has forecast net income in 2021 to decrease compared with 2020.
  - This decrease is largely because Unit 3 of the Darlington Nuclear GS will be out for refurbishment for the full year, and planned cyclical maintenance of Units 1 and 4 during the year, reducing electricity production as well as a corresponding increase in expenses.
  - Higher depreciation on the growing rate base will also affect earnings.
  - The Company expects these impacts will be partly mitigated by higher generation from Pickering Nuclear GS, a full year's operation of Unit 2 of the Darlington Nuclear GS following the completion of its refurbishment in June 2020, and higher contributions from the nonregulated portfolio.
- DBRS Morningstar does not expect the ongoing pandemic to have a material impact on OPG's earnings as even with potentially lower electricity demand in the province, volume risk for hydroelectric generation is limited through deferral accounts which allow the Company to recover any foregone production because of surplus baseload generation conditions.
- Earnings volatility going forward will come from (1) forecast risk as part of the IR process and (2) macro factors such as weather, unexpected outages, and Ontario's economic conditions.

Financial Profile

	For the year ended December 31				
(CAD millions where applicable)	**2020**	**2019**	**2018**	**2017**	**2016**
Net income before nonrecurring items[4]	679	469	274	(14)	(106)
Depreciation & amortization	1,322	1,073	784	679	1,257
Deferred income taxes and other	1,315	1,026	1,147	1,070	1,081
Cash flow (bef. working cap. changes)	**3,316**	**2,568**	**2,205**	**1,735**	**2,232**
Nuclear waste funding	(439)	(336)	(307)	(313)	(425)
Dividends paid	0	0	(283)	0	0
Capital expenditures	(1,765)	(2,058)	(1,826)	(1,853)	(1,816)
Free cash flow (bef. working cap. changes)	**1,112**	**174**	**(211)**	**(431)**	**(9)**
Changes in noncash working cap. items	103	99	(160)	80	180
Change in regulatory assets/liabilities	(156)	275	(51)	(558)	(170)
Net free cash flow	**1,059**	**548**	**(422)**	**(909)**	**1**
Long-term investments	(2,814)	(1,232)	(358)	0	(213)
Proceeds on asset sales	0	11	289	554	110
Acquisition of Fair Hydro Trust receivables	0	0	(609)	(1,179)	0
Change in Fair Hydro Trust debt	0	0	306	601	0
Net equity change	0	0	268	519	0
Net debt change	1,993	866	622	458	(162)
Other	(11)	(8)	(17)	4	(14)
Change in cash	**227**	**185**	**79**	**48**	**(278)**
Total debt	10,429	8,445	7,878	6,579	5,522
Total debt[2]	7,928	5,729	4,730	4,053	5,340
Cash flow/Total debt (%)[1, 2]	39.3	41.7	45.0	40.0	40.6
Total debt in capital structure (%)[1, 2, 3]	33.8	28.6	26.9	26.2	34.3
EBIT gross interest coverage (times)[1, 2, 4]	3.66	0.86	1.00	(0.24)	(0.14)
(Cash flow - n.w.f.)/Total debt (%)[1, 2, 5]	36.3	39.0	39.3	33.7	32.9

1 Including operating leases.
2 Excludes nonrecourse debt.
3 Adjusted for Accumulated Other Comprehensive Income.
4 Excluding earnings from nuclear fixed asset removal and nuclear waste management funds.
5 Includes nuclear waste funding (n.w.f.) payments as they are not discretionary.

2020 Summary

- OPG's key credit metrics exclude nonrecourse debt from UMH (recourse released in 2014), LMELP (recourse released in 2017), Fair Hydro Trust (derecognized in 2019), Eagle Creek, Cube Hydro, and Brighton Beach GS.
  - The cash flow-to-debt and debt-to-capital metrics both weakened modestly because of debt issued to fund the acquisition of the natural gas assets in Ontario. These two ratios remained strong though.
  - The EBIT-to-interest coverage ratio improved significantly because of the stronger EBIT for the year.
- Cash flow from operations increased, tracking the higher net income.

- Capex decreased to $1.7 billion following the completion of Unit 2 of the Darlington Refurbishment in June 2020 and with refurbishment on Unit 3 delayed slightly until September 2020 because of the pandemic.
- Long-term investments of $2.8 billion represent the acquisition of the Napanee GS, Halton Hills GS, and the remaining 50% interest in the Portlands Energy Centre from TC Energy completed in April 2020.
- OPG issued $400 million of debt to the OEFC and $1.6 billion of Senior Notes under the MTN program.
  - Proceeds were used to repay $660 million of OEFC debt and to finance the natural gas portfolio acquisition.

2021 Outlook

- Key credit metrics are expected to weaken in 2021 but remain in line with the current ratings.
  - OPG's adjusted cash flow-to-debt ratio is expected to decrease to around 25% from the historical average of around 40% largely because of weaker cash flows expected for the year and the increase in debt in 2020 to fund the natural gas portfolio acquisition. DBRS Morningstar notes that the Company's cash flow-to-debt ratio had been strong for the rating and will still be in line with the current ratings.
  - Debt-to-capital for OPG is expected to remain steady while the EBIT-interest coverage ratio will return to levels more similar to 2019 results.
- Cash flow from operations is expected to decrease to 2019 levels because of the lower earnings for the year.
- OPG has forecast capex of $2.5 billion for 2021 largely because of a full year's work on the Unit 3 Darlington Refurbishment and work on the Little Long Dam Safety Project.
- In February 2021, OPG issued $500 million of debt, with the proceeds used to repay existing indebtedness, working capital requirements, and general corporate purposes.

Long-term Debt and Credit Facilities

Long-Term Debt

(CAD millions)	Maturity	Dec. 31, 2020	Dec. 31, 2019
Notes payable to the OEFC	2021–48	2,875	3,135
Medium Term Note Program	2025–50	3,850	2,250
UMH Energy Partnership[1]	2041	172	175
PSS Generating Station Limited Partnership[2]	2067	245	245
Lower Mattagami Energy Limited Partnership[1]	2021–52	1,595	1,595
Brighton Beach Power Limited Partnership[1]	2021–24	86	116
Eagle Creek[1]	2025–30	123	307
Cube Hydro[1]	2025–35	370	385
Other		25	25
Subtotal		**9,341**	**8,233**
Less: Fair value discount		24	20
Less: Bond issuance fees		(33)	(27)
Less: Current portion		(439)	(693)
Total long-term debt		**8,893**	**7,533**

1 Nonrecourse to OPG as debt is secured by assets of the associated project.
2 Secured by assets of the project; recourse to OPG until the recourse release date.

- In March 2020, OPG issued $400 million of Senior Notes to the OEFC with a maturity date of 2024 at an effective interest rate of 1.75%.
  - The Company also repaid $660 million of Senior Notes owed to the OEFC during 2020.
- In April 2020, the Company issued $1.2 billion of Senior Notes with $400 million maturing in 2025 at a coupon rate of 2.89% and $800 million maturing in 2030 at a coupon rate of 3.22%. In October 2020, the Company issued an additional $400 million of Senior Notes maturing in 2026 with a coupon rate of 1.17%.
  - In February 2021, the Company issued $500 million of Senior Notes maturing in 2051 at a coupon rate of 2.95%.
- The amortizing UMH notes were issued in 2009 with a maturity date of 2041 and an effective interest rate of 7.86%. The notes are secured by the assets of the Upper Mattagami and Hound Chute project and are nonrecourse to OPG.
- The amortizing PSS GS notes were issued in 2015 with a maturity date of 2067 and an effective interest rate of 4.90%. The notes are secured by the assets of PSS GS and are recourse to OPG until the recourse release date (expected in 2021).
- The LMELP notes are secured by the assets of the project and are nonrecourse to OPG.
- $87 million of Senior Notes at year end 2020 related to Brighton Beach GS. The notes are secured by the assets of the Brighton Beach GS and are nonrecourse to the Company.
- $123 million of long-term debt at year end 2020 related to Eagle Creek. The notes are secured by the assets of Eagle Creek and are nonrecourse to the Company.
- $370 million of long-term debt at year end 2020 related to Cube Hydro. The notes are secured by the assets of Cube Hydro and are nonrecourse to the Company.

Maturity Profile							
(CAD millions - as at December 31, 2020)	**2021**	**2022**	**2023**	**2024**	**2025**	**Thereafter**	**Total**
Long-Term Debt	439	206	73	616	579	7,428	**9,341**
	5%	2%	1%	7%	6%	80%	**100%**

- OPG's maturity profile is fairly spread out.

Credit Facilities				
(CAD millions - as at December 31, 2020)	**Maturity**	**Amount**	**Drawn/LOC**	**Available**
Committed credit facility	May 2023	50	0	50
Committed credit facility	May 2024	950	0	950
Committed credit facility - USD 750 million	Nov. 2021	955	0	955
Non-revolving term facility[1]	Mar. 2021	600	0	600
OEFC general corporate credit facility	Dec. 2021	800	500	300
Short-term uncommitted credit facilities	Demand	655	536	119
Short-term uncommitted overdraft facilities	Demand	25	0	25
Lower Mattagami River Project - Tranche 2[2]	Aug. 2022	100	0	100
Lower Mattagami River Project - Tranche 1[2]	Aug. 2024	300	55	245
UMH Energy Partnership credit facilities[2]	Oct. 2021	16	16	0
UMH Energy Partnership overdraft facilities[2]	Oct. 2021	8	0	8
Eagle Creek credit facility - USD 10 million[2]	Aug. 2022	13	0	13
Eagle Creek credit facility - USD 20 million[2]	Oct. 2028	25	0	25
Subtotal		**4,497**	**1,107**	**3,390**
CPs issued - Corporate			919	(919)
CPs issued - LMELP			131	(131)
Total		**4,497**	**2,157**	**2,340**

1 Repayment of advances permanently reduce the amount of the credit facility. This facility expired as at March 31, 2021.
2 Nonrecourse to OPG as debt is secured by assets of the associated project.

- OPG has a reasonable liquidity profile.
- The Company has a $1.0 billion Canadian CP program ($575 million of CP outstanding as at December 31, 2020) and a USD 750 million CP program in the United States (USD 270 million of CP outstanding as at December 31, 2020; unrated by DBRS Morningstar). These CP programs are supported by the following facilities:
  - Two tranches of bank facilities totalling $1.0 billion;
  - A USD 750 million bank facility (due date of November 2021, with a one year term-out option); and
  - An OEFC facility (due date of December 2021) with available capacity of $300 million as of December 31, 2020.
- As at December 31, 2020, OPG had issued $536 million in letters of credit (LOC) under its corporate facilities of which $428 million was attributed to its supplementary pension plan.
- OPG also has a nonrevolving term facility of $1.0 billion maturing in March 2021; $400 million was drawn and repaid in 2020, leaving $600 million of available capacity.

- The LMELP, UMH, and Cube Hydro facilities are used to support the respective projects and are nonrecourse to OPG.

Company Profile

Generation Profile

As at December 31, 2020	Percent (%)	Capacity (MW)
Nuclear		
Darlington	14	2,634
Pickering A	5	1,030
Pickering B	11	2,064
	30	**5,728**
Thermal		
Atikokan (Biomass)	1	205
Brighton Beach	3	570
Halton Hills	4	683
Napanee	5	900
Portlands Energy Centre	3	562
Lennox (Dual oil & gas)	11	2,100
	27	**5,020**
Hydroelectric		
Nonregulated[1]	9	1,688
Regulated1	34	6,420
	43	**8,108**
Other		
Solar[2]	0	54
Total Capacity	**100**	**18,910**

1 Represents OPG's share of in-service generation.
2 Three solar facilities.

- OPG is the largest generator of electricity in Ontario.
- In 2020, the Company generated 82.1 terawatt hours of electricity with total in-service capacity of 18,910 MW as at December 31, 2020.
  - The increase in generating capacity can be attributed to the acquisition to the acquisition of the Halton Hills GS, Napanee GS, and the remaining 50% interest in the Portlands Energy Centre.
- OPG partnerships consist of the following:
  - OPG owns the Bruce A and Bruce B Nuclear GS, which are leased on a long-term basis to Bruce Power L.P. (rated BBB with a Stable trend by DBRS Morningstar).
  - OPG and the Lac Seul First Nation (LSFN) jointly own the Lac Seul GS, with LSFN owning 25% of the facility.
  - OPG and the Moose Cree First Nation (MCFN), through its wholly owned subsidiary, Amisk-oo-Skow Finance Corporation, jointly own the Little Long, Harmon, Kipling, and Smoky Falls GS, with MCFN owning 25% of the facilities.

- OPG and Coral Rapids Power Corporation (CRP), a wholly owned subsidiary of the Taykwa Tagamou Nation, jointly own PSS GS, with CRP owning 33% of the facility.
- OPG, a subsidiary of the Six Nations of the Grand River Development Corporation, and Mississauga's of the Credit First Nation jointly own the Nanticoke Solar facility, with OPG owning 80% of the facility.

Balance Sheet

(CAD millions)	Dec. 31	Dec. 31	Dec. 31		Dec. 31	Dec. 31	Dec. 31
Assets	**2020**	**2019**	**2018**	**Liabilities & Equity**	**2020**	**2019**	**2018**
Cash & equivalents	889	648	349	Short-term borrowings	1,062	178	322
Accounts receivable	492	468	483	Accounts payable	1,245	1,095	1,170
Inventories	328	325	397	Current portion L.T.D.	439	693	368
Regulatory assets	533	486	490	Regulatory liabilities	266	103	36
Prepaid expenses & other	313	320	419	Deferred revenue & other	0	0	37
Total Current Assets	**2,555**	**2,247**	**2,138**	**Total Current Liabilities**	**3,012**	**2,069**	**1,933**
Net fixed assets	29,810	26,047	22,987	Long-term debt	8,928	7,574	7,188
Intangibles	633	471	363	Deferred income taxes	1,379	1,154	1,018
Financing receivables	0	0	1,788	Pension & post-retirement benefits	8,411	6,667	6,339
Nuclear removal/waste management funds	19,050	18,252	17,464	Nuclear removal/waste management funds	22,947	22,081	21,225
Regulatory assets	8,571	6,770	6,769	Regulatory liabilities	1,239	949	762
Investments & other	1,454	1,617	743	Payables & other long-term liabilities	625	635	660
				Shareholders' equity	15,532	14,275	13,127
Total Assets	**62,073**	**55,404**	**52,252**	**Total Liabilities & SE**	**62,073**	**55,404**	**52,252**

Ratios

	For the year ended December 31				
Balance Sheet & Liquidity & Capital Ratios	**2020**	**2019**	**2018**	**2017**	**2016**
Current ratio	0.85	1.09	1.11	0.79	0.73
Total debt in capital structure (%)	40.2	37.2	37.5	35.6	34.4
Total debt in capital structure (%)[1, 2, 3]	33.8	28.6	26.9	26.2	34.3
Cash flow/Total debt (%)	31.8	30.4	28.0	26.4	40.4
Cash flow/Total debt (%)[1, 2]	39.3	41.7	45.0	40.0	40.6
(Cash flow - dividends)/Capex (times)	1.88	1.25	1.05	0.94	1.23
(Cash flow - n.w.f.)/Total debt (%)[1, 2, 5]	36.3	39.0	39.3	33.7	32.9
Dividend payout ratio (%)	0.0	0.0	103.3	0.0	0.0
Coverage Ratios (times)					
EBIT gross interest coverage[4]	2.73	1.23	0.77	(0.13)	(0.17)
EBIT gross interest coverage[1, 2, 4]	3.66	0.86	1.00	(0.24)	(0.14)
EBITDA gross interest coverage[4]	5.91	4.34	3.38	2.17	4.05
Fixed-charges coverage[4]	2.73	1.23	0.77	(0.13)	(0.17)
Profitability Ratios					
EBITDA margin (%)[4]	34.0	24.8	18.4	12.4	21.4
EBIT margin (%)[4]	15.7	7.0	4.2	-0.7	-0.9
Profit margin (%)[4]	9.4	7.8	4.9	-0.3	-1.9
Return on equity (%)[4]	4.6	3.4	2.2	-0.1	-1.0
Return on capital (%)[1, 3, 4]	3.7	2.5	1.8	0.5	0.1

1 Including operating leases.
2 Excludes nonrecourse debt.
3 Adjusted for Accumulated Other Comprehensive Income.
4 Excluding earnings from nuclear fixed asset removal and nuclear waste management funds.
5 Includes nuclear waste funding (n.w.f.) payments as they are not discretionary.

Rating History

	Current	2020	2019	2018	2017	2016
Issuer Rating	A (low)	A (low)	A (low)	A (low)	A (low)	A (low)
Unsecured Debt	A (low)	A (low)	A (low)	A (low)	A (low)	A (low)
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Commercial Paper Limit

- $1.0 billion and USD 750 million.

Previous Actions

- DBRS Morningstar Assigns Rating of A (low) With Stable Trend to Ontario Power Generation Inc.'s $500 Million Series 9 Medium-Term Notes, February 5, 2020.
- DBRS Morningstar Assigns Rating of A (low) with Stable Trends to Ontario Power Generation Inc.'s $400 Million Series 8 Medium-Term Notes, October 22, 2020.
- DBRS Morningstar Assigns Ratings of A (low) with Stable Trends to Ontario Power Generation Inc.'s $400 Million Series 6 and $800 Million Series 7 Medium-Term Notes, April 9, 2020.
  DBRS Morningstar Confirms Ontario Power Generation Inc. at A (low)/R-1 (low), Stable Trends, April 7, 2020.

Previous Report

- Ontario Power Generation Inc.: Rating Report, April 16, 2020.

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 3,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why DBRS Morningstar is the next generation of credit ratings.

Learn more at dbrsmorningstar.com.

MORNINGSTAR | DBRS

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: https://www.dbrsmorningstar.com/research/225752/highlights.pdf.

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

© 2021 DBRS Morningstar. All Rights Reserved. The information upon which DBRS Morningstar ratings and other types of credit opinions and reports are based is obtained by DBRS Morningstar from sources DBRS Morningstar believes to be reliable. DBRS Morningstar does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS Morningstar ratings, other types of credit opinions, reports and any other information provided by DBRS Morningstar are provided "as is" and without representation or warranty of any kind. DBRS Morningstar hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS Morningstar or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Morningstar Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS Morningstar or any DBRS Morningstar Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. No DBRS Morningstar entity is an investment advisor. DBRS Morningstar does not provide investment, financial or other advice. Ratings, other types of credit opinions, other analysis and research issued or published by DBRS Morningstar are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities. A report with respect to a DBRS Morningstar rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS Morningstar may receive compensation for its ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. DBRS Morningstar is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS Morningstar shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS Morningstar. ALL DBRS MORNINGSTAR RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT https://www.dbrsmorningstar.com/about/disclaimer. ADDITIONAL INFORMATION REGARDING DBRS MORNINGSTAR RATINGS AND OTHER TYPES OF CREDIT OPINIONS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON https://www.dbrsmorningstar.com.

MORNINGSTAR | DBRS

Rating Report
Ontario Power Generation Inc.

DBRS Morningstar
April 25, 2022

Contents

1 Ratings
1 Rating Update
2 Financial Information
2 Issuer Description
2 Rating Considerations
5 Organizational Chart
6 Price Structure
6 Major Projects
7 Regulation
11 Earnings and Outlook
12 Financial Profile
14 Long-term Debt and Credit Facilities
16 Company Profile
17 ESG Checklist
19 Rating History
19 Commercial Paper Limit
19 Previous Actions
19 Previous Report

Tom Li
+1 416 597-7378
tom.li@dbrsmorningstar.com

Vipin Pal
+1 416 597-7572
vipin.pal@dbrsmorningstar.com

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A (low)	Confirmed	Stable
Unsecured Debt	A (low)	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating Update

On April 8, 2022, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating and Unsecured Debt rating of Ontario Power Generation Inc. (OPG or the Company) at A (low) and the Commercial Paper (CP) rating at R-1 (low). All trends are Stable. The ratings of OPG are underpinned by its regulated electricity generation business under the Ontario Energy Board (OEB). The Stable trend reflects the steady cash flows generated by those assets as well as the Company's reasonable key credit metrics.

In November 2021, the OEB approved OPG's application for 2022 to 2026 regulated payment amounts. As per *Ontario Regulation (O. Reg.) 53/05*, OPG's regulated hydroelectric payment amounts will be frozen at 2021 levels for 2022–26. Payment amounts for regulated nuclear operations were determined largely through a continuation of the previous Custom Incentive Rate-setting (IR) framework. The OEB approved the Company's settlement proposal as filed, including a regulated nuclear revenue requirement of $16.0 billion and in-service capital additions of $8.6 billion over the five-year term. While the OEB disallowed $94 million of capital amounts already in-service, and OPG agreed to a 3% annual reduction to its non-Darlington-Refurbishment-related regulated nuclear operations, maintenance, and administration (OM&A) budget (total of $277 million over the five-year term), overall, DBRS Morningstar considers the approval to be positive for the Company. The approval should provide stability for OPG's operations as well as certainty for the recovery of the remaining $6.4 billion of capital expenditures (capex) planned for the Darlington Refurbishment project (total capex of $12.8 billion). The Company has noted that the Darlington Refurbishment project remains on schedule and is tracking budget. However, should there be significant cost overruns that result in stranded costs, a negative rating action may occur.

OPG's earnings and cash flows decreased in 2021 because of lower nuclear generation as (1) planned outages in 2020 were delayed to 2021 in response to the Coronavirus Disease (COVID-19) pandemic, which contributed to higher earnings for 2020, and (2) Unit 3 of the Darlington Nuclear Generating Station (GS) was out for refurbishment. The Company's key credit metrics were strong for the current ratings and are expected to remain supportive even as debt increases moderately over the near term to fund the Darlington Refurbishment and other capex projects. DBRS Morningstar notes that a positive

rating action is unlikely given OPG's business profile and the ongoing significant capex needs. However, a negative rating action may occur should key credit metrics deteriorate to a level no longer commensurate with the current rating category.

Financial Information

	For the year ended December 31				
	2021	**2020**	**2019**	**2018**	**2017**
Cash flow/Total debt (%)[1, 2]	40.6	39.3	41.7	45.0	40.0
Total debt in capital structure (%)[1, 2, 3]	30.2	33.8	28.6	26.9	26.2
EBIT gross interest coverage (times)[1, 2, 4]	2.43	3.66	0.86	1.00	(0.24)
(Cash flow – n.w.f.)/Total debt (%)[1, 2, 5]	37.0	36.3	39.0	39.3	33.7

1 Including operating leases.
2 Excludes nonrecourse debt.
3 Adjusted for Accumulated Other Comprehensive Income.
4 Excluding earnings from nuclear fixed asset removal and nuclear waste management funds.
5 Includes nuclear waste funding (n.w.f.) payments as they are not discretionary.

Issuer Description

OPG is an electricity generation company with a diverse portfolio of approximately 19,000 megawatts (MW) of in-service generating capacity. The Company is wholly owned by the Province of Ontario.

Rating Considerations

Strengths

1. Reasonable regulatory framework that provides stable cash flow

The reasonable regulatory framework has allowed the Company to recover prudently incurred costs and provided stable cash flows. DBRS Morningstar notes, however, that there have been disallowances by the OEB in the past on labour compensation costs related to OPG's nuclear operations. DBRS Morningstar also notes that, under an IR framework and the regulated hydroelectric rate freeze, OPG's profitability could come under further pressure because of the need to meet efficiency and productivity benchmarks.

2. Support of shareholder (the Province)

The Province indirectly provides OPG with some of its long-term funding requirements through the Ontario Electricity Financial Corporation (OEFC; rated AA (low) with a Stable trend by DBRS Morningstar), a government financing arm for provincial power companies. DBRS Morningstar believes that the Province will continue to support its investment because OPG is a creation of the Province and is integral to fulfilling Ontario's energy needs. OPG's importance in Ontario is also demonstrated by the fact that it is the primary electricity generator in the province, accounting for approximately 53% of electricity produced in 2021.

DBRS Morningstar notes that OPG's debt is not directly guaranteed by the Province. As at December 31, 2021, OPG had approximately $2.7 billion of notes payable to the OEFC, comprising 27% of the Company's outstanding debt. While this financial support does not, in itself, result in any uplift to the

Company's ratings, the ratings do incorporate DBRS Morningstar's belief that the Province will, in exceptional circumstances, provide support to OPG.

3. Limited nuclear waste management liabilities

As a result of the Ontario Nuclear Funds Agreement with the Province, OPG's exposure to the costs to dispose of the initial 2.23 million used fuel bundles produced has been capped at $5.94 billion (in 1999 dollar terms). The used fuel obligation is funded by the used fuel fund, which was fully funded as at December 31, 2021. The Province provides a guarantee for any shortfall between the value of the nuclear fund and the Canadian Nuclear Safety Commission consolidated financial guarantee requirement.

Challenges

1. Significant capex program

OPG has a significant capex program underway (approximately $3.2 billion planned for 2022). The Company also faces significant execution risk as well as the potential for cost overruns associated with the Darlington Refurbishment because of the project's complexity and scale. While DBRS Morningstar is encouraged because the first unit of the Darlington Refurbishment was completed on budget and on schedule, there are still three more units to be refurbished. DBRS Morningstar expects that OPG will not undertake any major capex without having financing and a cost-recovery mechanism in place, thus minimizing financial risks.

2. Nuclear generation risks

Nuclear generation (approximately 51% of OPG's production in 2021) faces higher operating risks than other types of power generation because of its complex technology. The financial implications of forced outages, especially with older units (e.g., the Pickering Nuclear GS), are greater, given the high fixed-cost nature of these plants and because lost revenues resulting from outages are not recoverable through rates.

3. High cost base

OPG's high cost base has resulted in several disallowances by the OEB. For the 2022–26 rates decision, the Company agreed, in a settlement proposal with intervenors, to reduce its non-Darlington-Refurbishment-related regulated nuclear OM&A budget by 3% annually (total of $277 million over the five-year term). DBRS Morningstar believes that OPG's inability to fully recover compensation costs in future regulated prices could have a negative impact on earnings and affect the Company's ability to achieve its approved return on equity (ROE). DBRS Morningstar notes that OPG has been combatting this issue through its cost-reduction and efficiency-improvement initiative, which has saved $1.0 billion through a reduction in headcount of over 2,800 since 2011.

4. Political intervention

OPG is subject to political intervention, largely because of its ownership by the Province and changes in government mandates and policies. DBRS Morningstar notes that, though the Province has committed to having the Company run more autonomously, the risk of further government intervention still exists.

In November 2020, the Province amended legislation to freeze OPG's hydroelectric rates at the 2021 level for the next regulatory period of 2022–26. DBRS Morningstar expects the Company's earnings to be modestly pressured as OPG will have to find efficiencies to offset inflationary cost increases.

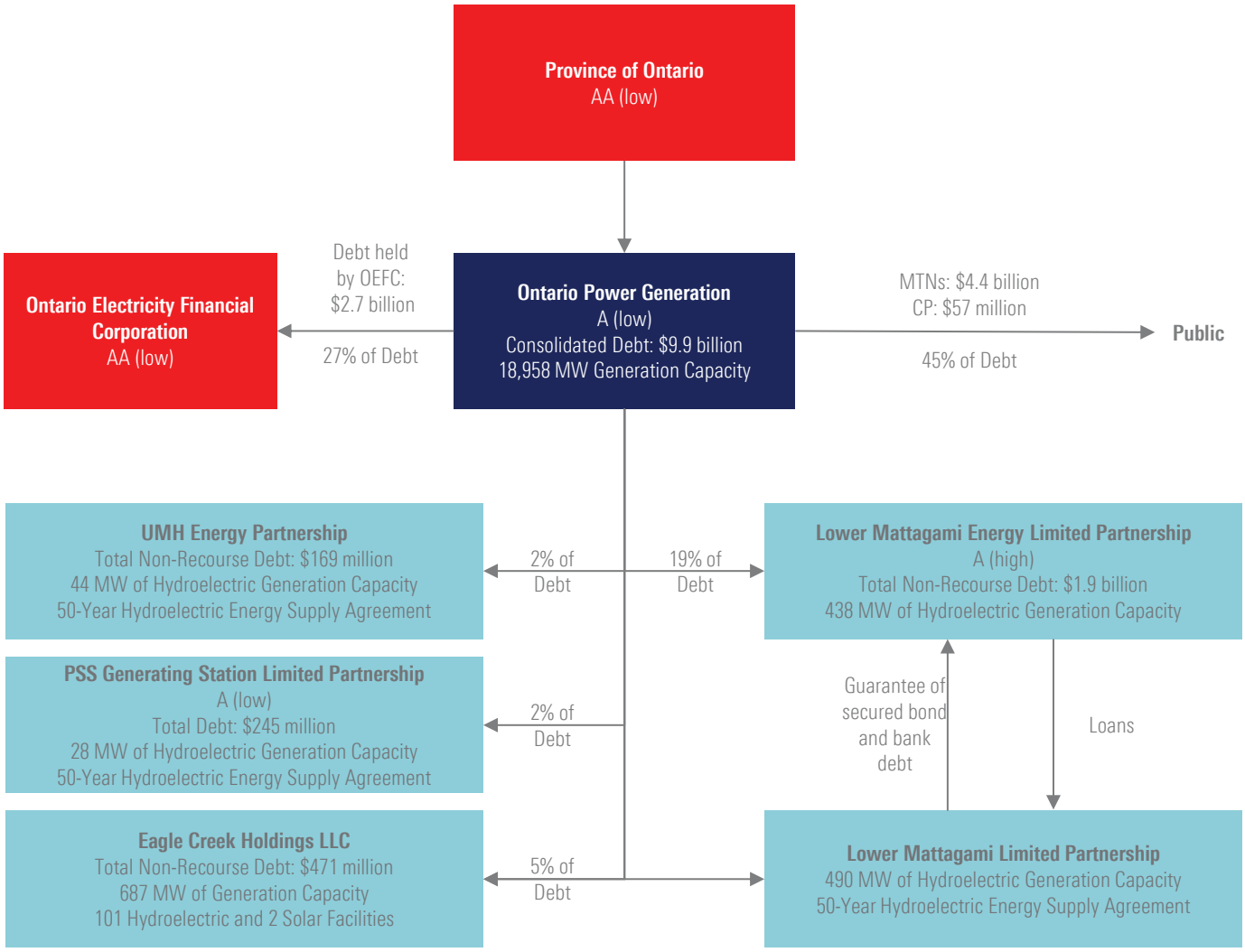
5. Increased exposure to nonregulated operations

OPG has in recent years acquired multiple nonregulated generation assets, including gas-fired plants in Ontario and two renewable facility operators in the U.S. (Eagle Creek Renewable Energy LLC (Eagle Creek) and Cube Hydro Partners, LLC (Cube Hydro)). The Company also owns nonregulated natural gas, oil, solar, and biomass generation assets in the province. While the Ontario assets are largely under long-term contracts with strong investment-grade counterparties (such as the Independent Electricity System Operator (IESO)) and contribute relatively stable earnings and cash flow, DBRS Morningstar does view nonregulated assets as generally having higher business risks than the incumbent regulated operations because there is less cost recovery certainty and potentially more volatile cash flow.

Following the acquisition of three Ontario natural gas-fired assets in 2020, earnings contributed by nonregulated operations is expected to remain moderate at below 20% over the long term. DBRS Morningstar notes, however, earnings contributed by regulated operations may fluctuate over the near term resulting in nonregulated earnings to be near the 20% threshold as the ongoing Darlington Refurbishment project constricts output. The Company has indicated that growth in its nonregulated business will be at a more moderate pace following the above-mentioned acquisitions, with most planned capex for its regulated operations. As such, contributions from regulated operations are expected to remain above 80% over the long term, especially once the Darlington Refurbishment is completed in 2026. Additionally, DBRS Morningstar also considers assets under regulatory-styled contracts (such as Lower Mattagami Energy Limited Partnership (LMELP; rated A (high) with a Stable trend by DBRS Morningstar), PSS Generating Station Limited Partnership (PSS; rated A (low) with a Stable trend by DBRS Morningstar), and UMH Energy Partnership (UMH; not rated by DBRS Morningstar)) to have similar credit risks as regulated operations because those contracts mimic the current regulatory construct under the OEB (DBRS Morningstar estimates an EBITDA contribution of 84% from regulated operations and assets under regulatory-styled contracts in 2021). However, should OPG pursue acquisitions that result in a significant shift in the EBITDA mix between regulated and nonregulated operations or lead to credit metrics deteriorating to a level no longer supportive of the current rating category, DBRS Morningstar may take negative rating action.

Organizational Chart

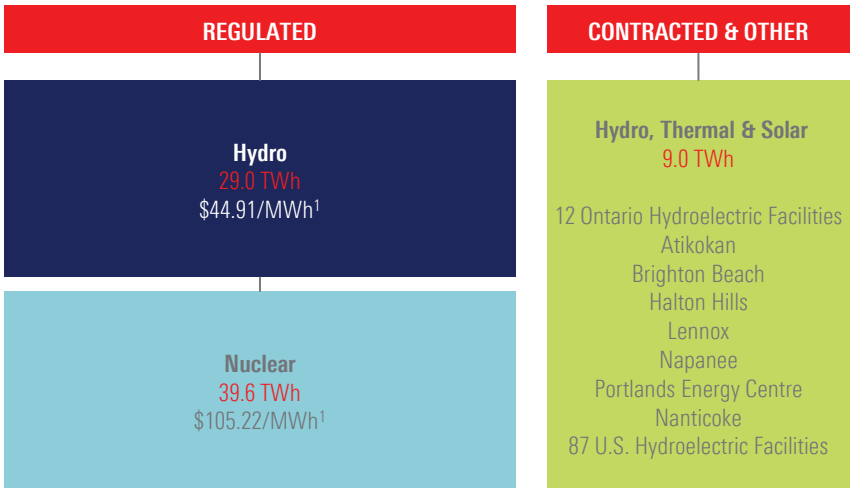
Simplified Organizational Chart



As at December 31, 2021.
Source: OPG.

- As at December 31, 2021, debt at the OPG corporate level consists of $2.7 billion held by the OEFC, $4.4 billion of medium-term notes (MTNs), and $57 million of CP outstanding.
  - Debt at UMH, LMELP, and Eagle Creek are secured by the assets at each corresponding subsidiary and are nonrecourse to OPG.
  - Debt at PSS GS is recourse to OPG until the recourse release date.
- In 2021, OPG merged the operations of Eagle Creek with Cube Hydro and its affiliate Helix Partners, LLC; the combined entity will operate under the Eagle Creek Renewable Energy name.

Price Structure



1 Rates as of January 1, 2022.
For the year ended December 31, 2021.
Source: OPG.

- OPG sells electricity to consumers through the IESO.
- Regulated facilities sell at rates set by the OEB, which could include rate riders used for the recovery of nuclear deferral and hydroelectric variance account balances.
- The Contracted and Other Portfolio includes (1) assets in Ontario that sell electricity at prices set through Energy Supply Agreements (ESA) or other long-term contracts with the IESO and (2) Eagle Creek, which holds interest in 101 hydroelectric GS and two solar facilities throughout the U.S.
  - The Eagle Creek and Cube Hydro facilities either sell into the merchant market or operate under long-term energy or capacity supply contracts.

Major Projects

Project	Estimated Cost (CAD millions)	Spent as of Dec. 31, 2021 (CAD millions)	In-Service Target Date
Darlington Refurbishment	12,800	8,259	2026[1]
Little Long Dam Safety Project	650	317	2023
Smoky Falls Dam Safety Project	390	33	2025
Sir Adam Beck I GS Units G1 and G2 Replacement	128	93	2022
Calabogie Hydroelectric GS	145	89	2022
Ranney Falls Hydroelectric GS	77	72	2022

1 Four units with staged in-service. Last unit scheduled to be completed by 2026.

- **Darlington Refurbishment**: The Darlington Refurbishment will extend the operating life of the Darlington Nuclear GS by approximately 30 years. The execution of the refurbishment of the first unit began in October 2016, and the last unit is scheduled to be completed by 2026. Construction on the first unit was completed in March 2020 and returned in service in June 2020. Refurbishment on the second unit

began in September 2020 after a short delay related to the coronavirus pandemic. Refurbishment on the third unit began in February 2022. The project remains on schedule and on budget.

- **Little Long Dam Safety Project**: This project is intended to make reliability and operational improvements and increase the discharge capacity at the Little Long Dam. The Little Long Dam supports hydroelectric GSs on the Lower Mattagami River.
- **Smoky Falls Dam Safety Project**: This project is intended to improve dam safety at the Smoky Falls hydroelectric GS.
- **Sir Adam Beck 1 GS Units G1 and G2 Replacement**: This project is intended to replace two older generators at the Sir Adam Beck 1 GS, adding 125 MW of incremental capacity.
- **Calabogie Hydroelectric GS**: This project is intended to redevelop the Calabogie GS by replacing the powerhouse to 11 MW from 5 MW.
- **Ranney Falls Hydroelectric GS**: This project will replace an existing generation unit at Ranney Falls with a 10-MW single-unit powerhouse. While construction was completed in 2019, the unit was damaged during commissioning. The vendor will disassemble, repair, and reassemble the unit at its own cost.
- In December 2021, Eagle Creek acquired a 48-MW Racine Hydroelectric GS located in Ohio for approximately $112 million.

Regulation

- OPG benefits from a reasonably regulated environment. As at December 31, 2021, approximately 64% of its installed in-service capacity is regulated.
- OPG, regulated by the OEB under the Electricity Restructuring Act, 2004 (Ontario), is allowed to receive regulated prices for all electricity generated from its nuclear facilities (5,728 MW) as well as most of its hydroelectric power facilities (6,420 MW).
- In December 2017, the OEB issued its decision on OPG's application for rates effective January 1, 2017.
  - The OEB approved rates to be effective June 1, 2017, rather than the applied-for effective date of January 1, 2017.
  - Capital structure will remain at 55% debt (the Company had requested a change to 51% debt) and an allowed ROE of 8.78%. The ROE will not be updated throughout the five-year term.
  - For hydroelectric facilities, the Price Cap IR methodology is used. Under Price Cap IR, rates for the hydroelectric facilities are subject to a formula price cap that allows for an annual increase in the payment amount based on inflation less productivity and a utility-specific stretch factor, which can be reset annually (productivity factor of 0%, stretch factor of 0.3%).
  - Under Price Cap IR, OPG could file an Incremental Capital Module application to potentially recover any material and necessary prudently spent incremental capex during the IR period of five years. Additionally, the Company could ask to initiate a regulatory review of its application if actual ROE falls 300 basis points below the approved ROE.
  - For nuclear facilities, OPG requested the use of a Custom IR methodology and a rate-smoothing deferral account. Under its Custom IR methodology, nuclear revenue requirements were determined by a five-year forecast cost-of-service (COS) approach, but with a stretch factor of 0.6% applied to the Company's OM&A expenditures. The reduction in OM&A costs as a result of the stretch factor will accumulate for the five-year period. The rate-smoothing deferral account (as required under O. Reg. 53/05) will stabilize year-to-year changes to weighted-average payment

amounts as the Darlington Refurbishment continues. OPG will defer a portion of its approved nuclear revenue requirements into the rate-smoothing deferral account and will be allowed to recover the deferred amount, and any amount to be deferred from 2022 to 2026, over a 10-year period once the Darlington Refurbishment has been completed.
    - The OEB reduced the nuclear OM&A budget by $100 million per year for a total of $500 million over five years. Additionally, the OEB did not approve a mid-term review (prior to July 1, 2019) to update the nuclear production forecast.
    - The OEB approved the inclusion of $5.5 billion to the rate base over the five-year period of the Custom IR for the Darlington Refurbishment. Any cost overruns will be subject to a prudence review before being added to the rate base.
    - The OEB also approved the recovery of balances as at December 31, 2015, in OPG's deferral and variance accounts.
- In December 2020, the OEB approved the Company's Application for the 2021 Hydroelectric Payment Amount Adjustment to be effective January 1, 2021.
    - The OEB approved a 1.7% base rate increase based on an inflation factor of 2.0%.
- In November 2020, the Province amended O. Reg. 53/05 to freeze hydroelectric rates for OPG at the 2021 level for the next regulatory period of 2022–26.
    - Rates for nuclear facilities will not be frozen and will continue to be set by the OEB.
    - DBRS Morningstar notes the hydroelectric rate freeze may modestly pressure the Company's earnings as OPG will have to find efficiencies in its regulated hydroelectric operations to offset inflationary cost increases.
- In November 2021, the OEB issued its decision on OPG's application for rates effective January 1, 2022.
    - The OEB approved a settlement proposal between OPG and intervenors as filed.
    - As per O. Reg. 53/05, hydroelectric base payment amounts will remain at the 2021 level.
    - Capital structure will remain at 55% debt (the Company had requested a change to 50% debt) and an allowed ROE of 8.66%.
    - For nuclear facilities, the continuation of the current Custom IR methodology with the stretch factor at 0.6% for 2023–25 (compared with 0.45% as requested), and 0.3% for 2026.
    - Total regulated nuclear revenue requirement of $16.0 billion over the five-year term, representing a $567 million reduction (including a 3%, or $277 million, reduction of OM&A costs) from the Company's application.
    - The OEB approved the inclusion of $8.6 billion to the rate base (including $6.4 billion for the Darlington Refurbishment) over the five-year period of the Custom IR (reduction of $298 million for planned non-Darlington Refurbishment in-service capital add-ons). Any cost overruns associated with the Darlington Refurbishment will be subject to a prudence review before being added to the rate base.
    - Inclusion of $396 million to the rate base for the Heavy Water Storage and Drum Handling Facility project (in-service 2020); this represents a permanent rate base reduction for the project of $94 million plus carrying costs incurred from May 2017 to March 2020 for capital cost deemed not prudently incurred.

- Recently completed non-Darlington Refurbishment capex of $358 million, which exceeded the 2017–21 approved in-service capital additions, will earn an ROE at the cost of long-term debt (3.6%) instead of the allowed ROE until 2037.
- The OEB approved the recovery of balances as at December 31, 2019, in OPG's deferral and variance accounts. The OEB also approved a $47 million credit to customers for the impact of favourable electricity revenue during the 2020 and 2021 coronavirus pandemic response (net of any incremental pandemic-related OM&A).
- All previously existing regulatory accounts will continue, along with new accounts to track (1) any financial impact from a possible transition to and implementation of IFRS from US GAAP, (2) revenue requirement impact for a planned new corporate campus, and (3) any revenue requirement impact to nuclear liabilities and depreciation expense from accounting end-of-life assumptions for the Pickering GS.
- An earnings-sharing mechanism was also approved, where regulated earnings 100 basis points above the approved ROE over the cumulative five-year term will be shared 50-50 with customers.

Approved Regulated Nuclear Amounts	2022	2023	2024	2025	2026
Nuclear revenue requirement (CAD millions)	3,515.5	3,430.0	3,518.3	3,197.6	2,439.5
Nuclear rate base (CAD millions)	8,600.3	8,615.0	11,033.4	12,188.8	12,991.8
Nuclear payment amount (CAD per megawatt hour (MWh)	105.22	109.04	104.63	108.19	118.91
Hydro payment amount (CAD per MWh)	44.91	44.91	44.91	44.57	44.57

Assessment of Regulatory Framework

Criteria	Score	Analysis
1. Deemed Equity	Excellent **Good** Satisfactory Below Average Poor	The OEB allows OPG to have a deemed equity of 45%.
2. Allowed ROE	Excellent Good **Satisfactory** Below Average Poor	OPG has an allowed ROE of 8.66% for 2022–26, which is in line with the other regulated utilities in Ontario. Any difference in ROE between the Company and other regulated utilities in the province is mainly because of the timing of the regulatory filings and the interest environment prevalent at that time.
3. Energy Cost Recovery	Excellent Good Satisfactory Below Average Poor	N/A; energy costs are recovered through rates for OPG.
4. Capital and Operating Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Under Custom IR for the nuclear facilities, the capex program for OPG is preapproved for a five-year period by the OEB and recovered through base rates. Future test years are utilized nuclear rates applications. Some volume risk exists, but this is partly mitigated by (1) use of deferral accounts for volumetric differences, and (2) rates are based on forecasts which include scheduled outages. However, lost revenues resulting from forced outages are not recoverable through rates.
5. COS versus IRM	Excellent Good **Satisfactory** Below Average Poor	The nuclear facilities operate under Custom IR, which is a hybrid of COS and the IR framework, for a five-year term. DBRS Morningstar considers the inflation, productivity (0%), and stretch (0.6%) factors as reasonable.
6. Political Interference	Excellent Good Satisfactory **Below Average** Poor	The Government of Ontario plays a significant role in the electricity sector in Ontario, given that most of the utilities are government owned (OPG is owned by the Province). 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 Good **Satisfactory** Below Average Poor	Regulated utilities in Ontario have a limited history of stranded costs. Most prudently incurred or budgeted capex is approved by the OEB. While OPG has seen some write-downs, these have been because the OEB had deemed the costs overruns to have been imprudent.
8. Rate Freeze	Excellent Good Satisfactory **Below Average** Poor	DBRS Morningstar notes that, in November 2020, the Province amended O. Reg. 53/05 to freeze hydroelectric rates for the Company at the 2021 level for the next regulatory period from 2022 to 2026. Rates for nuclear facilities will not be frozen and will continue to be set by the OEB. DBRS Morningstar notes that the hydroelectric rate freeze may modestly pressure OPG's earnings as the Company will have to find efficiencies to offset inflation.

Earnings and Outlook

	For the year ended December 31				
(CAD millions where applicable)	**2021**	**2020**	**2019**	**2018**	**2017**
Revenues	6,877	7,240	6,022	5,535	5,158
EBITDA[1]	1,977	2,459	1,496	1,017	642
EBIT[1]	845	1,137	423	233	(37)
Gross interest expense	383	416	345	301	296
Earning before taxes[1]	655	835	439	225	(92)
Net income before nonrecurring items[1]	667	679	469	274	(14)
Reported net income	1,415	1,361	1,126	1,195	860
Return on equity (%)	4.1	4.6	3.4	2.2	-0.1
Segmented reported EBITDA					
Nuclear generation	1,210	1,917	1,306	863	488
Nuclear sustainability services	(110)	(113)	(113)	(117)	(150)
Regulated hydroelectric generation	898	874	843	748	753
Contracted and other generation	369	348	341	384	379
Atura Power	387	279	57	0	0
Reported subtotal	**2,754**	**3,305**	**2,434**	**1,878**	**1,470**
Corporate	194	87	36	337	394
Reported total	**2,948**	**3,392**	**2,470**	**2,215**	**1,864**
Hydroelectric rate base	N/A	N/A	N/A	N/A	N/A
Nuclear rate base	7,711	7,347	3,374	3,446	3,628
Approved regulated ROE (%)	8.78	8.78	8.78	8.78	8.78
Achieved regulated ROE (%)	N/A	17.22	15.72	10.69	5.88

1 Excluding earnings from nuclear fixed asset removal and nuclear waste management funds.

2021 Summary

- EBITDA and EBIT decreased substantially because of lower contributions from the regulated nuclear generation segment. Earnings decreased for that segment because of lower generation for the year with Unit 3 of the Darlington Nuclear GS out for refurbishment and planned cyclical maintenance of Units 1 and 4.
  - This was partly offset by lower depreciation, higher approved nuclear and hydroelectric base rates, higher wholesale electricity market prices for noncontracted U.S. generation assets, and a full year's contribution from the Atura Power assets acquired in April 2020.
- Net income before nonrecurring items was modestly lower because of lower interest expense from the lower debt load and lower income taxes.

2022 Outlook

- DBRS Morningstar expects OPG's net income in 2022 to be lower than in 2021.
  - Earnings from regulated nuclear generation are expected to be lower with both Units 1 and 3 of the Darlington Nuclear GS out for refurbishment, partly offset by higher approved rates.

- Earnings from regulated hydroelectric generation should remain stable despite the rate freeze.
- OPG also expects earnings from contracted generation assets and Atura Power to be stable.
- OPG expects overall net income to be stable in 2022, however, as the Company has executed agreements to sell two premises in 2022 for an estimated pre-tax gain of $148 million.

- Earnings volatility going forward will come from (1) forecast risk as part of the IR process, (2) macro factors such as weather, unexpected outages, and Ontario's economic conditions, and (3) variability in water flows and wholesale electricity prices for uncontracted facilities.

Financial Profile

	For the year ended December 31				
(CAD millions where applicable)	**2021**	**2020**	**2019**	**2018**	**2017**
Net income before nonrecurring items[4]	667	679	469	274	(14)
Depreciation & amortization	1,132	1,322	1,073	784	679
Deferred income taxes and other	1,381	1,315	1,026	1,147	1,070
Cash flow (before working capital changes)	**3,180**	**3,316**	**2,568**	**2,205**	**1,735**
Nuclear waste funding	(458)	(439)	(336)	(307)	(313)
Dividends paid	0	0	0	(283)	0
Capital expenditures	(2,025)	(1,765)	(2,058)	(1,826)	(1,853)
Free cash flow (before working capital changes)	**697**	**1,112**	**174**	**(211)**	**(431)**
Changes in noncash working cap. items	59	103	99	(160)	80
Change in regulatory assets/liabilities	(251)	(156)	275	(51)	(558)
Net free cash flow	**505**	**1,059**	**548**	**(422)**	**(909)**
Long-term investments	(112)	(2,814)	(1,232)	(358)	0
Proceeds on asset sales	0	0	11	289	554
Acquisition of Fair Hydro Trust receivables	0	0	0	(609)	(1,179)
Change in Fair Hydro Trust debt	0	0	0	306	601
Net equity change	0	0	0	268	519
Net debt change	(527)	1,993	866	622	458
Other	197	(11)	(8)	(17)	4
Change in cash	**63**	**227**	**185**	**79**	**48**
Total debt[2]	7,353	7,928	5,729	4,730	4,053
Cash flow/Total debt (%)[1, 2]	40.6	39.3	41.7	45.0	40.0
Total debt in capital structure (%)[1, 2, 3]	30.2	33.8	28.6	26.9	26.2
EBIT gross interest coverage (times)[1, 2, 4]	2.43	3.66	0.86	1.00	(0.24)
(Cash flow—n.w.f.)/Total debt (%)[1, 2, 5]	37.0	36.3	39.0	39.3	33.7

1 Including operating leases.
2 Excludes nonrecourse debt.
3 Adjusted for Accumulated Other Comprehensive Income.
4 Excluding earnings from nuclear fixed asset removal and nuclear waste management funds.
5 Includes nuclear waste funding (n.w.f.) payments as they are not discretionary.

2021 Summary

- OPG's key credit metrics exclude nonrecourse debt from UMH, LMELP, and Eagle Creek.

  - The Company's adjusted cash flow-to-debt and debt-to-capital metrics were stable for the year. The EBIT-interest coverage ratio weakened, however, because of lower EBIT.
  - Overall, OPG's key credit metrics remained supportive of the current ratings.
- Cash flow from operations decreased because of lower cash receipts from regulated operations, partly offset by higher contributions from a full year's operations of Atura Power.
- Capex increased to $2.0 billion because of continued spending for the Darlington Refurbishment, redevelopment of the Calabogie GS, work on the Little Long Dam Safety project, and remediation at the Napanee GS, which were recovered from the seller.
  - In total, OPG received proceeds of $220 million as part of the settlement related to the acquisition of the natural gas-fired assets.
- Long-term investments of $112 million represent the acquisition of Racine Hydroelectric GS by Eagle Creek in December 2021.
- OPG generated a positive net free cash flow in 2021, proceeds of which were used for the Racine Hydroelectric GS acquisition and to repay outstanding CPs and $185 million of debt held by the OEFC.
  - OPG also issued $500 million of Senior Notes under the MTN program to repay outstanding CPs.
  - Additionally, LMELP issued $375 million of green bonds to refinance $225 million of bonds at maturity and to fund the Little Long Dam Safety project.

2022 Outlook

- DBRS Morningstar expects OPG's key credit metrics to weaken in 2022 but remain in line with the current ratings.
  - DBRS Morningstar expects both the Company's adjusted cash flow-to-debt and EBIT-interest coverage ratios to weaken in 2022 because of lower earnings for the year. However, both ratios should remain supportive of the current ratings.
  - Debt-to-capital for OPG is expected to see a modest increase from debt to be issued to fund the significant capex program.
- OPG has forecast capex to increase substantially to $3.2 billion for 2022 largely because of work on both Units 1 and 3 of the Darlington Refurbishment and work on the Little Long Dam Safety project.

Long-term Debt and Credit Facilities

Long-term Debt

(CAD millions)	Maturity	Dec. 31, 2021	Dec. 31, 2020
Notes payable to the OEFC	2022–48	2,690	2,875
Medium Term Note Program	2025–51	4,350	3,850
UMH Energy Partnership[1]	2041	169	172
PSS Generating Station Limited Partnership[2]	2067	245	245
Lower Mattagami Energy Limited Partnership[1]	2024–52	1,745	1,595
Brighton Beach Power Limited Partnership[1]		0	86
Eagle Creek[1]	2025–35	471	493
Other		25	25
Subtotal		**9,695**	**9,341**
Less: Fair value discount		10	24
Less: Bond issuance fees		(39)	(33)
Less: Current portion		(179)	(439)
Total long-term debt		**9,487**	**8,893**

1 Nonrecourse to OPG as debt is secured by assets of the associated project.
2 Secured by assets of the project; recourse to OPG until the recourse release date.

- In February 2021, OPG issued $500 million of Senior Notes maturing in 2051 at a coupon rate of 2.95%.
- The amortizing UMH notes were issued in 2009 with a maturity date of 2041 and an effective interest rate of 7.86%. The notes are secured by the assets of the Upper Mattagami and Hound Chute project and are nonrecourse to OPG.
- The amortizing PSS GS notes were issued in 2015 with a maturity date of 2067 and an effective interest rate of 4.90%. The notes are secured by the assets of PSS GS and are recourse to OPG until the recourse release date (expected in 2022).
- The LMELP notes are secured by the assets of the project and are nonrecourse to OPG.
  - In May 2021, LMELP issued $375 million of Senior Secured Bonds maturing in 2031 at a coupon rate of 2.43%. Proceeds from the issuance were partly used to repay a $225 million bond maturity.
- In June 2021, OPG fully repaid $81 million of Senior Notes outstanding related to Brighton Beach GS. These notes were secured by the assets of the Brighton Beach GS and were nonrecourse to the Company.
- $471 million of long-term debt at year end 2021 related to Eagle Creek. The notes are secured by the assets of Eagle Creek and are nonrecourse to the Company.

Maturity Profile

(CAD millions—as at December 31, 2021)	2021	2022	2023	2024	2025	Thereafter	Total
Long-Term Debt	179	44	607	579	675	7,611	**9,695**
	2%	0%	6%	6%	7%	79%	**100%**

- OPG's maturity profile is fairly spread out.

Credit Facilities

(CAD millions—as at December 31, 2021)	Maturity	Amount	Drawn/LOC	Available
Committed credit facility	May 2026	1,000	0	**1,000**
Committed credit facility—USD 750 million	Nov. 2022	951	0	951
OEFC general corporate credit facility	Dec. 2026	750	0	750
Short-term uncommitted credit facilities	Demand	655	459	196
Short-term uncommitted overdraft facilities	Demand	25	0	25
Lower Mattagami River Project[1]	Aug. 2026	400	55	345
UMH Energy Partnership credit facilities[1]	Oct. 2022	16	16	0
UMH Energy Partnership overdraft facilities[1]	Oct. 2022	8	0	8
Eagle Creek credit facility—USD 5 million[1]	Aug. 2022	6	0	6
Eagle Creek credit facility—USD 20 million[1]	Oct. 2028	25	0	25
Subtotal		**3,837**	**530**	**3,307**
CPs issued—Corporate			57	(57)
CPs issued—LMELP			125	(125)
Total		**3,837**	**712**	**3,124**

1 Nonrecourse to OPG as debt is secured by assets of the associated project.

- OPG has a reasonable liquidity profile.
- The Company has a $1.0 billion Canadian CP program ($57 million of CP outstanding as at December 31, 2021) and a USD 750 million CP program in the U.S. (none outstanding as at December 31, 2021; unrated by DBRS Morningstar). These CP programs are supported by the following facilities:
  - Committed bank facility of $1.0 billion (due date of May 2026);
  - A USD 750 million bank facility (due date of November 2022, with a one-year term-out option); and
  - An OEFC facility of $750 million (due date of December 2026).
- As at December 31, 2021, OPG had issued $459 million in letters of credit (LOC) under its corporate facilities of which $395 million was attributed to its supplementary pension plan.
- The LMELP, UMH, and Eagle Creek facilities are used to support the respective projects and are nonrecourse to OPG.

Company Profile

Generation Profile

As at December 31, 2021	Percent (%)	Capacity (MW)
Nuclear		
Darlington	14	2,634
Pickering A	5	1,030
Pickering B	11	2,064
	30	**5,728**
Thermal		
Atikokan (Biomass)	1	205
Brighton Beach	3	570
Halton Hills	4	683
Napanee	5	900
Portlands Energy Centre	3	562
Lennox (Dual oil & gas)	11	2,100
	26	**5,020**
Hydroelectric		
Nonregulated[1]	9	1,736
Regulated	34	6,420
	43	**8,156**
Other		
Solar[2]	0	54
Total Capacity	**100**	**18,958**

1 Represents OPG's share of in-service generation.
2 Three solar facilities.

- OPG is the largest generator of electricity in Ontario.
- In 2021, the Company generated 77.6 terawatt hours of electricity with total in-service capacity of 18,958 MW as at December 31, 2021.
  - The increase can be attributed to the acquisition of the Racine Hydroelectric GS.
- OPG partnerships consist of the following:
  - OPG owns the Bruce A and Bruce B Nuclear GS, which are leased on a long-term basis to Bruce Power L.P. (rated BBB with a Stable trend by DBRS Morningstar).
  - OPG and the Lac Seul First Nation (LSFN) jointly own the Lac Seul GS, with LSFN owning 25% of the facility.
  - OPG and the Moose Cree First Nation (MCFN), through its wholly owned subsidiary, Amisk-oo-Skow Finance Corporation, jointly own the Little Long, Harmon, Kipling, and Smoky Falls GS, with MCFN owning 25% of the facilities.
  - OPG and Coral Rapids Power Corporation (CRP), a wholly owned subsidiary of the Taykwa Tagamou Nation, jointly own PSS GS, with CRP owning 33% of the facility.

  OPG, a subsidiary of the Six Nations of the Grand River Development Corporation, and a subsidiary of Mississaugas of the Credit First Nation jointly own the Nanticoke Solar Facility, with OPG owning 80% of the facility.

ESG Checklist

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		**Overall:**	**N**	**N**
	Emissions, Effluents, and Waste	Do we consider that the costs or risks for the issuer or its clients result, or could result, in changes to an issuerÆs financial, operational, and/or reputational standing?	**N**	**N**
	Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs and/or will such costs increase over time affecting the long term credit profile?	**N**	**N**
	Resource and Energy Management	Does the scarcity of sourcing key resources hinder the production or operations of the issuer, resulting in lower productivity and therefore 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**
	Climate and Weather Risks	In the near term, will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact? In the long term, will the issuer's or client's business activities and infrastructure be materially affected financially by a 2C rise in temperature?	**N**	**N**
Social		**Overall:**	**N**	**N**
	Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services could pose 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 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**
		Human Capital and Human Rights	**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	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could it result, in financial penalties or client attrition to the issuer?	**N**	**N**
	Occupational Health and Safety	Would the failure to address workplace hazards have a negative 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	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**
Governance		**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**
		Are there any political risks that could impact the issuer's financial position or its reputation?	**N**	**N**
		Bribery, Corruption, and Political Risks	**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**
		Corporate / Transaction Governance	**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**
		Are government officials exposed to public scrutiny and held to high ethical standards of conduct?	**N**	**N**
		Institutional Strength, Governance, and Transparency (Governments Only)	**N**	**N**
		Consolidated ESG Criteria Output:	**N**	**N**

Balance Sheet

(CAD millions)	Dec. 31	Dec. 31	Dec. 31		Dec. 31	Dec. 31	Dec. 31
Assets	**2021**	**2020**	**2019**	**Liabilities & Equity**	**2021**	**2020**	**2019**
Cash & equivalents	868	889	648	Short-term borrowings	193	1,062	178
Accounts receivable	558	492	468	Accounts payable	1,430	1,245	1,095
Inventories	350	328	325	Current portion L.T.D.	179	439	693
Regulatory assets	288	533	486	Regulatory liabilities	276	266	103
Prepaid expenses & other	398	313	320	Deferred revenue & other	0	0	0
Total Current Assets	**2,462**	**2,555**	**2,247**	**Total Current Liabilities**	**2,078**	**3,012**	**2,069**
Net fixed assets	30,327	29,810	26,047	Long-term debt	9,515	8,928	7,574
Intangibles	637	633	471	Deferred income taxes	1,634	1,379	1,154
Financing receivables	0	0	0	Pension & postretirement benefits	6,061	8,411	6,667
Nuclear removal/waste management funds	19,807	19,050	18,252	Nuclear removal/waste management funds	23,415	22,947	22,081
Regulatory assets	6,467	8,571	6,770	Regulatory liabilities	777	1,239	949
Investments & other	1,453	1,454	1,617	Other long-term liabilities	706	625	635
				Shareholders' equity	16,967	15,532	14,275
Total Assets	**61,153**	**62,073**	**55,404**	**Total Liabilities & SE**	**61,153**	**62,073**	**55,404**

Ratios

	For the year ended December 31				
Balance Sheet & Liquidity & Capital Ratios	**2021**	**2020**	**2019**	**2018**	**2017**
Current ratio	1.18	0.85	1.09	1.11	0.79
Total debt in capital structure (%)	36.8	40.2	37.2	37.5	35.6
Total debt in capital structure (%)[1, 2, 3]	30.2	33.8	28.6	26.9	26.2
Cash flow/Total debt (%)	32.2	31.8	30.4	28.0	26.4
Cash flow/Total debt (%)[1, 2]	40.6	39.3	41.7	45.0	40.0
(Cash flow—dividends)/Capex (times)	1.57	1.88	1.25	1.05	0.94
(Cash flow—n.w.f.)/Total debt (%)[1, 2, 5]	37.0	36.3	39.0	39.3	33.7
Dividend payout ratio (%)	0.0	0.0	0.0	103.3	0.0
Coverage Ratios (times)					
EBIT gross interest coverage[4]	2.21	2.73	1.23	0.77	(0.13)
EBIT gross interest coverage[1, 2, 4]	2.43	3.66	0.86	1.00	(0.24)
EBITDA gross interest coverage[4]	5.16	5.91	4.34	3.38	2.17
Fixed-charges coverage[4]	2.21	2.73	1.23	0.77	(0.13)
Profitability Ratios					
EBITDA margin (%)[4]	28.7	34.0	24.8	18.4	12.4
EBIT margin (%)[4]	12.3	15.7	7.0	4.2	-0.7
Profit margin (%)[4]	9.7	9.4	7.8	4.9	-0.3
Return on equity (%)[4]	4.1	4.6	3.4	2.2	-0.1
Return on capital (%)[1, 3, 4]	3.3	3.7	2.5	1.8	0.5

1 Including operating leases.
2 Excludes nonrecourse debt.
3 Adjusted for Accumulated Other Comprehensive Income.
4 Excluding earnings from nuclear fixed asset removal and nuclear waste management funds.
5 Includes nuclear waste funding (n.w.f.) payments as they are not discretionary.

Rating History

	Current	2021	2020	2019	2018	2017
Issuer Rating	A (low)	A (low)	A (low)	A (low)	A (low)	A (low)
Unsecured Debt	A (low)	A (low)	A (low)	A (low)	A (low)	A (low)
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Commercial Paper Limit

- $1.0 billion and USD 750 million.

Previous Actions

- "DBRS Morningstar Confirms Ontario Power Generation Inc. at A (low)/R-1 (low), Stable Trends," April 8, 2021.
- "DBRS Morningstar Assigns Rating of A (low) With Stable Trend to Ontario Power Generation Inc.'s $500 Million Series 9 Medium-Term Notes," February 5, 2021.

Previous Report

- Ontario Power Generation Inc.: Rating Report, April 21, 2021.

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 3,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why DBRS Morningstar is the next generation of credit ratings.

Learn more at dbrsmorningstar.com.

MORNINGSTAR | DBRS

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: https://www.dbrsmorningstar.com/research/225752/highlights.pdf.

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

© 2022 DBRS Morningstar. The information upon which DBRS Morningstar credit ratings and other types of credit opinions and reports are based is obtained by DBRS Morningstar from sources DBRS Morningstar believes to be reliable. DBRS Morningstar does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS Morningstar credit ratings, other types of credit opinions, reports and any other information provided by DBRS Morningstar are provided "as is" and without representation or warranty of any kind and DBRS Morningstar assumes no obligation to update any such ratings, opinions, reports or other information. DBRS Morningstar hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS Morningstar or its directors, officers, employees, independent contractors, agents, affiliates and representatives (collectively, DBRS Morningstar Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of credit ratings, other types of credit opinions and reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS Morningstar or any DBRS Morningstar Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. IN ANY EVENT, TO THE EXTENT PERMITTED BY LAW, THE AGGREGATE LIABILITY OF DBRS MORNINGSTAR AND THE DBRS MORNINGSTAR REPRESENTATIVES FOR ANY REASON WHATSOEVER SHALL NOT EXCEED THE GREATER OF (A) THE TOTAL AMOUNT PAID BY THE USER FOR SERVICES PROVIDED BY DBRS MORNINGSTAR DURING THE TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO LIABILITY, AND (B) U.S. $100. DBRS Morningstar does not act as a fiduciary or an investment advisor. DBRS Morningstar does not provide investment, financial or other advice. Credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar (a) are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities; (b) do not take into account your personal objectives, financial situations or needs; (c) should be weighed, if at all, solely as one factor in any investment or credit decision; (d) are not intended for use by retail investors; and (e) address only credit risk and do not address other investment risks, such as liquidity risk or market volatility risk. Accordingly, credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar are not a substitute for due care and the study and evaluation of each investment decision, security or credit that one may consider making, purchasing, holding, selling, or providing, as applicable. A report with respect to a DBRS Morningstar credit rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS Morningstar may receive compensation for its credit ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS Morningstar. ALL DBRS MORNINGSTAR CREDIT RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DEFINITIONS, LIMITATIONS, POLICIES AND METHODOLOGIES THAT ARE AVAILABLE ON https://www.dbrsmorningstar.com. Users may, through hypertext or other computer links, gain access to or from websites operated by persons other than DBRS Morningstar. Such hyperlinks or other computer links are provided for convenience only. DBRS Morningstar does not endorse the content, the operator or operations of third party websites. DBRS Morningstar is not responsible for the content or operation of such third party websites and DBRS Morningstar shall have no liability to you or any other person or entity for the use of third party websites.

MORNINGSTAR | DBRS

Rating Report
Ontario Power Generation Inc.

DBRS Morningstar
May 8, 2023

Contents

1 Ratings
1 Rating Update
2 Financial Information
2 Issuer Description
2 Rating Considerations
5 Organizational Chart
6 Price Structure
6 Major Projects
7 Regulation
10 Earnings and Outlook
11 Financial Profile
12 Long-term Debt and Credit Facilities
14 Company Profile
15 Environmental, Social, and Governance (ESG) Credit Risk Considerations
18 Rating History
18 Commercial Paper Limit
18 Previous Actions
18 Previous Report

Tom Li
+1 416 597-7378
tom.li@dbrsmorningstar.com

Tanmay Tyagi
+1 416 597-7478
tanmay.tyagi@dbrsmorningstar.com

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A (low)	Confirmed	Stable
Unsecured Debt	A (low)	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating Update

On April 11, 2023, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating and Unsecured Debt rating of Ontario Power Generation Inc. (OPG or the Company) at A (low), and the Commercial Paper (CP) rating at R-1 (low). All trends are Stable. The ratings of OPG are based on its regulated generation operations in Ontario. The Stable trend reflects the Company's reasonable key credit metrics, given the complex and substantial capital expenditures (capex) program, for the current ratings.

OPG's business risk assessment has remained steady since the most recent ratings confirmation. There were no material regulatory changes by the Ontario Energy Board (OEB) to the Company's in-service nuclear and hydroelectric power plants. For 2022 to 2026, payment amounts for regulated nuclear operations will increase annually as set under the approved Custom Incentive Rate-setting (IR) framework while base hydroelectric payment amounts remain frozen at 2021 levels. DBRS Morningstar notes that OPG is currently conducting a feasibility study on the refurbishment of four units at the Pickering Nuclear Generating Station (GS) in order to extend its operating life by 30 years, and preparation work to deploy a 300 megawatt (MW) Small Modular Reactor (SMR) at the Darlington site. While these projects would be fully regulated and will substantially increase the Company's rate base when completed, there is significant execution risk because of the complexity and scale of the projects. DBRS Morningstar is encouraged by OPG's current track record with the ongoing Darlington Refurbishment project (total capex of $12.8 billion), which remains on budget and on schedule. DBRS Morningstar will continue to monitor progress on the Darlington Refurbishment and the approval process for the Pickering Refurbishment and SMR project and expects that the Company will not undertake any major capex without having financing and a cost-recovery mechanism in place to minimize financial risks.

OPG's financial risk assessment remains supportive of the current ratings given the substantial capex program ($3.7 billion for 2023). DBRS Morningstar expects the Company's cash flows and key credit metrics to fluctuate moderately over the near term as the Darlington Refurbishment continues, with capacity to vary during this period as units are taken out or placed back in service. DBRS Morningstar

also expects the Company's metrics to remain in line with the current ratings even as debt increases to fund the capex program. A positive rating action is unlikely over the medium term given OPG's business profile and the ongoing significant and complex capex program. A negative rating action is also considered unlikely but may occur should there be cost overruns that result in significant stranded costs for the Company.

Financial Information

	For the year ended December 31				
	2022	**2021**	**2020**	**2019**	**2018**
Cash flow/Total debt (%)[1, 2]	38.9	39.3	39.3	41.7	45.0
Total debt in capital structure (%)[1, 2, 3]	28.4	30.2	33.8	28.6	26.9
EBIT gross interest coverage (times)[1, 2]	6.24	5.90	7.17	4.67	5.72
(Cash flow–n.w.f.)/Total debt (%)[1, 2, 4]	37.2	35.8	36.3	39.0	39.3

1 Including operating leases.
2 Excludes nonrecourse debt.
3 Adjusted for Accumulated Other Comprehensive Income.
4 Includes nuclear waste funding (n.w.f.) payments as they are not discretionary.

Issuer Description

OPG is an electricity generation company with a diverse portfolio of over 18,000 megawatts (MW) of in-service generating capacity. The Company is wholly owned by the Province of Ontario.

Rating Considerations

Strengths

1. Reasonable regulatory framework that provides stable cash flow

The reasonable regulatory framework has allowed the Company to recover prudently incurred costs and provided stable cash flows. DBRS Morningstar notes, however, that there have been disallowances by the OEB in the past on labour compensation costs related to OPG's nuclear operations. DBRS Morningstar also notes that, under an IR framework and the regulated hydroelectric rate freeze, OPG's profitability could come under further pressure because of the need to meet efficiency and productivity benchmarks.

2. Support of shareholder (the Province)

The Province indirectly provides OPG with some of its long-term funding requirements through the Ontario Electricity Financial Corporation (OEFC; rated AA (low) with a Stable trend by DBRS Morningstar), a government financing arm for provincial power companies. DBRS Morningstar believes that the Province will continue to support its investment because OPG is a creation of the Province and is integral to fulfilling Ontario's energy needs. OPG's importance in Ontario is also demonstrated by the fact that it is the primary electricity generator in the province, accounting for approximately 52% of electricity produced in 2022.

DBRS Morningstar notes that OPG's debt is not directly guaranteed by the Province. As at December 31, 2022, OPG had approximately $2.5 billion of notes payable to the OEFC, comprising 25% of the

Company's outstanding debt. While this financial support does not, in itself, result in any uplift to the Company's ratings, the ratings do incorporate DBRS Morningstar's belief that the Province will, in exceptional circumstances, provide support to OPG.

3. Limited nuclear waste management liabilities

As a result of the Ontario Nuclear Funds Agreement with the Province, OPG's exposure to the costs to dispose of the initial 2.23 million used fuel bundles produced has been capped at $21.3 billion (in present value dollars as at December 31, 2022). The used fuel obligation is funded by the used fuel fund, which was fully funded as at December 31, 2022. The Province provides a guarantee for any shortfall between the value of the nuclear fund and the Canadian Nuclear Safety Commission (CNSC) consolidated financial guarantee requirement.

Challenges

1. Significant capex program

OPG has a significant capex program underway (approximately $3.7 billion planned for 2022). The Company also faces significant execution risk as well as the potential for cost overruns associated with the Darlington Refurbishment because of the project's complexity and scale. DBRS Morningstar notes that OPG has started preparation work on its SMR project and a feasibility study on the refurbishment of four units at the Pickering Nuclear GS. These two projects would be complex undertakings and require significant financing. While capex for both these projects will be regulated and should lead to a substantial increase in the rate base, there is considerable execution risk as well that could lead to large cost overruns. DBRS Morningstar is encouraged by OPG's current track record with the Darlington Refurbishment, which remains on budget and on schedule. DBRS Morningstar also expects that the Company will not undertake any major capex without having financing and a cost-recovery mechanism in place, thus minimizing financial risks.

2. Nuclear generation risks

Nuclear generation (approximately 45% of OPG's production in 2022) faces higher operating risks than other types of power generation because of its complex technology. The financial implications of forced outages, especially with older units (e.g., the Pickering Nuclear GS), are greater, given the high fixed-cost nature of these plants and because lost revenues resulting from outages are not recoverable through rates.

3. High cost base

OPG's high cost base has resulted in several disallowances by the OEB. For the 2022–26 rates decision, the Company agreed, in a settlement proposal with intervenors, to reduce its non-Darlington-Refurbishment-related regulated nuclear operations, maintenance, and administration (OM&A) budget by 3% annually (total of $277 million over the five-year term). DBRS Morningstar believes that OPG's inability to fully recover compensation costs in future regulated prices could have a negative impact on earnings and affect the Company's ability to achieve its approved return on equity (ROE). DBRS Morningstar notes that OPG has been combatting this issue through its cost-reduction and efficiency-

improvement initiative, which has previously saved $1.0 billion through a reduction in headcount of over 2,800 since 2011.

4. Political intervention

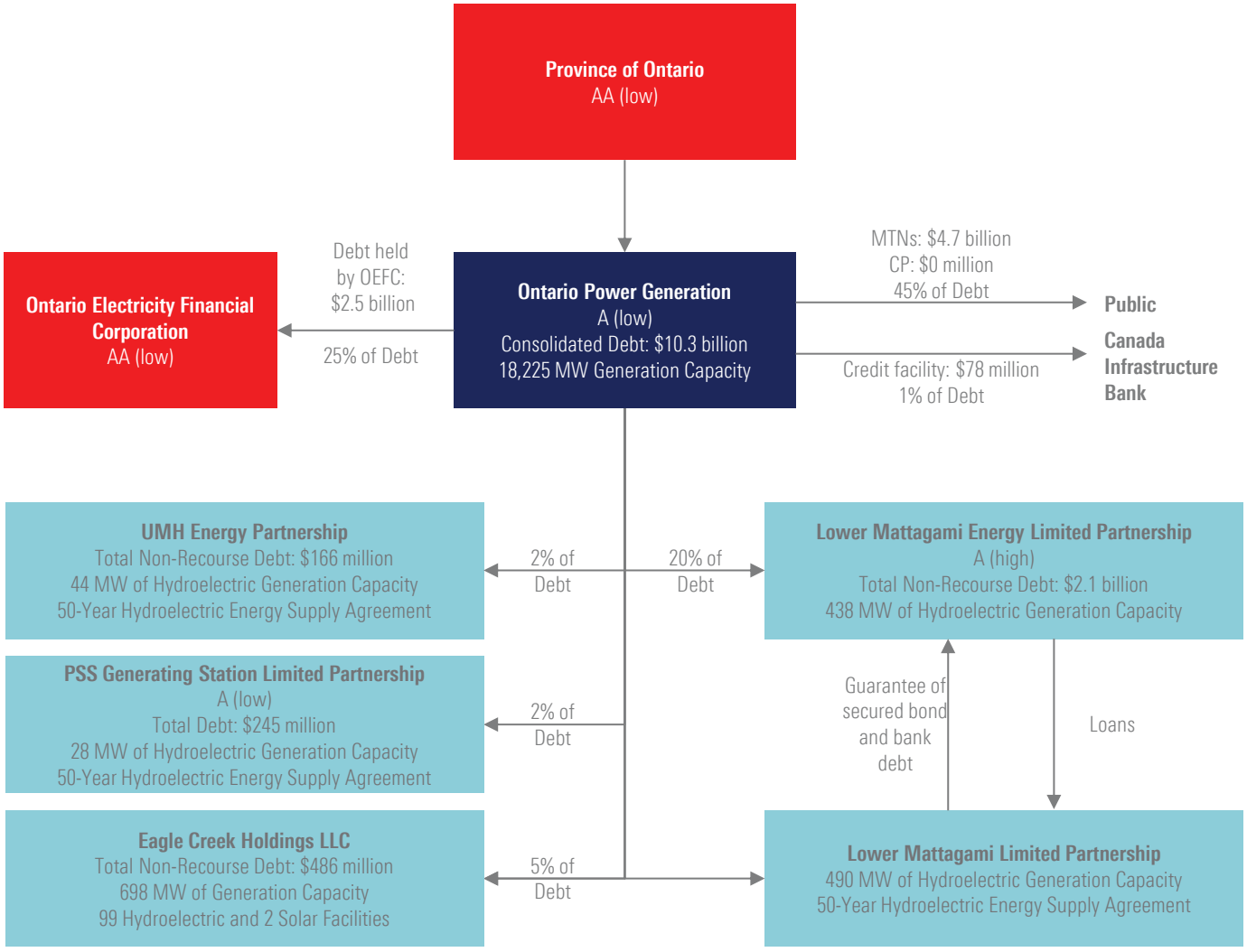
OPG is subject to political intervention, largely because of its ownership by the Province and changes in government mandates and policies. DBRS Morningstar notes that, though the Province has committed to having the Company run more autonomously, the risk of further government intervention still exists. In November 2020, the Province amended legislation to freeze OPG's hydroelectric base rates at the 2021 level for the next regulatory period of 2022–26. DBRS Morningstar expects the Company's earnings to be modestly pressured as OPG will have to find efficiencies to offset inflationary cost increases.

5. Increased exposure to nonregulated operations

OPG has in recent years acquired multiple nonregulated generation assets, including gas-fired plants in Ontario and two renewable facility operators in the U.S. The Company also owns nonregulated natural gas, oil, solar, and biomass generation assets in the province. While the Ontario assets are largely under long-term contracts with strong investment-grade counterparties (such as the Independent Electricity System Operator (IESO)) and contribute relatively stable earnings and cash flow, DBRS Morningstar does view nonregulated assets as generally having higher business risks than the incumbent regulated operations because there is less cost recovery certainty and potentially more volatile cash flow.

DBRS Morningstar notes earnings contributed by regulated operations may fluctuate over the near term resulting in nonregulated earnings to be near or modestly over the 20% threshold as the ongoing Darlington Refurbishment project constricts output. The Company has indicated that growth in its nonregulated business will be at a more moderate pace going forward with most planned capex for its regulated operations. As such, contributions from regulated operations are expected to remain above 80% over the long term, especially once the Darlington Refurbishment is completed in 2026. Additionally, DBRS Morningstar also considers assets under regulatory-styled contracts (such as Lower Mattagami Energy Limited Partnership (LMELP; rated A (high) with a Stable trend by DBRS Morningstar), PSS Generating Station Limited Partnership (PSS; rated A (low) with a Stable trend by DBRS Morningstar), and UMH Energy Partnership (UMH; not rated by DBRS Morningstar)) to have similar credit risks as regulated operations because those contracts mimic the current regulatory construct under the OEB (DBRS Morningstar estimates an EBITDA contribution of 80% from regulated operations and assets under regulatory-styled contracts in 2022). However, should OPG pursue acquisitions that result in a significant shift in the EBITDA mix between regulated and nonregulated operations or lead to credit metrics deteriorating to a level no longer supportive of the current rating category, DBRS Morningstar may take negative rating action.

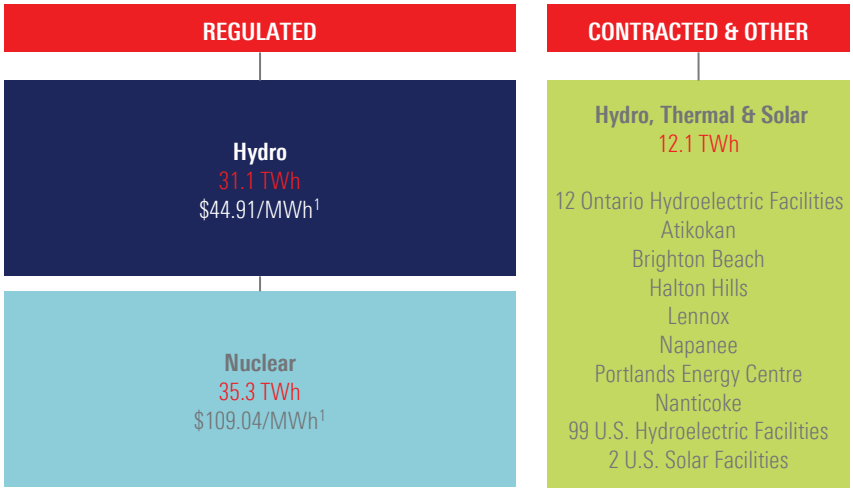
Organizational Chart



As at December 31, 2022.

- As at December 31, 2022, debt at the OPG corporate level consists of $2.6 billion held by the OEFC, and $4.7 billion of medium-term notes (MTNs).
  - Debt at UMH, LMELP, and Eagle Creek Holdings LLC (Eagle Creek) are secured by the assets at each corresponding subsidiary and are nonrecourse to OPG.
  - Debt at PSS GS is recourse to OPG until the recourse release date.

Price Structure



1 Rates as of January 1, 2023.
For the year ended December 31, 2022.
Source: OPG.

- OPG sells electricity to consumers through the IESO.
- Regulated facilities sell at rates set by the OEB, which could include rate riders used for the recovery of nuclear deferral and hydroelectric variance account balances.
- The Contracted and Other Portfolio includes (1) assets in Ontario that sell electricity at prices set through Energy Supply Agreements (ESA) or other long-term contracts with the IESO and (2) Eagle Creek, which holds interest in 99 U.S. hydroelectric GS and two U.S. solar facilities.
  - The Eagle Creek facilities either sell into the merchant market or operate under long-term energy or capacity supply contracts.

Major Projects

Project	Estimated Cost (CAD millions)	Spent as of Dec. 31, 2022 (CAD millions)	In-Service Target Date
Darlington Refurbishment	12,800	9,229	2026[1]
Little Long Dam Safety Project	700	539	2023
Smoky Falls Dam Safety Project	390	117	2025
Calabogie Hydroelectric GS	168	150	2023

1 Four units with staged in-service. Last unit scheduled to be completed by 2026.

- **Darlington Refurbishment**: The Darlington Refurbishment will extend the operating life of the Darlington Nuclear GS by approximately 30 years. The execution of the refurbishment of the first unit began in October 2016, and the last unit is scheduled to be completed by 2026. Construction on the first unit was completed in March 2020 and returned in service in June 2020. Refurbishment on the second unit began in September 2020 after a short delay related to the coronavirus pandemic, and is expected to be placed back in service Q3 2023. Refurbishment on the third unit began in February 2022, with

refurbishment on the final unit expected to begin once the second unit is placed back in service. The project remains on schedule and on budget.

- **Little Long Dam Safety Project**: This project is intended to make reliability and operational improvements and increase the discharge capacity at the Little Long Dam. The Little Long Dam supports hydroelectric GSs on the Lower Mattagami River.
- **Smoky Falls Dam Safety Project**: This project is intended to improve dam safety at the Smoky Falls hydroelectric GS.
- **Calabogie Hydroelectric GS**: This project is intended to redevelop the Calabogie GS by replacing the powerhouse to 11 MW from 5 MW.
- **Pickering Refurbishment**: OPG is in the process of applying to the CNSC to extend the life of the Pickering Nuclear GS to September 2026. The Company is also currently conducting a feasibility study on refurbishing four units of the Pickering Nuclear GS to extend the operating life by 30 years.
- **Darlington New Nuclear Project**: This project involves constructing Canada's first grid-scale SMR at the Darlington site. OPG has applied to the CNSC for a license to construct, with a preliminary schedule of completing construction by 2028 with commercial operation in 2029.

Regulation

- OPG benefits from a reasonably regulated environment. As at December 31, 2022, approximately 63% of its installed in-service capacity is regulated.
- OPG, regulated by the OEB under the *Ontario Energy Board Act, 1998*, is allowed to receive regulated prices for all electricity generated from its nuclear facilities (4,850 MW) as well as most of its hydroelectric power facilities in Ontario (6,555 MW).
- In November 2020, the Province amended *Ontario Regulation (O. Reg.) 53/05* (O. Reg. 53/05) to freeze hydroelectric base rates for OPG at the 2021 level for the next regulatory period of 2022–26.
  - DBRS Morningstar notes the hydroelectric rate freeze may modestly pressure the Company's earnings as OPG will have to find efficiencies in its regulated hydroelectric operations to offset inflationary cost increases.
- In November 2021, the OEB issued its decision on OPG's application for rates effective January 1, 2022.
  - The OEB approved a settlement proposal between OPG and intervenors as filed.
  - As per O. Reg. 53/05, hydroelectric base payment amounts will remain at the 2021 level.
  - Capital structure will remain at 55% debt (the Company had requested a change to 50% debt) and an allowed ROE of 8.66%.
  - For nuclear facilities, the continuation of the current Custom IR methodology along with a rate-smoothing deferral account (as required under O. Reg. 53/05).
  - Under Custom IR, nuclear revenue requirements were determined by a five-year forecast cost-of-service (COS) approach, but with a stretch factor of 0.6% applied to the Company's OM&A expenditures for 2023–25 (compared with 0.45% as requested), and 0.3% for 2026. The reduction in OM&A costs as a result of the stretch factor will accumulate for the five-year period.
  - The rate-smoothing deferral account will stabilize year-to-year changes to weighted-average payment amounts as the Darlington Refurbishment continues. OPG will defer a portion of its approved nuclear revenue requirements into the rate-smoothing deferral account and will be

allowed to recover the deferred amount over a 10-year period once the Darlington Refurbishment has been completed.

- Total regulated nuclear revenue requirement of $16.0 billion over the five-year term, representing a $567 million reduction (including a 3%, or $277 million, reduction of OM&A costs) from the Company's application.
- The OEB approved the inclusion of $8.6 billion to the rate base (including $6.4 billion for the Darlington Refurbishment) over the five-year period of the Custom IR (reduction of $298 million for planned non-Darlington Refurbishment in-service capital add-ons). Any Darlington Refurbishment cost overruns will be subject to a prudence review before being added to the rate base.
- Inclusion of $396 million to the rate base for the Heavy Water Storage and Drum Handling Facility project (in-service 2020); this represents a permanent rate base reduction for the project of $94 million plus carrying costs incurred from May 2017 to March 2020 for capital cost deemed not prudently incurred.
- Recently completed non-Darlington Refurbishment capex of $358 million, which exceeded the 2017–21 approved in-service capital additions, will earn an ROE at the cost of long-term debt (3.6% for the 2022 to 2026 rate period) instead of the allowed ROE until 2037.
- The OEB approved the recovery of balances as at December 31, 2019, in OPG's deferral and variance accounts. The OEB also approved a $47 million credit to customers for the impact of favourable electricity revenue during the 2020 and 2021 Coronavirus (COVID-19) Disease pandemic response (net of any incremental pandemic-related OM&A).
- All previously existing regulatory accounts will continue, along with new accounts to track (1) any financial impact from a possible transition to and implementation of IFRS from US GAAP, (2) revenue requirement impact for a planned new corporate campus, and (3) any revenue requirement impact to nuclear liabilities and depreciation expense from accounting end-of-life assumptions for the Pickering GS.
- An earnings-sharing mechanism was also approved, where regulated earnings 100 basis points above the approved ROE over the cumulative five-year term will be shared 50-50 with customers.

Approved Regulated Nuclear Amounts	2022	2023	2024	2025	2026
Nuclear revenue requirement (CAD millions)	3,515.5	3,430.0	3,518.3	3,197.6	2,439.5
Nuclear rate base (CAD millions)	8,600.3	8,615.0	11,033.4	12,188.8	12,991.8
Nuclear payment amount (CAD per megawatt hour (MWh))	105.22	109.04	104.63	108.19	118.91
Hydro payment amount (CAD per MWh)	44.91	44.91	44.91	44.57	44.57

- In September 2022, the Province announced it will support extending Pickering GS to September 2026 (subject to CNSC approval), and for OPG to conduct a feasibility study on the refurbishment of four units.
  - In December 2022, the Province amended O. Reg. 53/05 to require OPG to establish a variance account to track the additional revenues and costs associated with operating Units 5 to 8 of the Pickering GS between January 1 and September 30, 2026. The disposition of the account balance will be subject to the OEB's prudence review and approval in a future proceeding.
- Effective January 1, 2022, O. Reg. 53/05 was amended so that any SMR constructed at the Darlington site will be considered a regulated facility prescribed under OEB regulation.

Assessment of Regulatory Framework

Criteria	Score	Analysis
1. Deemed Equity	Excellent **Good** Satisfactory Below Average Poor	The OEB allows OPG to have a deemed equity of 45%.
2. Allowed ROE	Excellent Good **Satisfactory** Below Average Poor	OPG has an allowed ROE of 8.66% for 2022–26 (based on nuclear regulated rates), which is in line with the other regulated utilities in Ontario. Any difference in ROE between the Company and other regulated utilities in the province is mainly because of the timing of the regulatory filings and the interest environment prevalent at that time.
3. Energy Cost Recovery	Excellent Good Satisfactory Below Average Poor	N/A; energy costs are recovered through rates for OPG.
4. Capital and Operating Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Under Custom IR for the nuclear facilities, the capex program for OPG is preapproved for a five-year period by the OEB and recovered through base rates. Future test years are utilized for nuclear rates applications. Some volume risk exists, but this is partly mitigated by (1) use of deferral accounts for volumetric differences, and (2) rates are based on forecasts which include scheduled outages. However, lost revenues resulting from forced outages beyond the forecasted allowances are not recoverable through rates.
5. COS versus IRM	Excellent Good **Satisfactory** Below Average Poor	The nuclear facilities operate under Custom IR, which is a hybrid of COS and the IR framework, for a five-year term. DBRS Morningstar considers the Custom IR framework as reasonable.
6. Political Interference	Excellent Good Satisfactory **Below Average** Poor	The Government of Ontario plays a significant role in the electricity sector in Ontario, given that most of the utilities are government owned (OPG is owned by the Province). 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 Good **Satisfactory** Below Average Poor	Regulated utilities in Ontario have a limited history of stranded costs. Most prudently incurred or budgeted capex is approved by the OEB. While OPG has seen some write-downs, these have been because the OEB had deemed the costs overruns to have been imprudent.
8. Rate Freeze	Excellent Good Satisfactory **Below Average** Poor	DBRS Morningstar notes that, in November 2020, the Province amended O. Reg. 53/05 to freeze hydroelectric base rates for the Company at the 2021 level for the next regulatory period from 2022 to 2026. Rates for nuclear facilities were not frozen and have been set by the OEB. DBRS Morningstar notes that the hydroelectric rate freeze may modestly pressure OPG's earnings as the Company will have to find efficiencies to offset inflation.

Earnings and Outlook

	For the year ended December 31				
(CAD millions where applicable)	**2022**	**2021**	**2020**	**2019**	**2018**
Revenues	7,349	6,877	7,240	6,022	5,535
EBITDA	3,161	2,944	3,387	2,390	1,871
EBIT	2,037	1,812	2,065	1,317	1,087
Gross interest expense	381	383	416	345	301
Earning before taxes	1,851	1,592	1,763	1,333	1,079
Net income before nonrecurring items	1,531	1,355	1,361	1,126	902
Reported net income	1,636	1,325	1,361	1,126	1,195
Return on equity (%)	8.5	8.3	9.1	8.2	7.2
Segmented reported EBITDA					
Nuclear generation	1,425	1,210	1,917	1,306	863
Nuclear sustainability services	(93)	(110)	(113)	(113)	(117)
Regulated hydroelectric generation	854	898	874	843	748
Contracted and other generation	444	369	348	341	384
Atura Power	417	387	279	57	0
Reported subtotal	**3,047**	**2,754**	**3,305**	**2,434**	**1,878**
Other	247	194	87	36	337
Reported total	**3,294**	**2,948**	**3,392**	**2,470**	**2,215**
Nuclear rate base	8,600	7,711	7,347	3,374	3,446
Approved regulated ROE (%)	8.66	8.78	8.78	8.78	8.78
Achieved regulated ROE (%)	N/A	10.79	17.22	15.72	10.72

2022 Summary

- DBRS Morningstar no longer excludes earnings from nuclear fixed asset removal and nuclear waste management funds. The financials above have been restated by DBRS Morningstar.
- EBITDA and EBIT increased primarily because of higher nuclear base rates effective January 1, 2022.
  - Earnings also benefitted from higher wholesale electricity prices from US operations.
  - The increase was offset by lower nuclear generation for the year because of the ongoing Darlington Refurbishment and higher deprecation from the growing rate base.
- Reported net income included a $129 million gain on sale of the Kipling office and facility.

2023 Outlook

- DBRS Morningstar expects OPG's net income in 2023 to increase modestly, reflecting continued growth in the rate base.
  - Earnings from regulated nuclear generation are expected to be steady with both Units 1 and Units 3 of the Darlington Nuclear GS out for refurbishment. DBRS Morningstar does not expect refurbishment on Unit 4 to begin until Unit 3 is back in service.
  - Earnings from regulated hydroelectric generation should remain stable despite the rate freeze.
  - OPG also expects earnings from contracted generation assets and Atura Power to be stable.

- Earnings volatility going forward will come from (1) forecast risk as part of the IR process, (2) macro factors such as weather, unexpected outages, and Ontario's economic conditions, and (3) variability in water flows and wholesale electricity prices for uncontracted facilities.

Financial Profile

	For the year ended December 31				
(CAD millions where applicable)	**2022**	**2021**	**2020**	**2019**	**2018**
Net income before nonrecurring items	1,531	1,355	1,361	1,126	902
Depreciation & amortization	1,124	1,132	1,322	1,073	784
Deferred income taxes and other	560	603	633	369	519
Cash flow (before working capital changes)	**3,215**	**3,090**	**3,316**	**2,568**	**2,205**
Nuclear waste funding	(417)	(458)	(439)	(336)	(307)
Dividends paid	0	0	0	0	(283)
Capital expenditures	(2,557)	(2,025)	(1,765)	(2,058)	(1,826)
Free cash flow (before working capital changes)	**241**	**607**	**1,112**	**174**	**(211)**
Changes in noncash working cap. Items	223	59	103	99	(160)
Change in regulatory assets/liabilities	(24)	(251)	(156)	275	(51)
Net free cash flow	**440**	**415**	**1,059**	**548**	**(422)**
Long-term investments	(31)	(112)	(2,814)	(1,232)	(358)
Proceeds on asset sales	162	0	0	11	289
Acquisition of Fair Hydro Trust receivables	0	0	0	0	(609)
Change in Fair Hydro Trust debt	0	0	0	0	306
Net equity change	0	0	0	0	268
Net debt change	339	(527)	1,993	866	622
Other	(13)	197	(11)	(8)	(17)
Change in cash	**897**	**(27)**	**227**	**185**	**79**
Total debt[2]	7,528	7,353	7,928	5,729	4,730
Cash flow/Total debt (%)[1, 2]	38.9	39.3	39.3	41.7	45.0
Total debt in capital structure (%)[1, 2, 3]	28.4	30.2	33.8	28.6	26.9
EBIT gross interest coverage (times)[1, 2]	6.24	5.90	7.17	4.67	5.72
(Cash flow—n.w.f.)/Total debt (%)[1, 2, 4]	37.2	35.8	36.3	39.0	39.3

1 Including operating leases.
2 Excludes nonrecourse debt.
3 Adjusted for Accumulated Other Comprehensive Income.
4 Includes nuclear waste funding (n.w.f.) payments as they are not discretionary.

2022 Summary

- OPG's key credit metrics exclude nonrecourse debt from UMH, LMELP, and Eagle Creek.
  - The Company's key credit metrics were all stable for the year and remained supportive of the current ratings.
- Cash flow from operations increased tracking the higher net income.
- Capex increased to $2.6 billion because of continued spending for the Darlington Refurbishment, preparation work on the SMR project, and advancement on the Niagara Hydrogen Centre.

- Proceeds on asset sales represents proceeds from sale of the Kipling office and facility.

2023 Outlook

- DBRS Morningstar expects OPG's key credit metrics to remain supportive of the current ratings in 2023.
  - Cash flow from operations is expected to decrease in 2023 because of the timing of the collection of customer receipts.
- OPG has forecast capex to increase substantially to $3.7 billion for 2023 largely because of work on both Units 1, 3 and 4 of the Darlington Refurbishment, work on the Little Long Dam Safety project, and continued preparation work on the SMR project.

Long-term Debt and Credit Facilities

Long-term Debt

(CAD millions)	Maturity	Dec 31, 2022	Dec. 31, 2021
Notes payable to the OEFC	2023–48	2,540	2,690
Medium Term Note Program	2025–51	4,650	4,350
Canada Infrastructure Bank credit facility	2042	78	0
UMH Energy Partnership[1]	2041	166	169
PSS Generating Station Limited Partnership[2]	2067	245	245
Lower Mattagami Energy Limited Partnership[1]	2024–52	1,995	1,745
Eagle Creek[1]	2025–30	486	471
Other		25	25
Subtotal		**10,185**	**9,695**
Less: Fair value discount		7	10
Less: Bond issuance fees		(40)	(39)
Less: Current portion		(43)	(179)
Total long-term debt		**10,109**	**9,487**

1 Nonrecourse to OPG as debt is secured by assets of the associated project.
2 Secured by assets of the project; recourse to OPG until the recourse release date.

- On July 14, 2022, OPG issued $300 million of green bonds under its Medium Term Note Program maturing in July 2032, with a coupon rate of 4.92%.
- The amortizing UMH notes were issued in 2009 with a maturity date of 2041 and an effective interest rate of 7.86%. The notes are secured by the assets of the Upper Mattagami and Hound Chute project and are nonrecourse to OPG.
- The amortizing PSS GS notes were issued in 2015 with a maturity date of 2067 and an effective interest rate of 4.90%. The notes are secured by the assets of PSS GS and are recourse to OPG until the recourse release date (expected in 2023).
- The LMELP notes are secured by the assets of the project and are nonrecourse to OPG.
  - In October 2022, LMELP issued $250 million of Senior Secured Bonds maturing in 2033 at a coupon rate of 4.85%.
- $486 million of long-term debt at year end 2022 related to Eagle Creek. The notes are secured by the assets of Eagle Creek and are nonrecourse to the Company.

Maturity Profile

(CAD millions—as at December 31, 2022)	2023	2024	2025	2026	2027	Thereafter	Total
Long-Term Debt	43	606	589	674	530	7,743	**10,185**
	0%	6%	6%	7%	5%	76%	**100%**

- OPG's maturity profile is fairly spread out.

Credit Facilities

(CAD millions—as at December 31, 2022)	Maturity	Amount	Drawn/LOC	Available
Committed credit facility	May 2027	1,000	0	**1,000**
Committed credit facility—USD 750 million	Nov. 2023	1,016	0	1,016
OEFC general corporate credit facility	Dec. 2026	750	0	750
Canada Infrastructure Bank credit facility	Sep. 2027[2]	970	78	892
Short-term uncommitted credit facilities	Demand	502	363	139
Short-term uncommitted overdraft facilities	Demand	25	0	25
Lower Mattagami River Project[1]	Aug. 2027	400	60	340
UMH Energy Partnership credit facilities[1]	Oct. 2023	16	16	0
UMH Energy Partnership overdraft facilities[1]	Oct. 2023	8	0	8
Eagle Creek credit facility—USD 5 million[1]	Aug. 2023	7	0	7
Eagle Creek credit facility—USD 20 million[1]	Oct. 2028	27	0	27
Subtotal		**4,721**	**517**	**4,204**
CPs issued—Corporate			0	0
CPs issued—LMELP			65	(65)
Total		**4,721**	**582**	**4,139**

1 Nonrecourse to OPG as debt is secured by assets of the associated project.
2 The availability period to borrow under the facility is expected to end by September 2027, and amounts drawn under the facility have an expected maturity date of September 2042, subject to certain conditions.

- OPG has a reasonable liquidity profile.
- The Company has a $1.0 billion Canadian CP program (none outstanding as at December 31, 2022) and a USD 750 million CP program in the U.S. (none outstanding as at December 31, 2022; unrated by DBRS Morningstar). These CP programs are supported by the following facilities:
  - Committed bank facility of $1.0 billion (due date of May 2027);
  - A USD 750 million bank facility (due date of November 2023, with a one-year term-out option); and
  - An OEFC facility of $750 million (due date of December 2026).
- In August 2022, OPG entered into a $970 million non-revolving term credit facility with the Canada Infrastructure Bank. The facility will be available to borrow on until September 2027, with any outstanding amounts to have an extended maturity date of September 2042, subject to certain conditions.
- As at December 31, 2022, OPG had issued $439 million in letters of credit (LOC) under its corporate facilities of which $298 million was attributed to its supplementary pension plan.
- The LMELP, UMH, and Eagle Creek facilities are used to support the respective projects and are nonrecourse to OPG.

Company Profile

Generation Profile

As at December 31, 2022	Percent (%)	Capacity (MW)
Nuclear		
Darlington	10	1,756
Pickering A	6	1,030
Pickering B	11	2,064
	27	**4,850**
Thermal		
Atikokan (Biomass)	1	205
Brighton Beach	3	570
Halton Hills	4	683
Napanee	5	900
Portlands Energy Centre	3	562
Lennox (Dual oil & gas)	12	2,100
	28	**5,020**
Hydroelectric		
Nonregulated[1]	9	1,726
Regulated	36	6,555
	45	**8,281**
Other		
Solar[2]	0	74
Total Capacity	**100**	**18,225**

1 Represents OPG's share of in-service generation.
2 Three solar facilities.

- OPG is the largest generator of electricity in Ontario.
- In 2022, the Company generated 78.5 terawatt hours of electricity with total in-service capacity of 18,225 MW as at December 31, 2022.
  - The decrease can largely be attributed to two units of the Darlington GS taken out for refurbishment.
- OPG partnerships consist of the following:
  - OPG and the Lac Seul First Nation (LSFN) jointly own the Lac Seul GS, with LSFN owning 25% of the facility.
  - OPG and the Moose Cree First Nation (MCFN), through its wholly owned subsidiary, Amisk-oo-Skow Finance Corporation, jointly own the Little Long, Harmon, Kipling, and Smoky Falls GS, with MCFN owning 25% of the facilities.
  - OPG and Coral Rapids Power Corporation (CRP), a wholly owned subsidiary of the Taykwa Tagamou Nation, jointly own PSS GS, with CRP owning 33% of the facility.
  - OPG, a subsidiary of the Six Nations of the Grand River Development Corporation, and a subsidiary of Mississaugas of the Credit First Nation jointly own the Nanticoke Solar Facility, with OPG owning 80% of the facility.

- OPG also owns the Bruce A and Bruce B Nuclear GS, which are leased on a long-term basis to Bruce Power L.P. (rated BBB with a Stable trend by DBRS Morningstar).

Environmental, Social, and Governance (ESG) Credit Risk Considerations

Environmental

There were no environmental factors that had a relevant or significant effect on the credit analysis. For more details about which environmental factors could have an effect on the credit analysis, please refer to the following checklist. DBRS Morningstar notes OPG operates the Darlington and Pickering Nuclear GSs, which creates nuclear by-products such as used fuel, and low-level and intermediate-level materials. OPG's nuclear operations and handling of nuclear by-products are regulated by the CNSC. The Company also has nuclear fixed asset removal and nuclear waste management funds for costs to be incurred for the safe storage of nuclear materials, and for the eventual dismantlement of the facilities and remediation of the land. As at December 31, 2022, the Decommissioning Segregated Fund was overfunded by 31%, and the Used Fuel Segregated Fund was overfunded by 5%. DBRS Morningstar expects costs associated with OPG's handling of nuclear by-products to be funded through regulated rates.

Social

There were no social factors that had a relevant or significant effect on the credit analysis. For more details about which social factors could have an effect on the credit analysis, please refer to the following checklist.

Governance

There were no governance factors that had a relevant or significant effect on the credit analysis. For more details about which governance factors could have an effect on the credit analysis, please refer to the following checklist.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in *DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings* at https://www.dbrsmorningstar.com/research/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings.

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		**Overall:**	**N**	**N**
	Emissions,Effluents, and Waste	Do we consider the costs or risks result, or could result in changes to an issuer's financial, operational, and/or reputational standing?	**N**	**N**
	Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs?	**N**	**N**
	Resource and Energy Management	Does the scarcity of sourcing key resources hinder the production or operations of the issuer, resulting in lower productivity and therefore 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**
	Climate and Weather Risks	Will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact?	**N**	**N**
Social		**Overall:**	**N**	**N**
	Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services could pose 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 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**
		Human Capital and Human Rights:	**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	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could result, in financial penalties or client attrition to the issuer?	**N**	**N**
	Occupational Health and Safety	Would the failure to address workplace hazards have a negative 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	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**
Governance		**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**
		Are there any political risks that could impact the issuer's financial position or its reputation?	**N**	**N**
		Bribery, Corruption, and Political Risks:	**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 limit 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**
		Corporate / Transaction Governance:	**N**	**N**
	Institutional Strength, Governance, and Transparency (Governments Only)s	Compared with other governments, do institutional arrangements provide a higher or lesser degree of accountability, transparency, and effectiveness?	**N**	**N**
		Are regulatory and oversight bodies insufficiently protected from inappropriate political influence?	**N**	**N**
		Are government officials insufficiently exposed to public scrutiny or held to insufficiently high ethical standards of conduct?	**N**	**N**
		Institutional Strength, Governance, and Transparency (Governments Only)s:	**N**	**N**
		Consolidated ESG Criteria Output:	**N**	**N**

Balance Sheet

(CAD millions)	Dec 31	Dec. 31	Dec. 31		Dec 31	Dec. 31	Dec. 31
Assets	**2022**	**2021**	**2020**	**Liabilities & Equity**	**2022**	**2021**	**2020**
Cash & equivalents	1,753	868	889	Short-term borrowings	76	193	1,062
Accounts receivable	484	558	492	Accounts payable	1,761	1,430	1,245
Inventories	358	350	328	Current portion L.T.D.	43	179	439
Regulatory assets	227	288	533	Regulatory liabilities	215	276	266
Prepaid expenses & other	730	398	313	Deferred revenue & other	0	0	0
Total Current Assets	**3,552**	**2,462**	**2,555**	**Total Current Liabilities**	**2,095**	**2,078**	**3,012**
Net fixed assets	31,767	30,327	29,810	Long-term debt	10,145	9,515	8,928
Intangibles	666	637	633	Deferred income taxes	1,897	1,634	1,379
Financing receivables	0	0	0	Pension & postretirement benefits	2,322	6,061	8,411
Nuclear removal/waste management funds	20,655	19,807	19,050	Nuclear removal/waste management funds	24,315	23,415	22,947
Regulatory assets	3,797	6,467	8,571	Regulatory liabilities	1,859	777	1,239
Investments & other	1,906	1,453	1,454	Other long-term liabilities	721	706	625
				Shareholders' equity	18,989	16,967	15,532
Total Assets	**62,343**	**61,153**	**62,073**	**Total Liabilities & SE**	**62,343**	**61,153**	**62,073**

Ratios

	For the year ended December 31				
Balance Sheet & Liquidity & Capital Ratios	**2022**	**2021**	**2020**	**2019**	**2018**
Current ratio	1.70	1.18	0.85	1.09	1.11
Total debt in capital structure (%)	35.1	36.8	40.2	37.2	37.5
Total debt in capital structure (%)[1, 2, 3]	28.4	30.2	33.8	28.6	26.9
Cash flow/Total debt (%)	31.3	31.3	31.8	30.4	28.0
Cash flow/Total debt (%)[1, 2]	38.9	39.3	39.3	41.7	45.0
(Cash flow—dividends)/Capex (times)	1.26	1.53	1.88	1.25	1.05
(Cash flow—n.w.f.)/Total debt (%)[1, 2, 4]	37.2	35.8	36.3	39.0	39.3
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	31.4
Coverage Ratios (times)					
EBIT gross interest coverage	5.35	4.73	4.96	3.82	3.61
EBIT gross interest coverage[1, 2]	6.24	5.90	7.17	4.67	5.72
EBITDA gross interest coverage	8.30	7.69	8.14	6.93	6.22
Fixed-charges coverage	5.35	4.73	4.96	3.82	3.61
Profitability Ratios					
EBITDA margin (%)	43.0	42.8	46.8	39.7	33.8
EBIT margin (%)	27.7	26.3	28.5	21.9	19.6
Profit margin (%)	20.8	19.7	18.8	18.7	16.3
Return on equity (%)	8.5	8.3	9.1	8.2	7.2
Return on capital (%)[1, 3]	6.1	5.9	6.4	5.5	4.9

1 Including operating leases.
2 Excludes nonrecourse debt.
3 Adjusted for Accumulated Other Comprehensive Income.
4 Includes nuclear waste funding (n.w.f.) payments as they are not discretionary.

Rating History

	Current	2022	2021	2020	2019	2018
Issuer Rating	A (low)	A (low)	A (low)	A (low)	A (low)	A (low)
Unsecured Debt	A (low)	A (low)	A (low)	A (low)	A (low)	A (low)
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Commercial Paper Limit

- $1.0 billion and USD 750 million.

Previous Actions

- "DBRS Morningstar Assigns Rating of A (low) With Stable Trend to Ontario Power Generation Inc.'s $300 Million Series 10 Medium-Term Notes," July 20, 2022.
- "DBRS Morningstar Confirms Ontario Power Generation Inc. at A (low)/R-1 (low), Stable Trends," April 8, 2022.

Previous Report

- Ontario Power Generation Inc.: Rating Report, April 25, 2022.

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 4,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why DBRS Morningstar is the next generation of credit ratings.

Learn more at dbrsmorningstar.com.

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). DBRS Morningstar does not hold an Australian financial services license. DBRS Morningstar credit ratings, and other types of credit opinions and reports, are not intended for Australian residents or entities. DBRS Morningstar does not authorize their distribution to Australian resident individuals or entities, and accepts no responsibility or liability whatsoever for the actions of third parties in this respect. For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: https://www.dbrsmorningstar.com/research/225752/highlights.pdf.

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

© 2023 DBRS Morningstar. All Rights Reserved. The information upon which DBRS Morningstar credit ratings and other types of credit opinions and reports are based is obtained by DBRS Morningstar from sources DBRS Morningstar believes to be reliable. DBRS Morningstar does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS Morningstar credit ratings, other types of credit opinions, reports and any other information provided by DBRS Morningstar are provided "as is" and without representation or warranty of any kind and DBRS Morningstar assumes no obligation to update any such ratings, opinions, reports or other information. DBRS Morningstar hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS Morningstar or its directors, officers, employees, independent contractors, agents, affiliates and representatives (collectively, DBRS Morningstar Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of credit ratings, other types of credit opinions and reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS Morningstar or any DBRS Morningstar Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. IN ANY EVENT, TO THE EXTENT PERMITTED BY LAW, THE AGGREGATE LIABILITY OF DBRS MORNINGSTAR AND THE DBRS MORNINGSTAR REPRESENTATIVES FOR ANY REASON WHATSOEVER SHALL NOT EXCEED THE GREATER OF (A) THE TOTAL AMOUNT PAID BY THE USER FOR SERVICES PROVIDED BY DBRS MORNINGSTAR DURING THE TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO LIABILITY, AND (B) U.S. $100. DBRS Morningstar does not act as a fiduciary or an investment advisor. DBRS Morningstar does not provide investment, financial or other advice. Credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar (a) are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities; (b) do not take into account your personal objectives, financial situations or needs; (c) should be weighed, if at all, solely as one factor in any investment or credit decision; (d) are not intended for use by retail investors; and (e) address only credit risk and do not address other investment risks, such as liquidity risk or market volatility risk. Accordingly, credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar are not a substitute for due care and the study and evaluation of each investment decision, security or credit that one may consider making, purchasing, holding, selling, or providing, as applicable. A report with respect to a DBRS Morningstar credit rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS Morningstar may receive compensation for its credit ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS Morningstar. ALL DBRS MORNINGSTAR CREDIT RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DEFINITIONS, LIMITATIONS, POLICIES AND METHODOLOGIES THAT ARE AVAILABLE ON https://www.dbrsmorningstar.com. Users may, through hypertext or other computer links, gain access to or from websites operated by persons other than DBRS Morningstar. Such hyperlinks or other computer links are provided for convenience only. DBRS Morningstar does not endorse the content, the operator or operations of third party websites. DBRS Morningstar is not responsible for the content or operation of such third party websites and DBRS Morningstar shall have no liability to you or any other person or entity for the use of third party websites.

MORNINGSTAR | DBRS

Rating Report
Ontario Power Generation Inc.

Morningstar DBRS
April 30, 2024

Contents

1 Credit Ratings
1 Credit Rating Drivers
1 Key Credit Rating Considerations
2 Financial Outlook
2 Earnings Outlook
2 Financial Information
2 Issuer Description
2 Business Risk Assessment
4 Financial Risk Assessment
5 Environmental, Social and Governance (ESG) Checklist
7 Rating History
7 Previous Report
7 Previous Action
8 Appendix 1 - Company Profile
11 Appendix 2 - Major Projects
12 Appendix 3 - Regulation
14 Appendix 4 - Long-term Debt and Credit Facilities

Commercial Paper Limit
$1.0 billion and USD 750 million

Tom Li
+1 416 597-7378
tom.li@morningstar.com

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

Credit Ratings

Obligation	Rating	Rating Action	Trend
Issuer Rating	A (low)	Confirmed	Stable
Unsecured Debt	A (low)	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Credit Ratings Drivers

Positive Credit Rating Drivers	Negative Credit Rating Drivers
DBRS Limited (Morningstar DBRS) believes a positive rating action is unlikely over the medium term given the business profile and the ongoing significant and complex capital expenditures (capex) program.	A negative rating action is also considered unlikely given the reasonable key credit metrics, but may occur should there be cost overruns that result in significant stranded costs.

Key Credit Rating Considerations

The ratings on Ontario Power Generation Inc. (OPG or the Company) are based on its regulated generation business, which operates under a reasonable regulatory regime under the Ontario Energy Board (OEB). The Stable trends reflect the Company's key credit metrics, which remain reasonable given the complex and substantial capex program.

Morningstar DBRS notes OPG has a number of large capital projects ongoing. Work has continued on the Darlington Refurbishment project (total capex of $12.8 billion). OPG continues to assess and seek ways to manage the impact of the COVID-19 pandemic on the project's total cost, which otherwise remains on budget and on schedule. In July 2023, the Province of Ontario (the Province or Ontario; 100% owner of OPG; rated AA (low) with a Positive trend by Morningstar DBRS) announced that the Company will begin planning and licensing three additional Small Modular Reactors (SMRs) at Darlington. Public hearings with the Canadian Nuclear Safety Commission (CNSC) on the first SMR at Darlington began in January 2024. In April 2024, the CNSC announced that the existing environmental assessment at Darlington is applicable for the selected SMR technology, which is a positive step forward for the project. As well, in January 2024, the Province announced its support for OPG proceeding with certain pre-executive phase activities, which include preliminary engineering work and securing long-lead components, with a budget of approximately $2 billion, for the refurbishment of Units 5-8 of the Pickering Nuclear Generating Station (GS), which is anticipated to be returned to service by the mid-2030s. Additionally, wholly-owned subsidiary Atura Power, as part of OPG's nonregulated segment, is constructing a large-scale hydrogen production facility and a 250-megawatt (MW) battery energy storage system (BESS). With the electrification of the economy and the expected increase in electricity demand in the Province, the Company also intends to pursue opportunities to increase generation

capacity such as through Independent Electricity System Operator (IESO) request for proposals or the development of hydro sites throughout the Province.

Financial Outlook

Given these ongoing projects, OPG has forecast capex to almost double in 2024 from $2.9 billion in 2023. Morningstar DBRS expects capex to remain at this level for at least the near term, and will likely result in substantial net free cash flow deficits that will require debt financing. Morningstar DBRS notes that the Company is exploring additional funding sources, such as investment tax credits or partnerships with government and Indigenous communities which would reduce its debt needs. While most of OPG's projects are regulated and will be added to the Company's rate base when completed, there is significant execution risk because of the complexity and scale of the projects. Morningstar DBRS has factored into OPG's current ratings that its key credit metrics will weaken moderately over the medium-term, but, given the complexity of the projects, remain reasonable for the A (low) rating. Morningstar DBRS will continue to monitor progress on the Darlington Refurbishment, the Pickering Refurbishment, and the SMR project, and expects that the Company will not undertake any major capex without having financing and a cost-recovery mechanism in place to minimize financial risks.

Earnings Outlook

OPG expects earnings in 2024 to be lower than in 2023 because of higher planned outage days for maintenance for the Darlington GS, the planned shutdown of Unit 1 of the Pickering GS in September 2024, and lower regulated nuclear prices for the year. Overall, Morningstar DBRS expects earnings volatility going forward will come from (1) forecast risk as part of the regulatory process; (2) macro factors such as weather, unexpected outages, and Ontario's economic conditions; and (3) variability in water flows and wholesale electricity prices for uncontracted facilities.

Financial Information

	For the year ended December 31				
	2023	**2022**	**2021**	**2020**	**2019**
Cash flow/total debt (%)	31.3	31.3	31.3	31.8	30.4
Total debt in capital structure (%)[1]	34.0	35.2	36.5	39.6	36.7
EBIT gross interest coverage (times)	5.37	5.35	4.73	5.00	3.97

1 Adjusted for Accumulated Other Comprehensive Income.
Note: Morningstar DBRS no longer excludes nonrecourse debt in its calculation of key metrics.

Issuer Description

OPG is an electricity generation company with a diverse portfolio of more than 18,000 MW of in-service generating capacity. The Company is wholly owned by the Province.

Business Risk Assessment

1. Reasonable regulatory framework that provides stable cash flow

The reasonable regulatory framework has allowed OPG to recover prudently incurred costs and provided stable cash flows. Morningstar DBRS notes; however, that there have been disallowances by the OEB in the past on labour compensation costs related to the Company's nuclear operations. Morningstar DBRS also notes that, under an incentive rate-setting (IR) framework and the regulated hydroelectric rate

freeze, OPG's profitability could come under further pressure because of the need to meet efficiency and productivity benchmarks.

2. Support of shareholder (the Province)

The Province indirectly provides OPG with some of its long-term funding requirements through the Ontario Electricity Financial Corporation (OEFC; rated AA (low) with a Positive trend by Morningstar DBRS), a government financing arm for provincial power companies. As at December 31, 2023, OPG had approximately $2.5 billion of notes payable to the OEFC, comprising 24% of the Company's outstanding debt. Morningstar DBRS believes that the Province will continue to support its investment because OPG is a creation of the Province and is integral to fulfilling Ontario's energy needs. OPG's importance in Ontario is also demonstrated by the fact that it is the primary electricity generator in Ontario, accounting for approximately 54% of electricity produced in 2023. While OPG's debt is not directly guaranteed by the Province, Morningstar DBRS believes that the Province will, in exceptional circumstances, provide support to the Company.

3. Nuclear generation risks

Nuclear generation (approximately 45% of OPG's production in 2023) faces higher operating risks than other types of power generation because of its complex technology. The financial implications of forced outages are greater, given the high fixed-cost nature of these plants and because lost revenues resulting from outages are not recoverable through rates.

4. Political intervention

OPG is subject to political intervention, largely because of its ownership by the Province and changes in government mandates and policies. Morningstar DBRS notes that, though the Province has committed to having the Company run more autonomously, the risk of further government intervention still exists. In November 2020, the Province amended legislation to freeze OPG's hydroelectric base rates at the 2021 level for the next regulatory period of 2022–26. Morningstar DBRS expects the Company's earnings to be modestly pressured as OPG will have to find efficiencies to offset inflationary cost increases.

5. Exposure to nonregulated operations

OPG owns several nonregulated generation assets, including gas-fired plants in Ontario and a renewable facility operator and developer in the U.S. The Company also owns nonregulated natural gas, oil, solar, and biomass generation assets in the province. While the Ontario assets are largely under long-term contracts with strong investment-grade counterparties (such as the IESO) and contribute relatively stable earnings and cash flow, Morningstar DBRS does view nonregulated assets as generally having higher business risks than the incumbent regulated operations because there is less cost recovery certainty and potentially more volatile cash flow.

Morningstar DBRS notes earnings contributed by regulated operations may fluctuate over the near term resulting in nonregulated earnings to be near or modestly more than the 20% threshold as the ongoing Darlington Refurbishment project and the expected Pickering Refurbishment constricts output. The Company has indicated that growth in its nonregulated business will be at a more moderate pace going

forward with most planned capex for its regulated operations. As such, contributions from regulated operations are expected to remain higher than 80% over the long term, especially once the Darlington Refurbishment is completed in 2026. Additionally, Morningstar DBRS also considers assets under regulatory-styled contracts (such as Lower Mattagami Energy Limited Partnership (LMELP; rated A (high) with a Stable trend by Morningstar DBRS), PSS Generating Station LP (New Post Creek) (PSS; rated A (low) with a Stable trend by Morningstar DBRS), and UMH Energy Partnership (UMH) to have similar credit risks as regulated operations because those contracts mimic the current regulatory construct under the OEB (Morningstar DBRS estimates an EBITDA contribution of 84% from regulated operations and assets under regulatory-styled contracts in 2023). However, should OPG pursue acquisitions that result in a significant shift in the EBITDA mix between regulated and nonregulated operations or lead to credit metrics deteriorating to a level no longer supportive of the current rating category, Morningstar DBRS may take negative rating action.

Financial Risk Assessment

1. Significant capex program

OPG has a significant capex program under way (approximately $5.7 billion planned for 2024). The Company also faces significant execution risk as well as the potential for cost overruns associated with the Darlington Refurbishment because of the project's complexity and scale. Morningstar DBRS notes that OPG has started preparation work on its SMR project and initial preparation work to refurbish four units at the Pickering GS. These two projects would be complex undertakings and require significant financing. While capex for both these projects will be regulated and should lead to a substantial increase in the rate base, there is considerable execution risk as well that could lead to large cost overruns. Morningstar DBRS is encouraged by OPG's current track record with the Darlington Refurbishment, which remains on budget and on schedule. Morningstar DBRS also expects that the Company will not undertake any major capex without having financing and a cost-recovery mechanism in place, thus minimizing financial risks.

2. High cost base

OPG's high cost base has resulted in several disallowances by the OEB. For the 2022–26 rates decision, the Company agreed, in a settlement proposal with intervenors, to reduce its non-Darlington-Refurbishment-related regulated nuclear operations, maintenance, and administration (OM&A) budget by 3% annually (total of $277 million over the five-year term). Morningstar DBRS believes that OPG's inability to fully recover compensation costs in future regulated prices could have a negative impact on earnings and affect the Company's ability to achieve its approved return on equity (ROE).

3. Limited nuclear waste management liabilities

Morningstar DBRS notes the used fuel obligation is funded by the used fuel fund, which was over funded as at December 31, 2023. The Province provides a guarantee for any shortfall between the value of the nuclear fund and the CNSC consolidated financial guarantee requirement.

Environmental, Social, and Governance (ESG) Checklist

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		**Overall:**	**N**	**N**
	Emissions, Effluents, and Waste	Do we consider that the costs or risks for the issuer or its clients result, or could result, in changes to an issuerÆs financial, operational, and/or reputational standing?	**N**	**N**
	Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs and/or will such costs increase over time affecting the long-term credit profile?	**N**	**N**
	Resource and Energy Management	Does the scarcity of sourcing key resources hinder the production or operations of the issuer, resulting in lower productivity and therefore 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**
	Climate and Weather Risks	In the near term, will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact? In the long term, will the issuer's or client's business activities and infrastructure be materially affected financially under key IPCC climate scenarios up to a 2°C rise in temperature by 2050?	**N**	**N**
Social		**Overall:**	**N**	**N**
	Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services pose a financial or regulatory risk to the issuer?	**N**	**N**
	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, 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 issuer's financial wellbeing or reputation?	**N**	**N**
		Human Capital and Human Rights:	**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	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could it result, in financial penalties or client attrition to the issuer?	**N**	**N**
	Occupational Health and Safety	Would the failure to address workplace hazards have a negative 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	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**
Governance		**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**
		Are there any political risks that could affect the issuer's financial position or its reputation?	**N**	**N**
		Bribery, Corruption, and Political Risks:	**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**
		Corporate / Transaction Governance:	**N**	**N**
		Consolidated ESG Criteria Output:	**N**	**N**

ESG Considerations

Environmental

There were no Environmental factors that had a relevant or significant effect on the credit analysis. Morningstar DBRS notes OPG operates the Darlington and Pickering GSs, which creates nuclear by-products such as used fuel, and low-level and intermediate-level materials. OPG's nuclear operations and handling of nuclear by-products are regulated by the CNSC. The Company also has nuclear fixed asset removal and nuclear waste management funds for costs to be incurred for the safe storage of nuclear materials, and for the eventual dismantlement of the facilities and remediation of the land. As at December 31, 2023, the Decommissioning Segregated Fund was overfunded by 37%, and the Used Fuel Segregated Fund was overfunded by 7%. Morningstar DBRS expects costs associated with OPG's handling of nuclear by-products to be funded through regulated rates.

Social

There were no Social factors that had a relevant or significant effect on the credit analysis. Morningstar DBRS notes, as a regulated utility, OPG provides an essential service. Any unplanned outages in the Company's operations could significantly affect its reputation and could lead to financial penalties. OPG's nuclear operations are regulated by the CNSC to ensure compliance with nuclear facility security measures, environmental matters, and safety operations. The Company is subject to audits and inspections against CNSC license and performance objectives. Canada is also signatory to various international conventions relating to nuclear energy and emergency responses. OPG is also committed to workplace health and safety, using an integrated health and safety management system and operational risk control procedures. As many of the Company's generation assets are within the treaty and traditional territories of Indigenous peoples, OPG also has an Indigenous Relations Policy and Reconciliation Action Plan to engage and collaborate with Indigenous communities across the province.

Governance

There were no Governance factors that had a relevant or significant effect on the credit analysis. OPG has a Memorandum of Agreement (MOA) with its shareholder, the Province, on the governance, performance and communication of the Company. The MOA underlines the Province's expectation that OPG's board of directors is responsible for overseeing management of the Company, and to operate as a business enterprise with a commercial mandate. OPG's board sets the policies for the Company, including on diversity and inclusion, business conduct, conflict of interest, and cybersecurity.

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in *Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings* at https://dbrs.morningstar.com/research/427030.

Rating History

	Current	2023	2022	2021	2020	2019
Issuer Rating	A (low)	A (low)	A (low)	A (low)	A (low)	A (low)
Unsecured Debt	A (low)	A (low)	A (low)	A (low)	A (low)	A (low)
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Previous Report

- Ontario Power Generation Inc.: Rating Report, May 8, 2023.

Previous Actions

- "DBRS Morningstar Confirms Ontario Power Generation Inc. at A (low)/R-1 (low), Stable Trends," April 11, 2023.

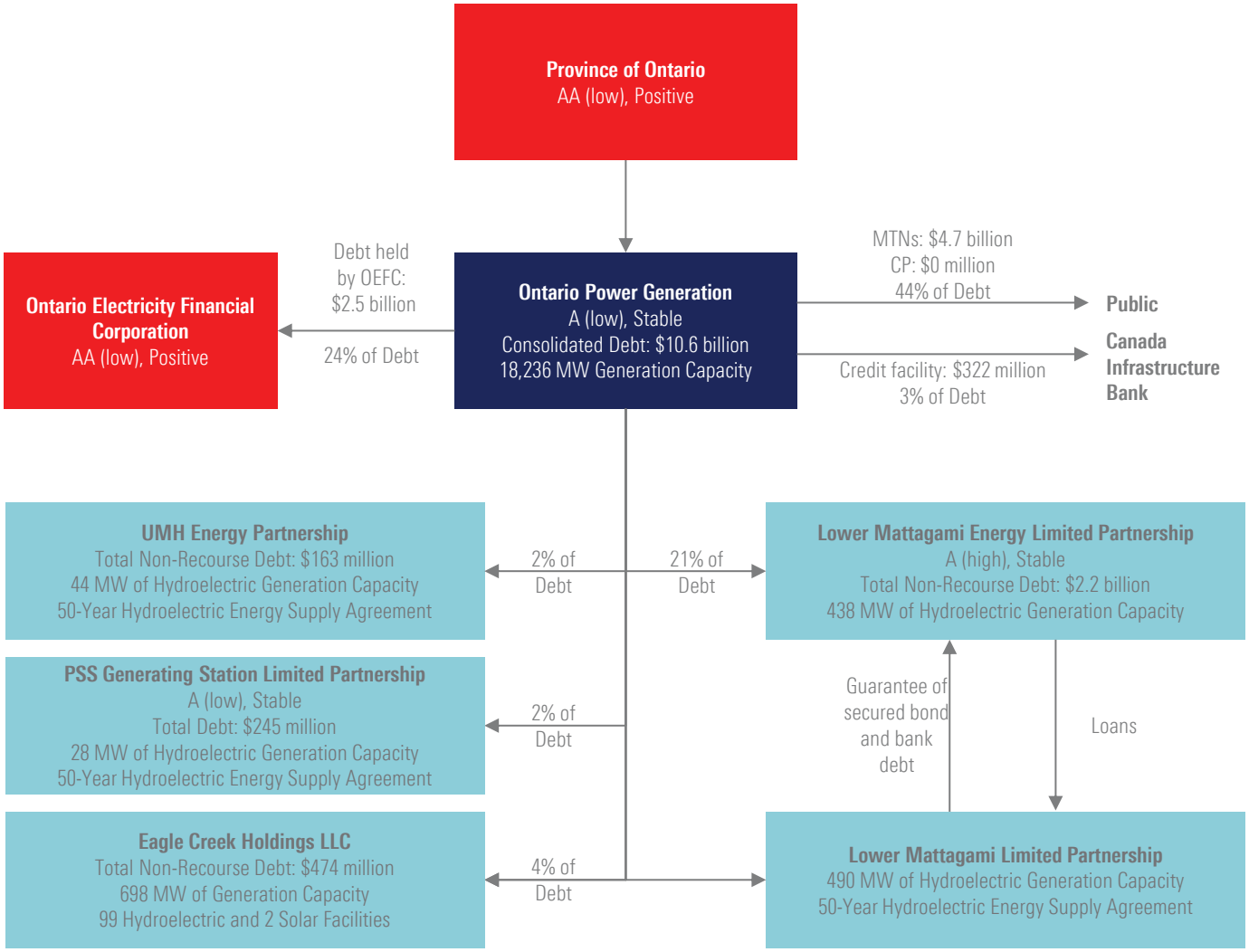
Notes:
All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on https://dbrs.morningstar.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.

Appendix 1—Company Profile

Exhibit 1 Organizational Chart



As at December 31, 2023.
Source: OPG.

- As at December 31, 2023, debt at the OPG corporate level consists of $2.5 billion held by the OEFC, $4.7 billion of medium-term notes (MTNs), and $322 million drawn under a credit facility provided by the Canada Infrastructure Bank (CIB).
    - Debt at UMH, LMELP, and Eagle Creek Holdings LLC (Eagle Creek) are secured by the assets at each corresponding subsidiary and are nonrecourse to the Company.
    - Debt at PSS is recourse to OPG until the recourse release date.

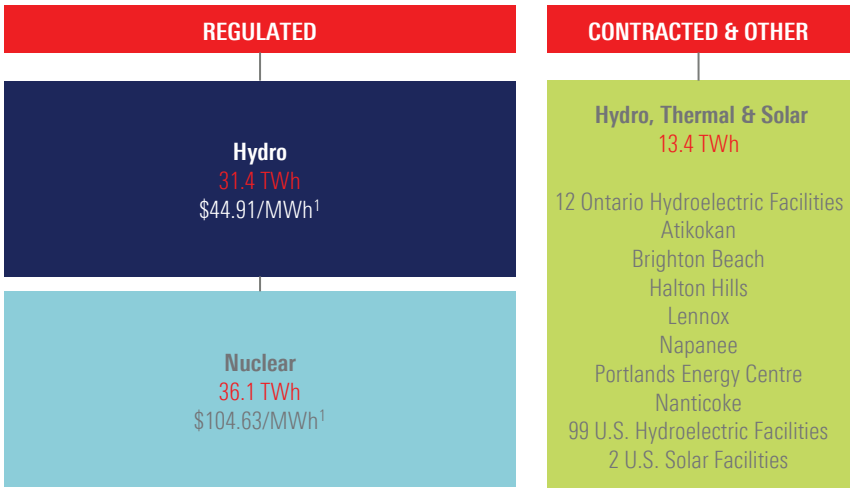
Generation Profile

As at December 31, 2023	Percent (%)	Capacity (MW)
Nuclear		
Darlington	10%	1,756
Pickering A	6%	1,030
Pickering B	11%	2,064
	27%	**4,850**
Thermal		
Atikokan (Biomass)	1%	205
Brighton Beach	3%	570
Halton Hills	4%	683
Napanee	5%	900
Portlands Energy Centre	3%	562
Lennox (Dual oil & gas)	12%	2,100
	28%	**5,020**
Hydroelectric		
Contracted[1]	10%	1,756
Regulated	36%	6,566
	46%	**8,292**
Other		
Solar[2]	0%	44
Total Capacity	**100%**	**18,236**

1 Includes plants under an Energy Supply Agreement (ESA) or a long-term contract.
2 Three solar facilities.

- OPG is the largest generator of electricity in Ontario.
  - In 2023, the Company generated 80.9 terawatt hours of electricity.
- OPG also owns the Bruce A and Bruce B Nuclear GS, which are leased on a long-term basis to Bruce Power L.P. (rated BBB with a Stable trend by Morningstar DBRS).

Exhibit 2 Price Structure



1 Rates as of January 1, 2024.
For the year ended December 31, 2023.
Source: OPG.

- OPG sells electricity to consumers through the IESO.
- Regulated facilities sell at rates set by the OEB, which could include rate riders used for the recovery of nuclear deferral and hydroelectric variance account balances.
- The Contracted and Other Portfolio includes (1) assets in Ontario that sell electricity at prices set through ESAs or other long-term contracts with the IESO and (2) Eagle Creek, which holds interest in 99 U.S. hydroelectric GS and two U.S. solar facilities.
    - The Eagle Creek facilities either sell into the merchant market or operate under long-term energy or capacity supply contracts.

Appendix 2—Major Projects

Project	Estimated Cost (CAD millions)	Spent as of Dec. 31, 2023 (CAD millions)	In-Service Target Date
Darlington Refurbishment	12,800	10,203	2026[1]
Little Long Dam Safety Project	700	637	2023
Smoky Falls Dam Safety Project	390	239	2024
Atura Power Development Projects	850	82	2026[2]

1 Four units with staged in-service. Last unit scheduled to be completed by 2026.

2 Niagara Hydro Centre (NHC) scheduled to be completed in 2025 and Napanee BESS projects scheduled to be completed in 2026.

- **Darlington Refurbishment**: The Darlington Refurbishment will extend the operating life of the Darlington GS by at least 30 years. The execution of the refurbishment of the first unit began in October 2016, and the last unit is scheduled to be completed by 2026. Construction on the first unit was completed in March 2020 and returned in service in June 2020. Refurbishment on the second unit began in September 2020 after a short delay related to the coronavirus pandemic, and was placed back in service in July 2023, ahead of schedule. Refurbishment on the third unit began in February 2022 and is scheduled to be returned to service in Q2 2025. Refurbishment on the fourth unit began in July 2023 and is scheduled to be returned to service by the end of 2026. The project remains on schedule and on budget.
- **Little Long Dam Safety Project**: This project is intended to make reliability and operational improvements and increase the discharge capacity at the Little Long Dam. The Little Long Dam supports hydroelectric GSs on the Lower Mattagami River.
- **Smoky Falls Dam Safety Project**: This project is intended to improve dam safety at the Smoky Falls hydroelectric GS.
- **Atura Power Development Projects**: This project includes (1) the construction of an electrolyzer for large-scale hydrogen production using hydro power in Niagara Falls, Ontario, and (2) a 250 MW battery energy storage system at the Napanee GS site. The NHC is expected to be completed in 2025 while the Napanee BESS is expected to be completed in 2026 and operate under a capacity agreement with the IESO.
- **Pickering Refurbishment**: In June 2023, OPG applied to the CNSC to extend the life of the Pickering Nuclear GS to September 2026. In January 2024, the Province approved for the Company to begin engineering and design work, and to secure long-lead components to refurbish four units of the Pickering Nuclear GS to extend the operating life by at least 30 years.
- **Darlington New Nuclear Project**: This project involves constructing Canada's first grid-scale SMR at the Darlington site. OPG has applied to the CNSC for a license to construct, with a preliminary schedule of completing construction by 2028 with commercial operation in 2029. In July 2023, the Province announced for the Company to proceed with planning and licensing for three additional SMRs at the Darlington site, with in-service dates for the three additional units in the mid-2030s.

Appendix 3—Regulation

- OPG benefits from a reasonably regulated environment. As at December 31, 2023, approximately 63% of its installed in-service capacity is regulated.
    - OPG, regulated by the OEB under the Ontario Energy Board Act, 1998, is allowed to receive regulated prices for all electricity generated from its nuclear facilities (4,850 MW) as well as most of its hydroelectric power facilities in Ontario (6,565 MW).
- In November 2020, the Province amended Ontario Regulation (O. Reg.) 53/05 (O. Reg. 53/05) to freeze hydroelectric base rates for OPG at the 2021 level for the next regulatory period of 2022–26.
    - Morningstar DBRS notes the hydroelectric rate freeze may modestly pressure the Company's earnings as OPG will have to find efficiencies in its regulated hydroelectric operations to offset inflationary cost increases.
- In November 2021, the OEB issued its decision on OPG's application for rates effective January 1, 2022.
    - The OEB approved a settlement proposal between OPG and intervenors as filed.
    - As per O. Reg. 53/05, hydroelectric base payment amounts will remain at the 2021 level.
    - Capital structure will remain at 55% debt (the Company had requested a change to 50% debt) and an allowed ROE of 8.66%.
    - For nuclear facilities, the continuation of the current Custom IR methodology along with a rate-smoothing deferral account (as required under O. Reg. 53/05).
    - Under Custom IR, nuclear revenue requirements were determined by a five-year forecast cost-of-service (COS) approach, but with a stretch factor of 0.6% applied to the Company's OM&A expenditures for 2023–25 (compared with 0.45% as requested), and 0.3% for 2026. The reduction in OM&A costs as a result of the stretch factor will accumulate for the five-year period.
    - The rate-smoothing deferral account will stabilize year-to-year changes to weighted-average payment amounts as the Darlington Refurbishment continues. OPG will defer a portion of its approved nuclear revenue requirements into the rate-smoothing deferral account and will be allowed to recover the deferred amount over a 10-year period once the Darlington Refurbishment has been completed.
    - Total regulated nuclear revenue requirement of $16.0 billion over the five-year term, representing a $567 million reduction (including a 3%, or $277 million, reduction of OM&A costs) from the Company's application.
    - The OEB approved the inclusion of $8.6 billion to the rate base (including $6.4 billion for the Darlington Refurbishment) over the five-year period of the Custom IR (reduction of $298 million for planned non-Darlington Refurbishment in-service capital add-ons). Any Darlington Refurbishment cost overruns will be subject to a prudence review before being added to the rate base.
    - Inclusion of $396 million to the rate base for the Heavy Water Storage and Drum Handling Facility project (in-service 2020); this represents a permanent rate base reduction for the

project of $94 million plus carrying costs incurred from May 2017 to March 2020 for capital cost deemed not prudently incurred.

- Recently completed non-Darlington Refurbishment capex of $358 million, which exceeded the 2017–21 approved in-service capital additions, will earn an ROE at the cost of long-term debt (3.6% for the 2022 to 2026 rate period) instead of the allowed ROE until 2037.
- The OEB approved the recovery of balances as at December 31, 2019, in OPG's deferral and variance accounts. The OEB also approved a $47 million credit to customers for the impact of favourable electricity revenue during the 2020 and 2021 Coronavirus (COVID-19) Disease pandemic response (net of any incremental pandemic-related OM&A).
- All previously existing regulatory accounts will continue, along with new accounts to track (1) any financial impact from a possible transition to and implementation of IFRS from US GAAP, (2) revenue requirement impact for a planned new corporate campus, and (3) any revenue requirement impact to nuclear liabilities and depreciation expense from accounting end-of-life assumptions for the Pickering GS.
- An earnings-sharing mechanism was also approved, where regulated earnings 100 basis points above the approved ROE over the cumulative five-year term will be shared 50-50 with customers.

Approved Regulated Nuclear Amounts	2022	2023	2024	2025	2026
Nuclear revenue requirement (CAD millions)	3,515.5	3,430.0	3,518.3	3,197.6	2,439.5
Nuclear rate base (CAD millions)	8,600.3	8,615.0	11,033.4	12,188.8	12,991.8
Nuclear payment amount (CAD per MW hour (MWh))	105.22	109.04	104.63	108.19	118.91
Hydro payment amount (CAD per MWh)	44.91	44.91	44.91	44.57	44.57

- In June 2023, OPG filed an application with the CNSC to extend operating Pickering GS to September 2026.
    - In December 2022, the Province amended O. Reg. 53/05 to require OPG to establish a variance account to track the additional revenues and costs associated with operating Units 5 to 8 of the Pickering GS between January 1 and September 30, 2026. The disposition of the account balance will be subject to the OEB's prudence review and approval in a future proceeding.
    - In January 2024, the Province approved for the Company to commence the Project Initiation Phase, at a budget of $2 billion, for the refurbishment of units 5-8 at Pickering GS.
- Effective January 1, 2022, O. Reg. 53/05 was amended so that any SMR constructed at the Darlington site will be considered a regulated facility prescribed under OEB regulation.

Assessment of Regulatory Framework

Criteria	Score	Analysis
1. Deemed Equity	Excellent **Good** Satisfactory Below Average Poor	The OEB allows OPG to have a deemed equity of 45%.
2. Allowed ROE	Excellent Good **Satisfactory** Below Average Poor	OPG has an allowed ROE of 8.66% for 2022–26 (based on nuclear regulated rates), which is in line with the other regulated utilities in Ontario. Any difference in ROE between the Company and other regulated utilities in the province is mainly because of the timing of the regulatory filings and the interest environment prevalent at that time.
3. Energy Cost Recovery	Excellent Good Satisfactory Below Average Poor	N/A; energy costs are recovered through rates for OPG.
4. Capital and Operating Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Under Custom IR for the nuclear facilities, the capex program for OPG is preapproved for a five-year period by the OEB and recovered through base rates. Future test years are used for nuclear rates applications. Some volume risk exists, but this is partly mitigated by (1) use of deferral accounts for volumetric differences, and (2) rates are based on forecasts which include scheduled outages. However, lost revenues resulting from forced outages beyond the forecast allowances are not recoverable through rates.
5. COS versus IRM	Excellent Good **Satisfactory** Below Average Poor	The nuclear facilities operate under Custom IR, which is a hybrid of COS and the IR framework, for a five-year term. Morningstar DBRS considers the Custom IR framework as reasonable.
6. Political Interference	Excellent Good Satisfactory **Below Average** Poor	The Government of Ontario plays a significant role in the electricity sector in Ontario, given that most of the utilities are government owned (OPG is owned by the Province). 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 Good **Satisfactory** Below Average Poor	Regulated utilities in Ontario have a limited history of stranded costs. Most prudently incurred or budgeted capex is approved by the OEB. While OPG has seen some write-downs, these have been because the OEB had deemed the costs overruns to have been imprudent.
8. Rate Freeze	Excellent Good Satisfactory **Below Average** Poor	Morningstar DBRS notes that, in November 2020, the Province amended O. Reg. 53/05 to freeze hydroelectric base rates for the Company at the 2021 level for the next regulatory period from 2022 to 2026. Rates for nuclear facilities were not frozen and have been set by the OEB. Morningstar DBRS notes that the hydroelectric rate freeze may modestly pressure OPG's earnings as the Company will have to find efficiencies to offset inflation.

Exhibit 4—Long-term Debt and Credit Facilities

Long-term Debt

(CAD millions as at December 31, 2023)	Maturity	Amount
Notes payable to the OEFC	2025-2048	2,500
Medium Term Note Program	2025-2051	4,650
Canada Infrastructure Bank term credit facility	2027[3]	322
UMH[1]	2041	163
PSS[2]	2067	245
LMELP[1]	2024-2052	1,995
Eagle Creek[1]	2025-2030	474
Other		25
Subtotal		**10,374**
Less: Fair value discount		5
Less: Bond issuance fees		(37)
Less: Current portion		(603)
Total long-term debt		**9,739**

1 Nonrecourse to OPG as debt is secured by assets of the associated project.
2 Secured by assets of the projects; recourse to OPG until the recourse release date.
3 The availability period to borrow under the facility is expected to end by September 2027, and amounts drawn under the facility have an expected maturity date of September 2042, subject to certain conditions.

- Debt at UMH, LMELP, and Eagle Creek are secured by assets of the associated project and nonrecourse to OPG. Debt at PSS is secured by assets of the project and are recourse to OPG until the recourse release date.

Maturity Profile

(CAD million as at December 31, 2023)	2024	2025	2026	2027	2028	Thereafter	Total
Long-term debt	603	588	674	530	248	7,731	**10,374**
	6%	6%	6%	5%	2%	75%	**100%**

- OPG's maturity profile is fairly spread out.

Credit Facilities

(CAD million as at December 31, 2023)	Maturity	Amount	Drawn/LOC	Available
Committed credit facility	May 2028	1,000	0	1,000
Committed credit facility–USD 750 million	Nov. 2024	992	0	992
OEFC general corporate credit facility	Dec. 2026	750	0	750
Canada Infrastructure Bank term credit facility[2]	Sep. 2027	970	322	648
Short-term uncommitted credit facilities	Demand	665	450	215
Short-term uncommitted overdraft facilities	Demand	25	0	25
Lower Mattagami River Project[1]	Aug. 2028	460	60	400
UMH credit facilities[1]	Oct. 2025	16	15	1
UMH overdraft facilities[1]	Oct. 2025	8	0	8
Eagle Creek credit facility–USD 20 million[1]	Oct. 2028	26	0	26
Subtotal		**4,913**	**847**	**4,066**
CPs–corporate			0	0
CPs–LMELP			200	(200)
Total		**4,913**	**1,047**	**3,866**

1 Nonrecourse to OPG as debt is secured by assets of the associated project.
2 The availability period to borrow under the facility is expected to end by September 2027, and amounts drawn under the facility have an expected maturity date of September 2042, subject to certain conditions.

- OPG has a reasonable liquidity profile.
- The Company has a $1.0 billion Canadian CP program (none outstanding as at December 31, 2023) and a USD 750 million CP program in the U.S. (none outstanding as at December 31, 2023; unrated by Morningstar DBRS). These CP programs are supported by the following facilities:
    - Committed bank facility of $1.0 billion (due date of May 2028);
    - A USD 750 million bank facility (due date of November 2024, with a one-year term-out option); and
    - An OEFC facility of $750 million (due date of December 2026).
- In August 2022, OPG entered into a $970 million non-revolving term credit facility with the CIB. The facility will be available to borrow on until September 2027, with any outstanding amounts to have an extended maturity date of September 2042, subject to certain conditions.
- The LMELP, UMH, and Eagle Creek facilities are used to support the respective projects and are nonrecourse to OPG.

About Morningstar DBRS

Morningstar DBRS is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 4,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

Morningstar DBRS is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why Morningstar DBRS is the next generation of credit ratings.

Learn more at dbrs.morningstar.com.

The Morningstar DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GMBH (Frankfurt, Germany) (EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). Morningstar DBRS does not hold an Australian financial services license. Morningstar DBRS credit ratings, and other types of credit opinions and reports, are not intended for Australian residents or entities. Morningstar DBRS does not authorize their distribution to Australian resident individuals or entities, and accepts no responsibility or liability whatsoever for the actions of third parties in this respect. For more information on regulatory registrations, recognitions and approvals of the Morningstar DBRS group of companies please see: https://dbrs.morningstar.com/research/highlights.pdf.

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

© 2024 Morningstar DBRS. All Rights Reserved. The information upon which Morningstar DBRS credit ratings and other types of credit opinions and reports are based is obtained by Morningstar DBRS from sources Morningstar DBRS believes to be reliable. Morningstar DBRS does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. Morningstar DBRS credit ratings, other types of credit opinions, reports and any other information provided by Morningstar DBRS are provided "as is" and without representation or warranty of any kind and Morningstar DBRS assumes no obligation to update any such credit ratings, opinions, reports or other information. Morningstar DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall Morningstar DBRS or its directors, officers, employees, independent contractors, agents, affiliates and representatives (collectively, Morningstar DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of credit ratings, other types of credit opinions and reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of Morningstar DBRS or any Morningstar DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. IN ANY EVENT, TO THE EXTENT PERMITTED BY LAW, THE AGGREGATE LIABILITY OF MORNINGSTAR DBRS AND THE MORNINGSTAR DBRS REPRESENTATIVES FOR ANY REASON WHATSOEVER SHALL NOT EXCEED THE GREATER OF (A) THE TOTAL AMOUNT PAID BY THE USER FOR SERVICES PROVIDED BY MORNINGSTAR DBRS DURING THE TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO LIABILITY, AND (B) U.S. $100. Morningstar DBRS does not act as a fiduciary or an investment advisor. Morningstar DBRS does not provide investment, financial or other advice. Credit ratings, other types of credit opinions and other analysis and research issued by Morningstar DBRS (a) are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities; (b) do not take into account your personal objectives, financial situations or needs; (c) should be weighed, if at all, solely as one factor in any investment or credit decision; (d) are not intended for use by retail investors; and (e) address only credit risk and do not address other investment risks, such as liquidity risk or market volatility risk. Accordingly, credit ratings, other types of credit opinions and other analysis and research issued by Morningstar DBRS are not a substitute for due care and the study and evaluation of each investment decision, security or credit that one may consider making, purchasing, holding, selling, or providing, as applicable. A report with respect to a Morningstar DBRS credit rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Morningstar DBRS may receive compensation for its credit ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of Morningstar DBRS. ALL MORNINGSTAR DBRS CREDIT RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DEFINITIONS, LIMITATIONS, POLICIES AND METHODOLOGIES THAT ARE AVAILABLE ON HTTPS://DBRS.MORNINGSTAR.COM. Users may, through hypertext or other computer links, gain access to or from websites operated by persons other than Morningstar DBRS. Such hyperlinks or other computer links are provided for convenience only. Morningstar DBRS does not endorse the content, the operator or operations of third party websites. Morningstar DBRS is not responsible for the content or operation of such third party websites and Morningstar DBRS shall have no liability to you or any other person or entity for the use of third party websites.

MOODY'S INVESTORS SERVICE

CREDIT OPINION
4 December 2019

Update

Rate this Research

RATINGS

Ontario Power Generation Inc.

Domicile	Ontario, Canada
Long Term Rating	A3
Type	Senior Unsecured - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Gavin MacFarlane +1.416.214.3864
VP-Sr Credit Officer
gavin.macfarlane@moodys.com

Edna R Marinelarena +1.212.553.1383
Analyst
edna.marinelarena@moodys.com

Michael G. Haggarty +1.212.553.7172
Associate Managing Director
michael.haggarty@moodys.com

Jim Hempstead +1.212.553.4318
MD-Utilities
james.hempstead@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Ontario Power Generation Inc.

First-time rating on Ontario based generation company

Summary

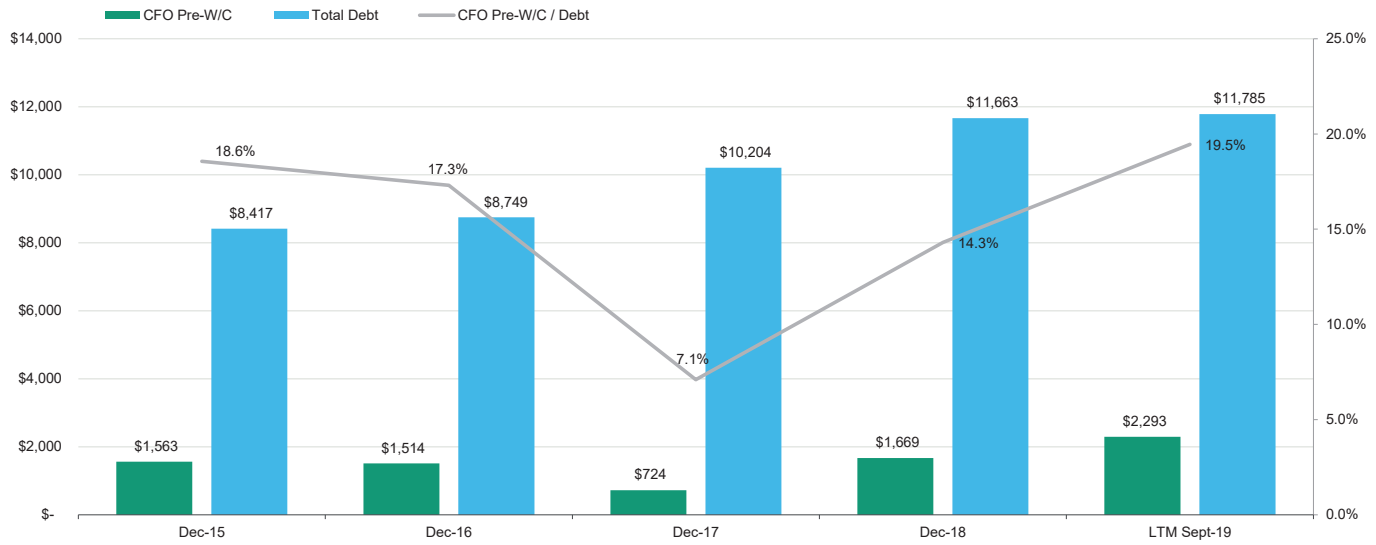
OPG's A3 rating reflects a baseline credit assessment (BCA) of baa3 with a 3 notch uplift based on high dependence and a high probability of extraordinary support from the Province of Ontario (Aa3 stable).

OPG's baa3 BCA benefits from its substantial regulated nuclear and hydroelectric operations that are expected to generate the vast majority of its relatively stable cash flow. OPG's contracted assets generally benefit from long contract tenors and a strong counterparty in the Ontario Independent Electricity System Operator (IESO, Aa3 stable) to which the majority of assets are contracted and pass through most of their costs. The company also has diversification benefits across its extensive fleet. Offsetting these strengths, the company is exposed to availability risk across its fleet of generation assets, and some hydrology risk. While small, its merchant generation segment is growing as a result of several 100% debt financed acquisitions and the potential remains for further debt financed M&A activity. Nonetheless, we expect the company's CFO Pre-W/C to debt metric to be sustained in the 13-17% range. The company is also pursuing a CAD12.8 billion nuclear refurbishment project across 4 units at its Darlington nuclear generation station that carries a very high level of execution risk.

OPG is 100% owned by the Province and is considered a government related issuer (GRI) under our GRI methodology. The three notch uplift attributed to OPG as a GRI incorporates our expectation of an enduring link between OPG and the Province. Our high support assumption considers that OPG produces more than half of the power generated in the Province at a comparatively low cost, making its infrastructure essential to the Ontario economy. OPG also implements government policy, its board is appointed by the Province and through the Ontario Electricity Financial Corporation (OEFC, Aa3 stable), it is a source of debt financing. Our assessment of high default dependence reflects that both OPG and the Province largely rely on the same revenue base and share some political risks.

Exhibit

Historical CFO Pre-WC, Total Debt and CFO Pre-WC to Debt ($ MM)



Source: Moody's Financial Metrics

Credit strengths

» Primarily regulated generation facilities support stable cash flow generation

» Non-regulated segment dominated by long term contracts

» Our expectation of support from the Province of Ontario given its 100% ownership

» Diversification benefits by both generating station and fuel source

Credit challenges

» Financial metrics pressured by 3 debt financed acquisitions with the potential for further debt financed M&A

» CAD12.8 billion nuclear refurbishment project is underway that has a very high level of execution risk

» Growing unregulated segment that has more risk

» Availability risk across the fleet, low levels of hydrology and related risks

Rating outlook

The stable outlook incorporates the following expectations:

» The company continues to execute the Darlington nuclear refurbishment on time and budget

» CFO pre-WC/debt remains in the 13-17% range

» The relationship with the Province remains stable and supportive

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Factors that could lead to an upgrade

» A material improvement in financial metrics such that CFO pre-WC/debt is sustained above 20%

» An improvement in regulatory outcomes or business risk profile

Factors that could lead to a downgrade

» Challenges executing the Darlington nuclear refurbishment

» A weakening of the business risk profile by for example by further growing the merchant segment

» A reduction in the probability of support from the Province

» A deterioration in financial metrics such that CFO pre-WC/debt is forecast to decline below 12% on a sustained basis

Key indicators

Exhibit 2

Rating Factors

Ontario Power Generation Inc.

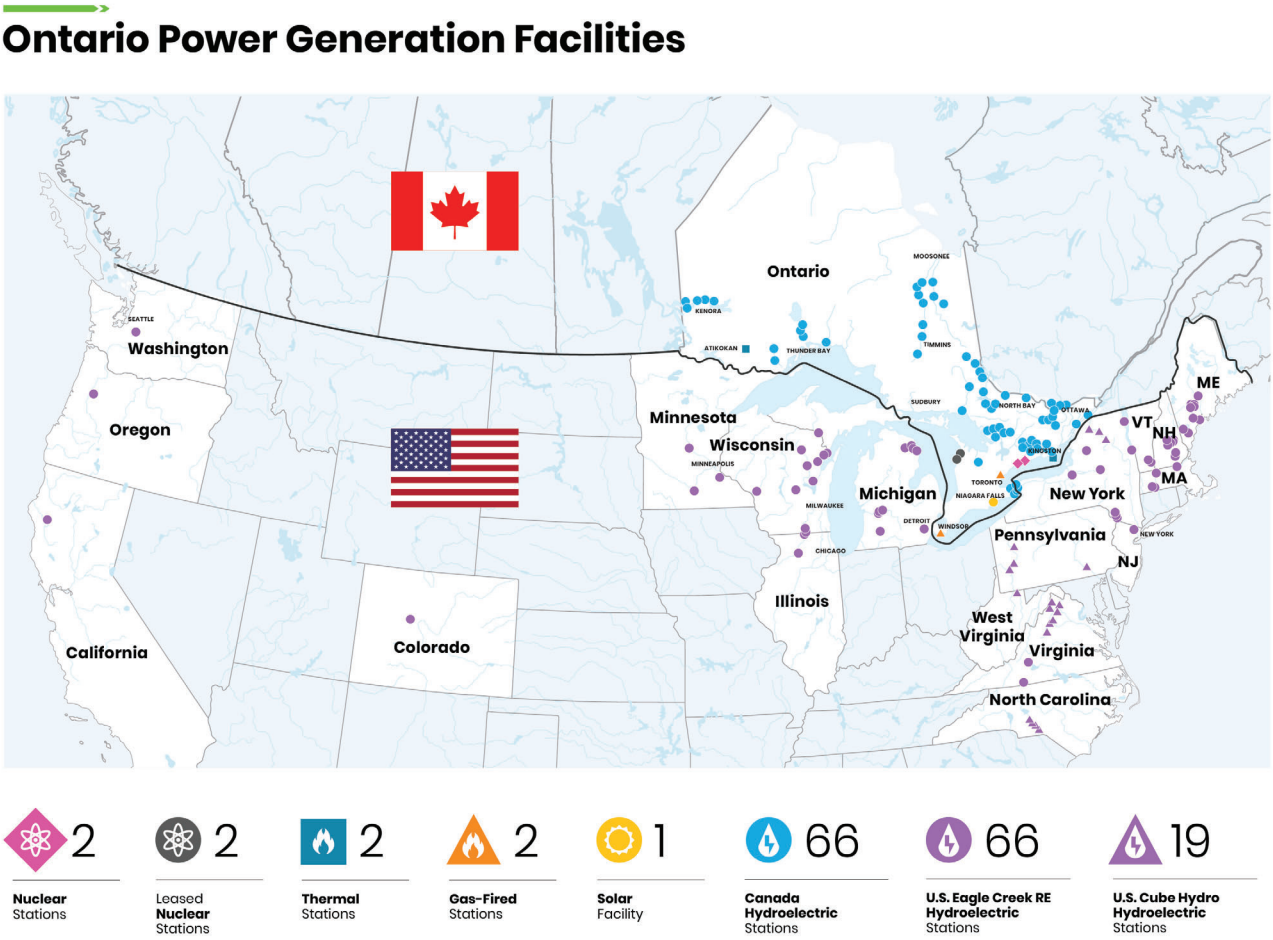
	Dec-15	Dec-16	Dec-17	Dec-18	LTM Sept-19
CFO Pre-W/C + Interest / Interest	4.8x	4.9x	2.8x	4.7x	6.4x
CFO Pre-W/C / Debt	18.6%	17.3%	7.1%	14.3%	19.5%
CFO Pre-W/C – Dividends / Debt	18.4%	17.1%	7.0%	11.7%	19.3%
Debt / Capitalization	43.8%	43.9%	44.7%	45.6%	44.1%

[1] All ratios are based on Adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 9/30/2019 (L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics

Profile

Headquartered in Toronto, Ontario, OPG is an electricity generation company wholly owned by the Province with an in-service generating capacity of 16,629MW at Sept 30, 2019 . At that time OPG owned and operated 72 generating stations, 2 of which are nuclear, 66 hydroelectric, 3 thermal and 1 solar facility in Ontario, Canada. In the US, OPG also owns and operates 65 hydroelectric stations and has interests in 14 other hydroelectric and 2 solar facilities through Eagle Creek Renewable Energy, LLC (Eagle Creek, not rated) acquired in November 2018 with approximately 226 MW of in-service capacity at December 31, 2018. OPG's nuclear and most of its hydroelectric facilities are regulated by the Ontario Energy Board (OEB). On October 7 the company acquired Cube Hydro with 385MW of capacity.

Exhibit 3
OPG's service territory



Source: OPG

Detailed credit considerations

Primarily regulated and contracted assets generate predictable cash flow

OPG's strong business risk profile is driven by its high proportion of regulated and contracted cash flow. Regulated earnings from OEB rate regulated assets will decline from FYE 2018 reported levels of about 80% of EBITDA towards 70% in 2020. Contracted assets will increase from about 19% to the low 20% range while higher risk US assets that are primarily merchant plants will increase from a negligible amount in 2018 to about 5%. Changes in the EBITDA mix are primarily driven by recent M&A activity. The company has extensive diversity by business line and within each segment that reduces volatility. It also has some hydrology risk, albeit low, and negligible levels of commodity price risk, a key credit positive. Unlike most other regulated utilities, OPG owns generating assets only and does not have any lower risk transmission and distribution assets. As a result, as a higher risk generation company, OPG is exposed to availability risks on all of its assets.

The company's regulated assets should provide reasonably stable cash flow going forward. A multi-year rate decision from 2017-2021 establishes prices for the regulated nuclear and hydroelectric assets.

The nuclear generation facilities are regulated by a custom incentive regulation decision that was issued in December 2017. It establishes prices for generation and incorporates a step up in rate base, that is reflected in higher rates, with the completion of the first unit refurbishment at the Darlington nuclear generation station. Rates in the first half of 2017 of $59.29 MWh grew to $77.96 in the second half of the year and will reach $95.83 (inclusive of rate riders and variance accounts) in 2021 which should drive growth in earnings. Nuclear rate base is allowed an ROE of 8.8% and hydroelectric 9.3% and both have equity capital of 45%. However, achieving the allowed ROE in the nuclear segment could be challenging given an OM&A cost disallowance of about CAD100 million primarily for performance and compensation when benchmarked to comparators. The segment also benefits from diversification across 2 nuclear generating stations with 4 and 6 operating reactors respectively that enable the company to maintain high levels of generation and cash flow while undertaking the nuclear refurbishment. The shutdown of the Pickering nuclear generating station in 2024 will reduce diversity and, with fewer operating nuclear units, heighten the impact of any unplanned outages.

The regulated hydroelectric facilities includes 54 generating stations in Ontario across a number of river systems with prices established by incentive rate mechanism. Regulated prices for the period beginning after June 1, 2017 are calculated annually and use a base regulated price escalated with an OEB approved formula for inflation less a 0% productivity factor adjustment and a -0.3% stretch factor adjustment.

The regulated segments are challenged by rate case and cash flow lag. The last rate decision was published in December 2017 with a payments amount order issued on March 29, 2018, well after the 2017-2021 period had begun. Regulated prices prior to June 1, 2017 were established in the fourth quarter of 2014. The company frequently has regulatory assets and liabilities which may take several years to be recovered, leading to some cash flow variability.

The contracted and other generating segment consists of lower risk contracted assets in Ontario and higher risk, primarily merchant US based assets that the company has been acquiring. Acquisitions may double the EBITDA of the segment in 2020.

Ontario based assets are all under contract on generally favorable terms and almost all of the contracts are with the IESO. The largest of these is the project financed Lower Mattagami Energy Limited Partnership (A2 stable) which contributes almost two thirds of the segment's EBITDA. It, and other contracted hydro facilities like it, including UMH Energy Partnership (A2 stable), have strong contract terms which include limited hydrology risk and contract expiries over the period 2059-2067. The Ontario thermal plants in this segment have substantial capacity, but are largely peaking facilities and have very low levels of generation. They are primarily compensated based on their availability and have cost pass through provisions, however they have much shorter contract tenors.

The Ontario CCGT plants being acquired have a similar risk profile as the existing thermal fleet in Ontario. A key hurdle to closing the transaction is the successful completion of the Napanee 900MW CCGT which has a 20 year contract from the IESO. TC Energy has experienced difficulties completing the project on time and budget as the cost estimate is now CAD1.8 billion, up from CAD1.1 billion, and the in-service date has slipped from 2018 to commercial in service late in the first quarter of 2020. Key closing terms of the transaction relate to commercial in-service and associated performance testing of this asset. The US assets, which consist of Eagle Creek and the acquisition of Cube Hydro that closed Oct 2019, have some contracts, but are primarily merchant assets with substantially more risk than the rest of the portfolio.

Exhibit 4

Asset acquired	Capacity (MW)	Fuel feedstock	Announcement date	Closing date	Enterprise value (CAD billion)	Acquisition Price (CAD billion)	Assumed debt (CAD billion)
Ontario CCGT	1858	Natural Gas	30-Jul-19	Q1 2020	2.9	2.9	0
Cube Hydro	385	Hydro	25-Jun-19	Oct-19	1.5	0.0	ND [2]
Eagle Creek	226 [1]	76 hydro 2 solar plants	9-Aug-18	Nov-18	0.7	0.4	0.3

[1] 226MW at FYE 2018.
[2] The amount of assumed debt has not been publicly disclosed.
Source: Company filings

Darlington refurbishment carries a very high level of execution risk

Also weighing on the company's' business risk profile is the undergoing nuclear refurbishment at the Darlington Generation Station, which is forecast to cost CAD12.8 billion and take about a decade to refurbish all 4 units. The first refurbished unit is expected to return to service in the second quarter of 2020. While the refurbishment of the first unit is about a quarter behind schedule, management believes that the overall cost and schedule to complete all 4 units remains on target. The next unit refurbishment will be slightly delayed so that overall nuclear generation levels will not be significantly affected, limiting the impact on cash flow. The last regulatory decision incorporated the forecasted Unit 2 spending into rate base, so it will already be reflected in both rate base and revenues without the need to file a rate case in 2020.

Exhibit 5

Darlington	Capacity	Refurbishment start date	Refurbishment completion date
Unit 2	878	Oct-16	Q2 2020
Unit 3	878	2020	2023
Unit 1	878	2021	2024
Unit 4	878	2023	2026

Source: Company filings

Financial metrics pressured by 3 debt financed acquisitions

We expect CFO pre-WC/Debt to be in the range of 13-17% over the next few years while the company moves forward with the debt financed acquisition of Cube Hydro (unrated), which closed on October 7, 2019, and the thermal assets from TC Energy Inc. Collectively, these transactions reflect an enterprise value of CAD5 billion that we expect to be debt financed, placing pressure on financial metrics. The company closed the smallest acquisition, Eagle Creek, in November of 2018. Further debt financed M&A remains a risk, although management has indicated that they plan to focus on their existing assets.

We expect internally generated cash flow to fund the capital program, which is primarily centered on the Darlington refurbishment. The company seldom pays dividends with the only dividends paid connected to asset sales (property sales, not generation facilities) that it was directed to make by the government. We expect any excess cash flow to be used to repay debt.

There is some structural subordination stemming from project finance debt at Canadian contracted assets totaling about CAD2 billion at FYE 2018 and a small amount of debt on US assets. However, unlike the vast majority of regulated utilities, there is no debt outstanding at the regulated businesses that post acquisitions will generate about 70% of EBITDA. That, in conjunction with primarily centralized funding for OPG, results in no notching for structural subordination. As of Q2 2019, OPG will no longer consolidate Fair Hydro Trust, leading to a reduction in consolidated debt of CAD900 million.

High support from the Province provides an uplift to OPG's credit profile

Given the 100% ownership interest held by the Province, OPG is considered a government related issuer (GRI) under our GRI methodology. Based on our estimate of high support in case of financial distress, the A3 credit profile incorporates 3 notches of uplift from OPG's BCA of baa3.

The company's ratings incorporate our expectation that extraordinary financial support to OPG would be forthcoming from the Province if needed. Our high support assumption considers that OPG produces more than half of the power in the Province at a comparatively low cost, making its infrastructure essential to the Ontario economy. OPG also implements government policy. The most recent example was OPG's role in Fair Hydro Trust, which was created by an act of Provincial legislation and designed to a play a significant role in reducing residential electricity rates by about 25%. Following a change in Provincial government and further legislative changes, as of Q2 2019, OPG will no longer consolidate the Trust, resulting in a decline in OPG's consolidated debt of CAD900 million. The Province also appoints OPG's board, agrees its business plans and through the OEFC is a source of debt financing. We do not believe there are any barriers that would prevent the Province from providing timely support.

Our assessment of high default dependence reflects that both OPG and the Province largely rely on the same revenue base and they share some political risks. While the OEFC is a source of financing, OPG has been increasing the level of its borrowing from public debt capital markets.

Environmental, social and governance considerations

OPG has a low carbon transition risk given that the vast majority of generation comes hydro and nuclear facilities. Its hydro facilities face some hydrology risk while a long-term nuclear refurbishment program entails high execution risk. Although two of OPG's three most recent acquisitions have been hydro facilities, it recently announced the acquisition of 1,858 MW of natural gas assets in Ontario, exposing it so some incremental carbon transition risk. Social risks are primarily related to demographic and societal trends and customer relations in Ontario, as its infrastructure is critical to the economy of the Province. OPG has developed programs and key success measures in order to continue to maintain its social license. OPG's governance benefits from 7 of its 8 directors being independent and by benchmarking itself to various governance guidelines.

Liquidity analysis

OPG has an adequate liquidity profile, despite material adverse change clauses in its bank credit facilities, and has significantly increased its sources of capital. As of 30 September 2019, the company had cash and cash equivalents of CAD1.5 billion (of which CAD20 million was restricted) and we forecast operating cash flow of about CAD2 billion over the next year. The company has a CAD1 billion committed credit facility of which CAD950 million matures May of 2024 and CAD50 million matures in May of 2023. In the third quarter of 2019, the company announced it had secured a CAD800 million committed credit facility with the OEFC that matures December 31, 2021 of which CAD100 million is drawn. After the close of the third quarter, the company announced it had binding commitments for a CAD1 billion 1 year term loan and a USD750 million 364 day revolving committed facility with a one year term out provision at the company's option. Its committed facilities backstop a CAD1 billion and USD750 million commercial paper programs respectively. Moody's expects the company to manage its program maturities, cash on hand and its swinglines in a prudent fashion. There are material adverse change clauses in its credit facilities that could prevent borrowings under certain circumstances. In addition, the company has a CAD400 million committed facility at the Lower Mattagami Energy Limited Partnership.

The company has significant uses of capital over the twelve months beginning at the start of Q4 2019. The company closed the acquisition of Cube Hydro for CAD1.5 billion on October 7, 2019 and expects to close the acquisition of assets from TC Energy Limited for CAD2.9 billion in Q1 2020. The company also has debt maturities of about CAD800 million and capex of about CAD2 billion over the next twelve months. The company's liquidity position benefits from the lack of steady dividends payable to the Province.

Rating methodology and scorecard factors

Exhibit 6

Rating Factors

Ontario Power Generation Inc.

Regulated Electric and Gas Utilities Industry Scorecard [1][2]	Current LTM 9/30/2019		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	Baa	Baa	Baa	Baa
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	Ba	Ba	Ba	Ba
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	A	A	A	A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.5x	A	4.5x - 5.5x	A
b) CFO pre-WC / Debt (3 Year Avg)	14.3%	Baa	13% - 17%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	13.2%	Baa	13% - 17%	Baa
d) Debt / Capitalization (3 Year Avg)	43.9%	A	45% - 49%	Baa
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		Baa2		Baa2
HoldCo Structural Subordination Notching		0		0
a) Indicated Outcome from Scorecard		Baa2		Baa2
b) Actual Rating Assigned		A3		A3

Government-Related Issuer	Factor
a) Baseline Credit Assessment	baa3
b) Government Local Currency Rating	Aa3
c) Default Dependence	High
d) Support	High
e) Final Rating Outcome	A3

[1] All ratios are based on "Adjusted" financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 9/30/2019(L);
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Appendix

Exhibit 7

Cash Flow and Credit Metrics [1]

CF Metrics	Dec-15	Dec-16	Dec-17	Dec-18	LTM Sept-19
As Adjusted					
FFO	1,337	1,563	1,044	1,482	1,785
+/- Other	226	(49)	(320)	187	508
CFO Pre-WC	1,563	1,514	724	1,669	2,293
+/- ΔWC	(129)	180	80	(160)	(17)
CFO	1,434	1,694	804	1,509	2,276
- Div	16	14	15	301	18
- Capex	1,286	1,693	1,713	1,648	1,901
FCF	132	(13)	(924)	(440)	357
(CFO Pre-W/C) / Debt	18.6%	17.3%	7.1%	14.3%	19.5%
(CFO Pre-W/C - Dividends) / Debt	18.4%	17.1%	7.0%	11.7%	19.3%
FFO / Debt	15.9%	17.9%	10.2%	12.7%	15.1%
RCF / Debt	15.7%	17.7%	10.1%	10.1%	15.0%
Revenue	5,476	5,653	5,158	5,537	5,975
Cost of Good Sold	643	701	684	668	667
Interest Expense	412	390	404	446	424
Net Income	408	349	403	270	380
Total Assets	44,254	44,415	48,831	52,134	54,007
Total Liabilities	34,446	34,167	37,233	39,399	40,321
Total Equity	9,808	10,248	11,598	12,735	13,686

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months
Source: Moody's Financial Metrics

Exhibit 8

Ontario Power Generation Inc. Moody's Adjusted Debt Breakdown

(In CN $ Millions)	FYE Dec-13	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	LTM Ending Sept-19
As Reported Debt	**5,657.0**	**5,730.0**	**5,684.0**	**5,522.0**	**6,579.0**	**8,031.0**
Pensions	2,750.0	3,579.0	2,614.0	3,029.0	3,437.0	3,656.0
Operating Leases	108.5	114.3	106.3	184.4	171.3	64.0
Non-Standard Adjustments	0.0	0.0	13.0	14.0	17.0	34.0
Moody's - Adjusted Debt	**8,515.5**	**9,423.3**	**8,417.3**	**8,749.4**	**10,204.3**	**11,785.0**

Based on consolidated financial data of Ontario Power Generation Inc. All figures are calculated using Moody's estimates and standard adjustments
Source: Moody's Financial Metrics

Exhibit 9

Peer Comparison Table [1]

	Ontario Power Generation Inc. A3 Stable (in CAD millions)			Public Service Enterprise Group Incorporated Baa1 Stable (in USD millions)			NextEra Energy, Inc. (P)Baa1 Stable (in USD millions)			Exelon Corporation Baa2 Stable (in USD millions)		
(in CAD millions)	FYE Dec-17	FYE Dec-18	LTM Sept-19	FYE Dec-17	FYE Dec-18	LTM Sept-19	FYE Dec-17	FYE Dec-18	LTM Sept-19	FYE Dec-17	FYE Dec-18	LTM Sept-19
Revenue	5,158	5,537	5,975	9,094	9,696	10,066	17,173	16,727	19,008	33,565	35,985	34,908
CFO Pre-W/C	724	1,669	2,293	3,209	3,075	2,901	7,480	7,257	7,530	8,436	8,412	7,755
Total Debt	10,204	11,663	11,785	14,537	16,509	16,899	34,691	37,302	41,080	39,688	40,803	42,246
CFO Pre-W/C / Debt	7.1%	14.3%	19.5%	22.1%	18.6%	17.2%	21.6%	19.5%	18.3%	21.3%	20.6%	18.4%
CFO Pre-W/C – Dividends / Debt	7.0%	11.7%	19.3%	16.1%	13.1%	11.6%	15.9%	13.5%	12.3%	18.1%	17.3%	15.0%
Debt / Capitalization	44.7%	45.6%	44.1%	43.5%	45.3%	44.7%	49.3%	45.0%	45.6%	47.8%	47.9%	47.5%

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings Under Review, where UPG = for upgrade and DNG = for downgrade
Source: Moody's Financial Metrics

Ratings

Exhibit 10

Category	Moody's Rating
ONTARIO POWER GENERATION INC.	
Outlook	Stable
Senior Unsecured - Dom Curr	A3
Commercial Paper	P-2

Source: Moody's Investors Service

© 2019 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, wilful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for ratings opinions and services rendered by it fees ranging from $1,000 to approximately $2,700,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1204842

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S
INVESTORS SERVICE

ISSUER COMMENT
26 January 2021

Rate this Research

RATINGS

Ontario Power Generation Inc.

Domicile	Ontario, Canada
Long Term Rating	A3
Type	Senior Unsecured -Dom Curr
Outlook	Stable

Source: Moody's Investors Service

Contacts

Gavin MacFarlane +1.416.214.3864
VP-Sr Credit Officer
gavin.macfarlane@moodys.com

Edna R Marinelarena +1.212.553.1383
Analyst
edna.marinelarena@moodys.com

Gajendra Mandal +1.416.214.3861
Associate Analyst
gajendra.mandal@moodys.com

Michael G. Haggarty +1.212.553.7172
Associate Managing Director
michael.haggarty@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Ontario Power Generation Inc.

Proposed increase in rate smoothing is credit negative

Ontario Power Generation (OPG, A3 stable) filed a rate case on 31 December 2020 related to its nuclear generation assets and, as part of the filing, requested an increase in its existing rate smoothing deferral account (RSDA). If approved, the increase would be credit negative because a higher RSDA would result in weaker financial metrics until cost recovery begins. In addition, RSDA balances are at risk of further delays in ultimate recovery and potentially not being recovered at all. The RSDA represents the portion of the company's revenue requirement that will not be collected in cash, leading to higher debt levels. The balance of the RSDA will be amortized and recovered in rates in future periods.

OPG's application requests an increase in the RSDA of CAD759.5 million over the 2022-2026 period covered by the rate case, with the increase peaking at around CAD800 million in 2025. This is credit negative because it reduces revenue and cash flow in any given year by the amount of growth in the RSDA. To offset the deferred revenue, the balance of the RSDA will be 100% debt financed at a long-term debt rate, putting more pressure on financial metrics. This results in more debt and a lower weighted average cost of capital compared to rate base investments made by OPG. OPG's current allowed ROE is 8.8% on its nuclear rate base with an equity capital component of 45%. The interest expense required to fund the balance in the RSDA will be deferred and recorded in the RSDA. For context, OPG's CFO pre-WC was CAD2.6 billion over the 12 months ended 30 September 2020.

Confidential
Ontario Power Generation
Mar 15, 2021 12:48

Deferred revenues are at risk of seeing the recovery period extended or not being recovered at all if regulations change. This negatively affects our business risk assessment of the company, as it adds a degree of political risk as future governments may find it expedient to exert downward pressure on electricity rates by further extending the recovery period or by eliminating recovery of the RSDA altogether. For example, this happened to BC Hydro (Aaa stable) in 2019 when its owner, the Province of British Columbia (Aaa stable), recommended the complete write off of the roughly CAD1 billion in BC Hydro's rate smoothing regulatory account, which the company subsequently did.

The Province of Ontario has amended Ontario Regulation 53/05 several times over the years. This regulation mandated the creation of RSDA's and provides prescriptive rules, including the debt financing referenced above, as well as mandating the recovery of the RSDA on a straight line basis over a 10 year period. We expect OPG's RSDA recovery to begin following the completion of the CAD12.8 billion Darlington Refurbishment Project, currently forecast for late 2026.

OPG made a similar proposal in its last nuclear rate case application and ultimately deferredless than it initially requested, tempering the negative impact of the RSDA at that

This document has been prepared for the use of Alec Cheng and is protected by law. It may not be copied, transferred or disseminated unless authorized under a contract with Moody's or otherwise authorized in writing by Moody's.

time. In the last rate case, OPG initially sought a rate smoothing account balance of CAD732 million although this declined to CAD493 million (67%) when rates were approved and established for the period 2017 to 2021. At 30 September 2020, the balance in the RSDA was CAD405 million. At its peak, if the proposed CAD759 million increase in the RSDA is approved and remains in place, the company will have about CAD1.25 billion in its rate smoothing account compared to a forecast nuclear rate base of about CAD13 billion in 2026.

The RSDA is unusual because investor owned utilities, to which we often compare OPG, seldom have material debt financed RSDA's. It also reflects the large size of the Darlington Refurbishment project and the associated reduction in nuclear generation which is contributing to an increase in electricity costs in the province and the use of the RSDA. Investor owned utilities seldom are required to defer revenue at the cost of debt since this reduces their debt capacity and increases the risk of unrecovered costs. However they are financially incentivized and may seek to repay regulated liabilities that are netted against rate base to boost shareholder returns.

OPG is unique in that is wholly owned by the Province and, unlike many other rated provincially owned electric utilities in other provinces, it does not benefit from a provincial debt guarantee or have all or almost all of its debt capital provided by its Provincial owner. In proposing an increase in the size of the RSDA, we believe OPG weighed several factors including but not limited to the financial impact of the RSDA (including leverage and cash flow impacts), rate stability and customer bill impacts and intergenerational equity which addresses whether current or future customers pay for the Darlington refurbishment. While not currently a high profile issue, electricity rates in Ontario are periodically highly political and contentious, leading successive Provincial governments to take action.

confidential
Anthea Yao
Ontario Power Generation
Mar 09, 2021 12:33

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

This document has been prepared for the use of Alec Cheng and is protected by law. It may not be copied, transferred or disseminated unless authorized under a contract with Moody's or otherwise authorized in writing by Moody's.

© 2021 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from $1,000 to approximately $5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1262669

This document has been prepared for the use of Alec Cheng and is protected by law. It may not be copied, transferred or disseminated unless authorized under a contract with Moody's or otherwise authorized in writing by Moody's.

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

confidential
Anthea Yao
Ontario Power Generation
Mar 09, 2021 12:33

This document has been prepared for the use of Alec Cheng and is protected by law. It may not be copied, transferred or disseminated unless authorized under a contract with Moody's or otherwise authorized in writing by Moody's.

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
1 April 2022

Update

Send Your Feedback

RATINGS

Ontario Power Generation Inc.

Domicile	Ontario, Canada
Long Term Rating	A3
Type	Senior Unsecured - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Gavin MacFarlane +1.416.214.3864
VP-Sr Credit Officer
gavin.macfarlane@moodys.com

Yulia Rakityanskaya +1.416.214.3627
Analyst
yulia.rakityanskaya@moodys.com

Yifei Qin
Associate Analyst 3
yifei.qin@moodys.com

Michael G. Haggarty +1.212.553.7172
Associate Managing Director
michael.haggarty@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Ontario Power Generation Inc.

Update to credit analysis

Summary

Ontario Power Generation's (OPG) A3 rating reflects a Baseline Credit Assessment (BCA) of Baa3 with a 3 notch uplift based on high dependence on and a high probability of extraordinary support from the Province of Ontario (Aa3 stable).

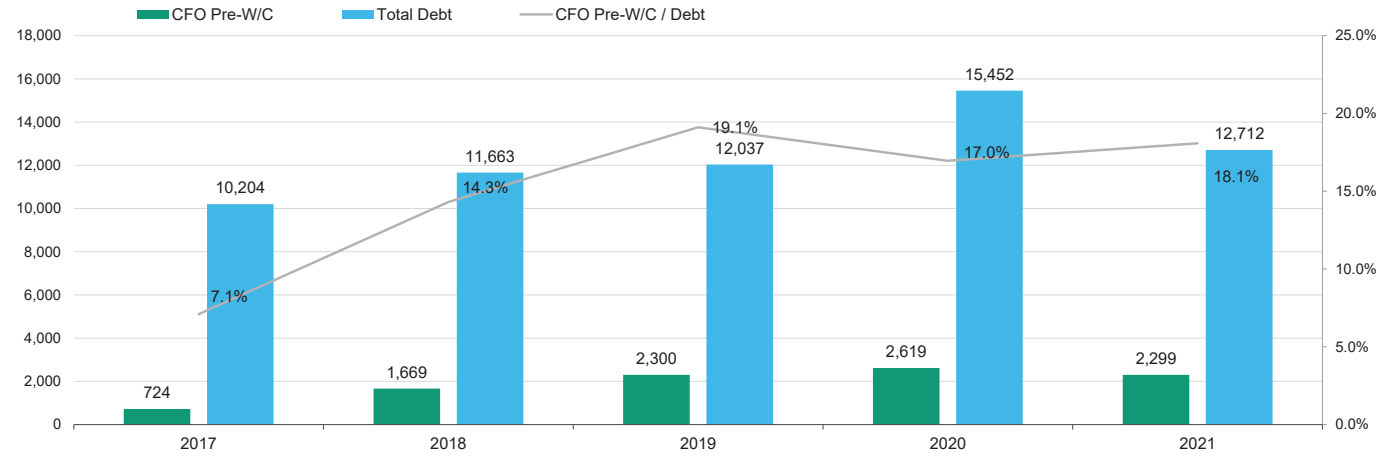
OPG's credit profile benefits from its substantial regulated nuclear and hydroelectric operations that are expected to generate the vast majority of its relatively stable cash flow. OPG's contracted assets generally benefit from long contract tenors and a strong counterparty in the Ontario Independent Electricity System Operator (IESO, Aa3 stable) to which the majority of assets are contracted and to which they pass through most of their costs. The company also has diversification benefits across its extensive fleet.

Offsetting these strengths, OPG is exposed to availability risk across its fleet of generation assets, and some hydrology risk. While small, its merchant generation segment has grown in recent years as a result of several 100% debt financed acquisitions and the potential remains for further debt financed M&A. Nonetheless, we expect the company's CFO pre-W/C to debt ratio to be sustained in the 13-17% range. The company is also pursuing a CAD12.8 billion nuclear refurbishment project across 4 units at its Darlington nuclear generation station that carries a very high level of execution risk.

OPG is 100% owned by the Province of Ontario and is considered a government related issuer (GRI) under our GRI methodology. The three notch uplift attributed to OPG as a GRI incorporates our expectation of an enduring link between OPG and the Province. Our high support assumption considers that OPG produces more than half of the power generated in the Province at a comparatively low cost, making its infrastructure essential to the Ontario economy. OPG also implements government policy, its board is appointed by the Province and the Ontario Electricity Financial Corporation (OEFC, Aa3 stable), a crown corporation, is a source of debt capital for OPG. Our assessment of high default dependence reflects that both OPG and the Province largely rely on the same revenue base and share some political risks.

Exhibit 2

Historical CFO Pre-WC, Total Debt and CFO Pre-WC to Debt (CAD MM)



Source: Moody's Financial Metrics

Credit strengths

» Primarily regulated generation facilities support stable cash flow generation

» Non-regulated generation segment dominated by long term contracts

» Our expectation of support from the Province of Ontario given its 100% ownership

» Diversification benefits by generating station and unit, and fuel source

Credit challenges

» CAD12.8 billion nuclear refurbishment project underway has a very high level of execution risk

» Financial metrics pressured by several debt financed acquisitions with the potential for further debt financed M&A

» Small but growing merchant cash flow entails more risk

» Availability risk across the fleet, including low levels of hydrology risk

Rating outlook

The stable outlook incorporates the following expectations:

» The company continues to execute the Darlington nuclear refurbishment on time and budget

» CFO pre-WC/debt is in the 13-17% range

» The relationship with the Province remains stable and supportive

Factors that could lead to an upgrade

» A material increase in financial metrics such that CFO pre-WC/debt is sustained above 20%

» An improvement in regulatory outcomes or business risk profile

» An upgrade of the Province

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Factors that could lead to a downgrade

» Challenges or delays executing the Darlington nuclear refurbishment

» A weakening of the business risk profile by, for example, further growing the merchant segment

» A reduction in the probability of support from the Province

» A deterioration in financial metrics such that CFO pre-WC/debt is forecast to fall below 12% on a sustained basis

Key indicators

Exhibit 2

Ontario Power Generation Inc. [1]

	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
CFO Pre-W/C + Interest / Interest	2.8x	4.7x	6.0x	6.1x	5.8x
CFO Pre-W/C / Debt	7.1%	14.3%	19.1%	17.0%	18.1%
CFO Pre-W/C – Dividends / Debt	7.0%	11.7%	19.0%	16.8%	17.9%
Debt / Capitalization	44.7%	45.6%	44.2%	47.9%	40.7%

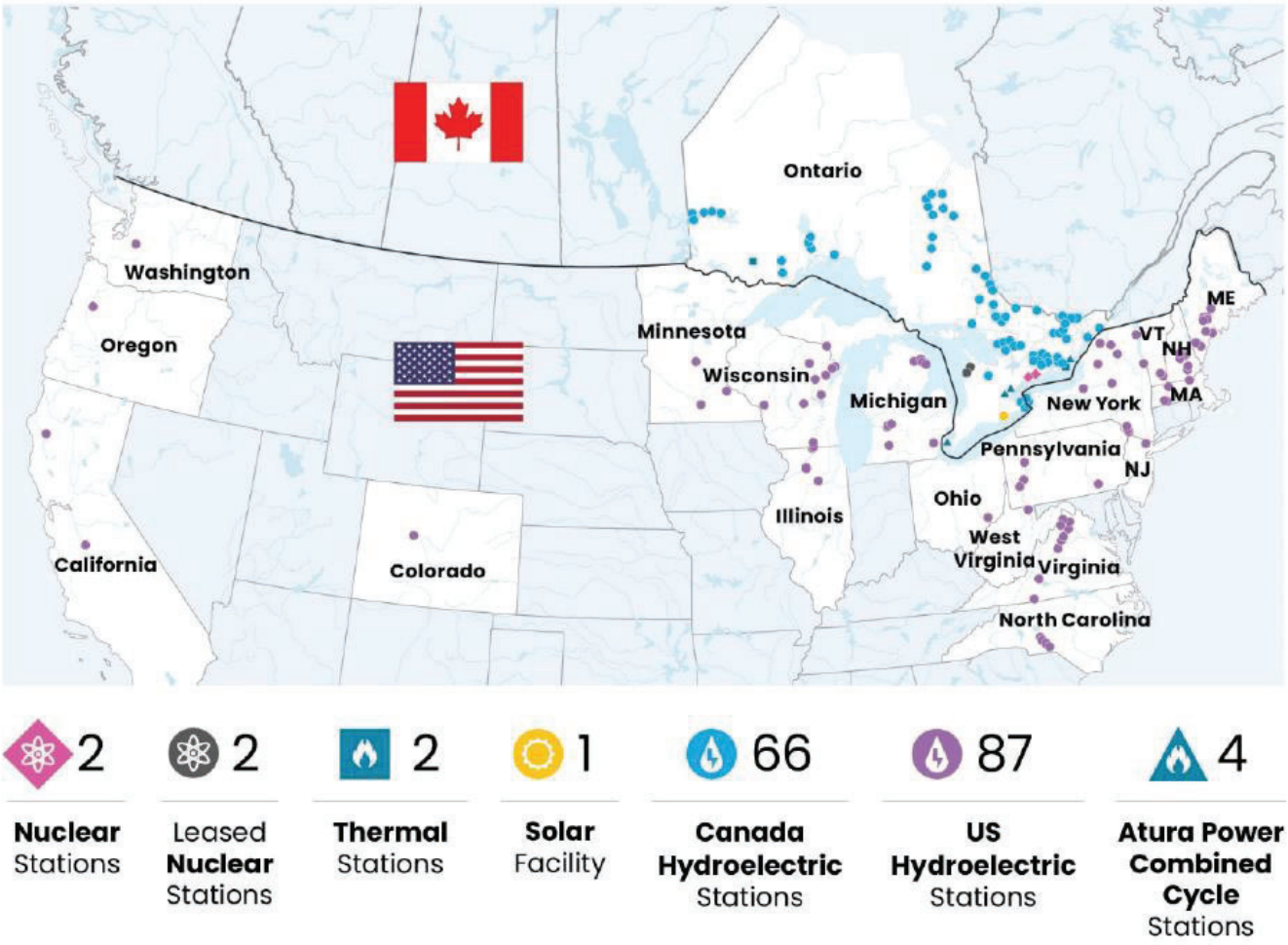
[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics

Profile

Headquartered in Toronto, Ontario, OPG is an electricity generation company wholly owned by the Province with an in-service generating capacity of 18,958 MW at December 31, 2021. OPG owns and operates 75 generating stations, 2 of which are nuclear, 66 hydroelectric, 2 thermal, 1 solar and 4 combined-cycle natural gas-fired plants in Ontario, Canada. In the US, OPG also wholly or jointly owns and operates 87 hydroelectric stations and has interests in 14 other hydroelectric and 2 solar facilities. OPG's nuclear and most of its hydroelectric facilities are regulated by the Ontario Energy Board (OEB).

Exhibit 3

OPG's service territory



Source: OPG December 31, 2021

Detailed credit considerations

Primarily regulated and contracted assets generate predictable cash flow

OPG's strong business risk profile is driven by its high proportion of regulated and contracted cash flow. Regulated earnings from OEB rate regulated assets accounted for 73% of EBITDA from its generating business segments in 2021, including 42% from the regulated nuclear generation segment and 31% from the regulated hydroelectric generation segment. The Atura Power combined cycle plants generated 14% of EBITDA and contracted hydro electric and other, which has more contracted cash flow than merchant, generated 13% of EBITDA. The company has extensive diversity by generation station and unit within each segment that reduces volatility. It also has some hydrology risk, albeit low, and negligible levels of commodity price risk, a key credit positive. Unlike most other regulated utilities, OPG owns generating assets only and does not have any lower risk transmission and distribution assets. As a result, as a higher risk generation company, OPG is exposed to availability risks on all of its assets.

The company's regulated assets should provide predictable cash flow going forward. A multiyear rate plan that is in place from 2022-2026 establishes volumetric prices for the regulated nuclear segment and a change in regulations provides pricing for regulated hydroelectric assets over this period.

The nuclear generation segment benefits from diversification across 2 nuclear generating stations, with 6 and 4 operating reactors respectively, that enable the company to maintain high levels of generation and cash flow while undertaking nuclear refurbishment.

The permanent shutdown of the Pickering nuclear generating station units in 2024 and 2025 will reduce diversity and, with fewer operating nuclear units, heighten the impact of any unplanned outages. Offsetting this, following refurbishment Darlington should experience fewer outages.

In the second half of 2021, OPG reached a settlement with its intervenors that was subsequently approved by the OEB. The settlement led to a 2022-2026 nuclear generation revenue requirement of CAD16 billion, compared to CAD16.7 billion in the company's rate case application. Regulated prices are designed to support an allowed level of operating costs and earn a return on its capital costs for a forecast amount of generation. Significantly, the settlement supports growth in rate base over the period as the company continues to make progress on the Darlington refurbishment.

Nuclear rate base is allowed an ROE of 8.66% and hydroelectric 9.33% and both have equity capital of 45%. Performance that deviates by more than 300 bps in any given year may lead to a regulatory review. Rate case lag considerably improved with the most recent rate case where a payments order was issued in January 2022 with new rates effective that month, although the extensive use of deferral accounts which reduces cash flow is a credit negative. Rates have significantly increased over the past several years. As recently as the first half of 2017 rates were CAD 59.29 MWh, a price that, like the table below, incorporates rates riders and variance accounts.

Exhibit 4

	2022	2023	2024	2025	2026
Regulated Nuclear Generation Total price ($/MWh)	105.22	109.04	104.63	108.19	118.91
Approved Nuclear Rate Base (CAD million)	8,600	8,615	11,033	12,188	12,992
Forecast Nuclear Production (TWh)	33.6	31.2	34	31.1	21.9
Regulated Hydroelectric Generation price ($/MWh)	44.91	44.91	44.91	44.57	44.57

Source: OPG December 31, 2021

The settlement left open 3 issues that were addressed in a subsequent decision from the OEB.

First, the OEB has determined that small modular reactor related costs may be recorded in a nuclear development variance account (NDVA). Subsequent to this decision, in December 2021, OPG announced a partnership with GE Hitachi nuclear energy with the goal of deploying Canada's first small modular reactor, a 300MW design, as early as 2028. The NDVA, which does not have a limit but is subject to prudence review, had a balance of CAD122 million at FYE 2021. The company has not incorporated any spending into its 2022-2026 rate case application. With significant spending likely and no timelines for recovery of the balance or cash recovery of carrying costs, the burden on the company's balance sheet is likely to grow over time.

Second, the OEB completed a prudence review on the Darlington heavy water storage and drum handling facility (D2O) project costs. The OEB approved rate base for the project was lower than the project costs, leading to a charge to earnings of CAD111 million in Q4 2021. Initial estimates for the D2O project in June of 2012 were CAD108 million compared to an estimate of close to CAD400 million that was incorporated into the CAD12.8 billion figure and final costs of about CAD510 million. We view cost disallowances as a credit negative, although in the context of the overall refurbishment project and the company, they are not material given overall refurbishment project execution risk.

Finally, the company's rate smoothing deferral account (RSDA) will grow at CAD83 million over the period 2022-2026, down from the CAD760 million reflected in the company's rate case application. We continue to view OPG's rate smoothing as a credit negative, however the lower amount deferred in the period will reduce the amount of pressure that rate smoothing would have otherwise placed on financial metrics. The CAD83 million will be added to the 31 December 2021 balance of CAD531 million. While the company recognizes the revenue in the period earned, it does not recover cash from ratepayers. These amounts will be financed at the company's long term debt rate which will be added to the RSDA balance. The balance will be recovered over a period not to exceed 10 years following the completion of the Darlington refurbishment project.

The regulated hydroelectric facilities include 54 generating stations in Ontario across a number of river systems with prices established by an incentive rate mechanism. On 10 November 2020, the Province took steps to establish the hydroelectric base regulated price for the period 2022-2026 at the 2021 regulated price. While this provides price certainty for the period, it may be challenging for OPG to earn its allowed returns over the period given ongoing investments in rate base assets during the period that exceed depreciation.

Mitigating this challenge is the increase in production that will directly result from some of these investments. Regulated prices for the period 1 June 2017 to 31 December 2021 were calculated annually using a base regulated price escalated with an OEB approved formula for inflation less a 0% productivity factor adjustment and a -0.3% stretch factor adjustment.

The contracted hydroelectric and other generation segment consists of lower risk contracted assets in Ontario and higher risk, primarily merchant US based assets. Ontario based assets are all under contract on generally favorable terms and almost all of the contracts are with the IESO. The largest of these is the project financed Lower Mattagami Energy Limited Partnership (A1 stable). It, and other contracted hydro facilities like it, including UMH Energy Partnership (A2 stable), have strong contract terms which include limited hydrology risk and contract expiries over the period 2059-2067. The two Ontario thermal plants in this segment have substantial capacity, but are largely peaking facilities and have low levels of generation. They are primarily compensated based on their availability and have cost pass through provisions, however they have shorter contract tenors compared to the contracted hydro facilities. The US assets, which consist of Eagle Creek and the acquisition of Cube Hydro that closed October 2019, have some contracts, but are primarily merchant assets with substantially more risk than the rest of the portfolio. OPG has grown its US presence and its Atura business segment through acquisitions in the past few years.

Exhibit 5

OPG acquired assets

Asset acquired	Capacity (MW)	Fuel feedstock	Announcement date	Closing date	Enterprise value (CAD billion)	Acquisition Price (CAD billion)	Assumed debt (CAD billion)
Ontario CCGT	1858	Natural Gas	30-Jul-19	29-Apr-20	2.8	2.8	0
Cube Hydro	385	Hydro	25-Jun-19	7-Oct-19	1.5	1.1	0.4
Eagle Creek	226(1)	76 hydro 2 solar plants	9-Aug-18	27-Nov-18	0.7	0.4	0.3

[1] 226MW at FYE 2018.
Source: Company filings

The Atura Power business consists of 4 combined cycle gas plants that operate under contract with the IESO or other long term contracts on similar terms to the above mentioned thermal plants. The longest of the contracts is the 900MW Napanee plant that operates under a 20 year contract that expires in 2040.

Darlington nuclear refurbishment carries a very high level of execution risk

Weighing on the company's' business risk profile is the ongoing nuclear refurbishment at the Darlington Generation Station, which is forecast to cost CAD12.8 billion and take about a decade to refurbish all 4 units. The first refurbished unit returned to service in June of 2020. While the refurbishment of the first unit was a few months behind schedule, management believes that the overall cost and schedule to complete all 4 units remains on target with a modest Covid pandemic driven delay. The start of the unit 3 refurbishment was pushed back 3-4 months as a result of Covid and all subsequent refurbishments will likely be similarly delayed. The delay in the start to the refurbishment of Unit 3 led to higher generation levels than previously anticipated in 2020, driving increased cash flow in that year. The regulatory framework continues to incorporate the forecasted capex to bring the units in service, so it is already reflected in both rate base and revenues without the need for OPG to file a rate case.

Exhibit 6

Darlington refurbishment timeline

Darlington	Capacity	Refurbishment start date	Refurbishment completion date
Unit 2	878	Oct-16	Jun-20
Unit 3	878	Sep-20	Q1-2024
Unit 1	878	Q1-2022	Q2-2025
Unit 4	878	Q3-2023	Q4-2026

Source: Company filings

Financial metrics to remain reasonably predictable

We expect CFO pre-WC/debt to be in the range of 13-17% over the next few years with cash flow to remain reasonably predictable and generation levels driving some variability. The variability in generation leads to a wider range in forecast financial metrics compared to transmission and distribution companies. Collectively, the acquisitions reflect an enterprise value of about CAD5 billion that has contributed to the increase in debt financing on the company's balance sheet in recent years. Pension adjustments for OPG and many peers have been volatile in the past few years and OPG's pension adjustment declined by about CAD2 billion to CAD2.9 billion at FYE 2021 from CAD5 billion at FYE 2020. We expect internally generated cash flow and some modest debt issuances to fund the capital program, of which about half is focused on the Darlington refurbishment. The company has credit friendly financial policies and OPG seldom pays dividends with the only dividends in recent years paid connected to asset sales (property sales, not generation facilities) that it was directed to make by the Ontario government.

Further debt financed M&A remains a risk, although management has indicated that they plan to focus on their existing assets. We believe that any further acquisitions or investments will likely be small and similar to the 48MW Racine Hydroelectric generation facility that OPG acquired for CAD112 million on 30 December 2021

There is some structural subordination stemming from project finance debt at Canadian contracted assets totaling about CAD2.2 billion at FYE 2021 and about CAD500 million of debt on US assets. However, unlike the vast majority of regulated utilities, there is no debt outstanding at the regulated businesses that generated about 70% of EBITDA in 2021. That, in conjunction with primarily centralized funding for OPG, results in no notching for structural subordination. As of Q2 2019, OPG no longer consolidates Fair Hydro Trust, leading to a reduction in consolidated debt of CAD900 million.

High probability of support from the Province provides an uplift to OPG's credit profile

Given the 100% ownership interest held by the Province, OPG is considered a government related issuer (GRI) under our GRI methodology. Based on our estimate of a high probability of extraordinary support in case of financial distress, the A3 credit profile incorporates 3 notches of uplift from OPG's BCA of baa3.

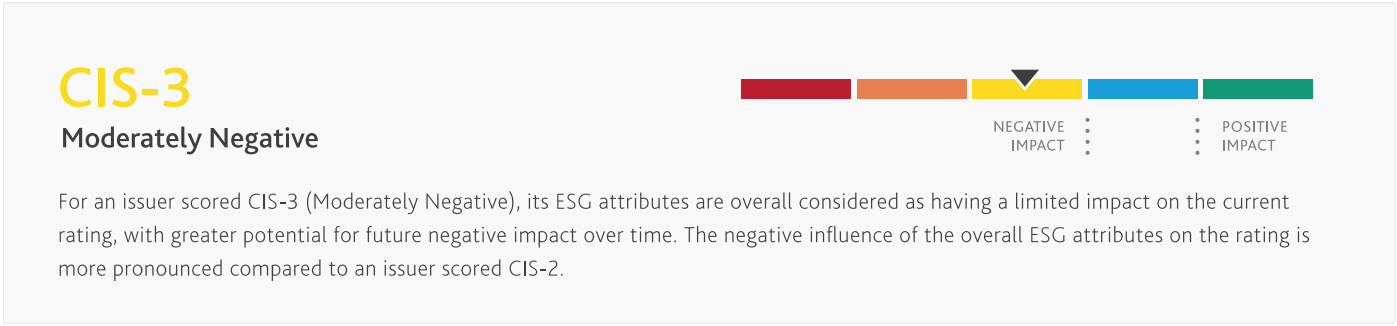
The company's ratings incorporate our expectation that extraordinary financial support to OPG would be forthcoming from the Province if needed. Our high support assumption considers that OPG produces more than half of the power in the Province at a comparatively low cost, making its infrastructure essential to the Ontario economy. OPG also implements government policy which can have negative credit implications. For example, in an effort to reduce and smooth rate increases for customers, Ontario Regulation 53/05 mandated the creation of the RSDA, including the financing of the RSDA at the long term debt rate and recovery over a 10 year period after the Darlington refurbishment is complete. The Province also appoints OPG's board, concurs its business plans and is a source of debt financing through the OEFC. We do not believe there are any barriers that would prevent the Province from providing timely support.

Our assessment of high default dependence reflects that both OPG and the Province largely rely on the same revenue base and share some political risks. While the OEFC is a source of financing, OPG has been increasing the level of its borrowing from public debt capital markets.

ESG considerations

OPG's ESG Credit Impact Score is CIS-3 (Moderately Negative).

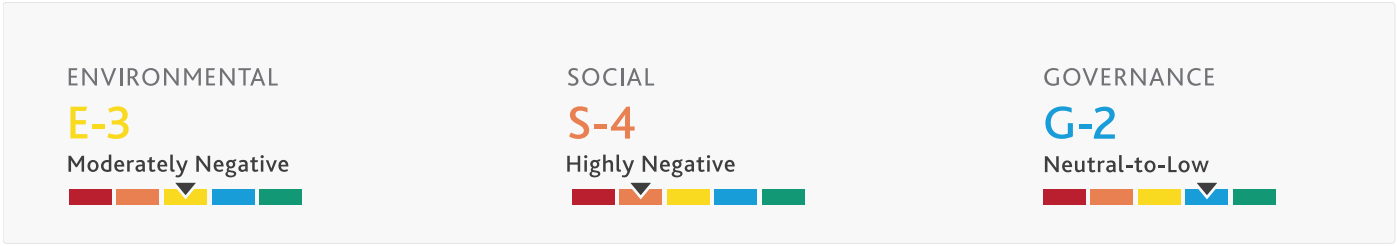
Exhibit 7
ESG Credit Impact Score



Source: Moody's Investors Service

OPG's ESG Credit Impact Score is moderately negative (**CIS-3**) reflecting high social risk along with moderately negative environmental and governance risk.

Exhibit 8
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

We assess the company's exposure to environmental risks as moderately negative (**E-3** issuer profile score) driven by moderately negative exposure to physical climate risks mostly due to its exposure to extreme weather patterns which is a challenge for the sector. OPG's nuclear generation assets are moderately negative for waste management and pollution risks. While the company has not had any problems with its nuclear fleet or nuclear waste, it remains an inherent risk for nuclear operators. These risks are offset by low to neutral exposure to carbon transition risk owing to its portfolio of primarily nuclear and renewable assets and neutral to low exposure to water management and natural capital risks.

Social

Exposure to social risks is highly negative (**S-4** issuer profile score) reflecting the highly negative exposure to demographics and societal trends associated with rate pressures as evidenced by some very lengthy delays associated with recovering some costs. Factors contributing to rate pressures include more expensive sources of energy in the Province, particularly some high priced renewables. Moderately negative exposure to responsible production is a result of the risk to public safety posed by nuclear generation facilities including those owned and operated by OPG.

Governance

The influence of governance is low to neutral (**G-2** issuer profile score) and is broadly in line with other utilities. The company is effectively controlled by the Province, its sole owner, which is reflected in its moderately negative exposure to Board Structures, Policies, & Procedures. This is offset by stable financial policies and a track record that includes for example very limited dividends that provides financial flexibility for the company.

ESG Issuer Profile Scores and Credit Impact Scores for OPG are available on Moodys.com. In order to view the latest scores, please click here to go to the landing for OPG on MDC and view the ESG Scores section.

Liquidity analysis

OPG has an adequate liquidity profile driven by about CAD3.1 billion (around CAD2.4 billion available as of 31 December 2021) of credit facilities and expected cash flow that together are sufficient to cover its uses for the next 12 months.

As of December 2021, OPG has a CAD1 billion committed credit facility of which matures in May of 2026. OPG also has a USD750 million 364 day revolving committed facility that expires in November of 2022 with a one year term out provision at the company's option. Both of these facilities backstop CAD1 billion andUSD750 million commercial paper programs that had CAD57 million outstanding at December 2021. Also included in the CAD3.1 billion, the company has a CAD750 million committed credit facility with the OEFC with a maturity date of December 2026. Lastly, the company has a CAD400 million committed facility at Lower Mattagami Energy Limited Partnership and a USD25 million committed facility at OPG Eagle Creek Holdings LLC and subsidiaries. Drawings were primarily used for letters of credit.

Moody's forecasts cash flow from operations of around CAD2 billion in the next twelve months, in addition to the available credit facilities and cash and cash equivalents of CAD698 million as of 31 December 2021, to be sufficient to cover the uses comprising around CAD3 billion of expected capital expenditures and around CAD361 million of debt maturities in the next 12 months. We expect OPG will rely in part on debt to finance its ongoing capex and refinance its upcoming debt maturities. The company's liquidity position benefits from the lack of regular dividends payable to the Province.

There are material adverse change clauses in its credit facilities that could prevent borrowings under certain circumstances, a credit and liquidity negative. Moody's expects the company to manage its program maturities, cash on hand and its swing lines in a prudent fashion.

Rating methodology and scorecard factors

Exhibit 9

Methodology Scorecard Factors

Ontario Power Generation Inc.

Regulated Electric and Gas Utilities Industry Scorecard [1][2]	Current FY 12/31/2021		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	Baa	Baa	Baa	Baa
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	Ba	Ba	Ba	Ba
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	A	A	A	A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	6.0x	A	5x - 6x	A
b) CFO pre-WC / Debt (3 Year Avg)	18.0%	Baa	13% - 17%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	17.8%	A	13% - 17%	Baa
d) Debt / Capitalization (3 Year Avg)	44.3%	A	38% - 43%	A
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		Baa1		Baa1
HoldCo Structural Subordination Notching		0		0
a) Scorecard-Indicated Outcome		Baa1		Baa1
b) Actual Rating Assigned		A3		A3
Government-Related Issuer	**Factor**			
a) Baseline Credit Assessment	Baa3			
b) Government Local Currency Rating	Aa3			
c) Default Dependence	High			
d) Support	High			
e) Actual Rating Assigned	A3			

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 12/31/2021(L);
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Appendix

Exhibit 10

Cash Flow and Credit Metrics (CAD MM) [1]

CF Metrics	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
s ste					
FFO	**1,044**	**1,482**	**1,828**	**2,538**	**2,231**
+/- Ot er	-320	187	472	81	68
CFO Pre-WC	**724**	**1,669**	**2,300**	**2,619**	**2,299**
+/- ΔWC	80	-160	99	103	59
CFO	**804**	**1,509**	**2,399**	**2,722**	**2,358**
- Di	15	301	17	19	19
- Capex	1 713	1 648	1 851	1 663	1 943
FCF	**-924**	**-440**	**531**	**1,040**	**396**
CFO Pre-W/C / Debt	7.1%	14.3%	19.1%	17.0%	18.1%
CFO Pre-W/C - Di i en s / Debt	7.0%	11.7%	19.0%	16.8%	17.9%
FFO / Debt	10.2%	12.7%	15.2%	16.4%	17.6%
CF / Debt	10.1%	10.1%	15.0%	16.3%	17.4%
e en e	5 158	5 537	6 022	7 240	6 877
Interest xpense	404	446	462	514	479
et Inco e	403	270	758	1 074	1 050
otal ssets	48 831	52 134	55 183	61 961	61 071
otal iabilities	37 233	39 399	41 286	46 694	44 352
otal it	11 598	12 735	13 897	15 267	16 719

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months
Source: Moody's Financial Metrics

Exhibit 11

Ontario Power Generation Inc. Moody's - Adjusted Debt Breakdown (CAD MM)

(CAN Millions)	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-21
As Reported Debt	**5,522.0**	**6,579.0**	**7,878.0**	**8,390.0**	**10,382.0**	**9,848.0**
Pensions	3,029.0	3,437.0	3,656.0	3,585.0	5,023.0	2,864.0
Operating Leases	184.4	171.3	72.5	55.0	47.0	0.0
Non-Standard Adjustments	14.0	17.0	56.0	7.0	0.0	0.0
Moody's Ajusted Debt	**8,749.4**	**10,204.3**	**11,662.5**	**12,037.0**	**15,452.0**	**12,712.0**

Based on consolidated financial data of Ontario Power Generation Inc. All figures are calculated using Moody's estimates and standard adjustments
Source: Moody's Financial Metrics

Exhibit 12

Peer Comparison Table (USD MM) [1]

	Ontario Power Generation Inc. A3 (Stable)			Public Service Enterprise Group Incorporated Baa2 (Stable)			NextEra Energy, Inc. (P)Baa1 (Stable)			Exelon Corporation Baa2 (Stable)		
(In US millions)	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-20	FYE Dec-20	FYE Dec-21
Re enue	4,538	5,403	5,486	10,076	9,603	9,722	19,204	17,997	17,069	34,438	33,039	36,347
CFO Pre- C	1,733	1,955	1,834	3,079	2,951	2,856	7,938	8,494	8,479	8,176	7,285	3,502
otal Debt	9,282	12,129	10,064	17,416	18,486	19,822	42,303	47,833	54,651	42,843	44,898	46,241
CFO Pre- C nterest nterest	6.0	6.1	5.8	5.7	5.4	5.6	4.4	5.1	7.1	5.5	5.0	3.0
CFO Pre- C Debt	19.1	17.0	18.1	17.7	16.0	14.4	18.8	17.8	15.5	19.1	16.2	7.6
CFO Pre-W/C – Dividends / Debt	19.0	16.8	17.9	12.2	10.6	9.2	12.9	11.9	9.9	15.8	12.9	4.3
Debt Capitali ation	44.2	47.9	40.7	45.1	45.2	49.6	45.4	47.1	49.9	47.7	48.2	48.4

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade
Source: Moody's Financial Metrics

Ratings

Exhibit 13

Category	Moody's Rating
ONTARIO POWER GENERATION INC.	
Outlook	Stable
Senior Unsecured -Dom Curr	A3
Commercial Paper	P-2

Source: Moody's Investors Service

© 2022 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from $1,000 to approximately $5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1311048

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S
INVESTORS SERVICE

ISSUER COMMENT
30 September 2022

Send Your Feedback

RATINGS

Ontario Power Generation Inc.

Domicile	Ontario, Canada
Long Term Rating	A3
Type	Senior Unsecured -Dom Curr
Outlook	Stable

Source: Moody's Investors Service

Contacts

Gavin MacFarlane +1.416.214.3864
VP-Sr Credit Officer
gavin.macfarlane@moodys.com

Michael G. Haggarty +1.212.553.7172
Associate Managing Director
michael.haggarty@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Ontario Power Generation Inc.

Nuclear refurbishment and life extension would be credit positive for Ontario Power Generation

On 29 September, the Province of Ontario announced an effort to extend the life of Ontario Power Generation Inc's (OPG A3 stable) Pickering nuclear generating station by almost one year to the end of September 2026, and asked OPG to launch a study to evaluate the long-term feasibility of refurbishing the station for additional life extension. The measures are credit positive because refurbishment could extend the life of the units for decades and the extension would add to the company's 2026 cash flow.

Assuming the refurbishment proceeds and is completed, the units would generate power at regulated prices for their remaining life, generating long term stable cash flow, a credit positive. The Province of Ontario asked OPG to consider refurbishing Units 5-8, which could lead to an additional 30 years of operation. OPG expects to submit a final recommendation on refurbishment – including its timeline and estimated cost – to the Province within the next year. The units' life extensions beyond 2026 would require their complete refurbishment. OPG expects to record the costs of the study in a variance account and recover them in customer rates at a later date subject to a prudence review by the regulator, the Ontario Energy Board (OEB).

OPG is establishing a track record for executing its current nuclear refurbishments, which have a very high level of execution risk. The company's current CAD12.8 billion refurbishment of all four units at its Darlington nuclear generating station is largely on budget, and refurbishment of the most recent unit is ahead of schedule. OPG indicated that it is tracking to its budget with the exception of Covid-related effects. Darlington's Unit 3 was originally forecast to complete refurbishment in the first quarter of 2024, but management now expects completion by year-end 2023. The Darlington refurbishment demonstrates that a supply chain and well-trained workforce are available to undertake refurbishment work.

Operating Pickering Units 5-8 until September 2026 would lead to more power generation than previously forecast and increase OPG's revenue and cash flow in 2026. In the second half of 2021, OPG reached a settlement with its intervenors that was subsequently approved by the OEB. The settlement establishes regulated nuclear power generation prices for 2022-26. The prices are designed to support an allowed level of operating costs and earn a return on its capital costs for a forecast amount of generation. The price that OPG receives for nuclear power in 2026 was set at $118.91 per MWh. There are no proposed changes to units 1 and 4, which will be shut down in 2024 and placed in safe storage prior to decommissioning.

The Province is seeking to extend that life of the units because extending the life of the units would address the Province's increased demand and power shortage that the Independent Electricity System Operator (IESO, Aa3 stable) has identified. OPG believes that it can safely operate units 5-8 in 2026 and expects to submit a license application to the Canadian Nuclear Safety Commission (CNSC) over the next year to extend the life of Pickering Units 5-8 to the end of September 2026 from the currently approved date of 31 December 2024. The Province has previously expressed it desire to have the units operate through the end of 2025. The CNSC has approved the operations their currently approved date of 31 December . The CNSC will make the final decision regarding the life extension.

Exhibit

Pickering nuclear generating station key characteristics

Pickering A	Capacity (MW)	Commission date	Shutdown date	Refurbishment complete	Status
Unit 1	515	1971	1997	2005	Shutdown in Sept 2024
Unit 2	515	1971	1997		Decommissioned 2007
Unit 3	515	1972	1997		Decommissioned 2008
Unit 4	515	1973	1997	2003	Shutdown in Dec 2024
Pickering B					
Unit 5	516	1983			possible life extension to end of Sept 2026 and refurbishment
Unit 6	516	1984			possible life extension to end of Sept 2026 and refurbishment
Unit 7	516	1985			possible life extension to end of Sept 2026 and refurbishment
Unit 8	516	1986			possible life extension to end of Sept 2026 and refurbishment

Source: Company filings

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

© 2022 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from $1,000 to approximately $5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1344544

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
12 June 2023

Update

Send Your Feedback

RATINGS

Ontario Power Generation Inc.

Domicile	Ontario, Canada
Long Term Rating	A3
Type	Senior Unsecured - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Gavin MacFarlane +1.416.214.3864
VP-Sr Credit Officer
gavin.macfarlane@moodys.com

Yifei Qin +1.647.417.6291
Associate Analyst
yifei.qin@moodys.com

Michael G. Haggarty +1.212.553.7172
Associate Managing Director
michael.haggarty@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Ontario Power Generation Inc.

Update to credit analysis

Summary

Ontario Power Generation's (OPG) A3 rating reflects a Baseline Credit Assessment (BCA) of baa3 with a 3 notch uplift based on its high dependence on and a high probability of extraordinary support from the Province of Ontario (Aa3 positive).

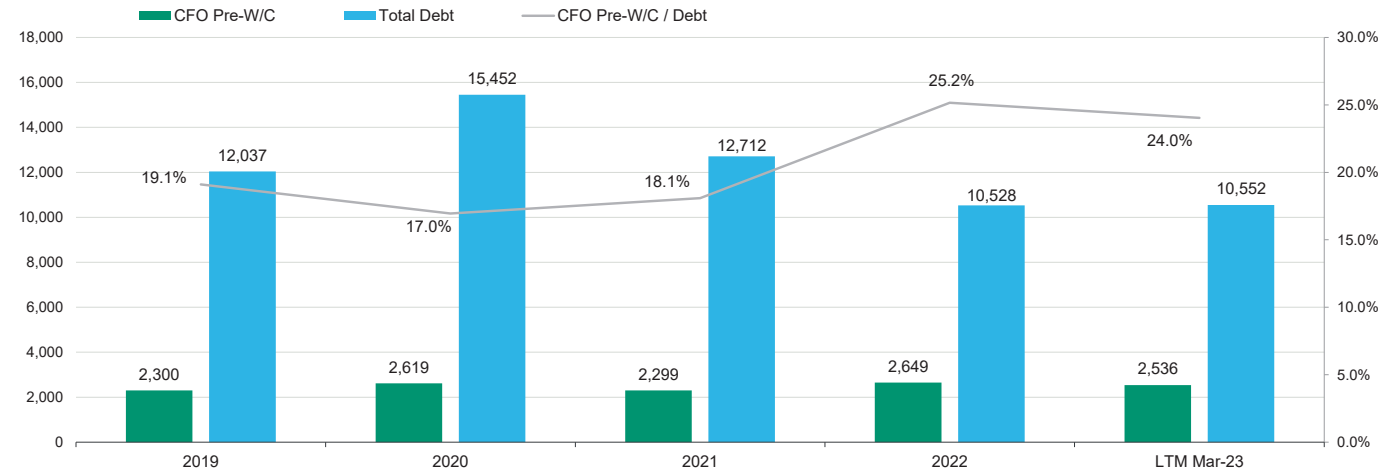
OPG's credit profile benefits from its substantial regulated nuclear and hydroelectric operations that are expected to generate the vast majority of its relatively stable cash flow. OPG's contracted assets generally benefit from long contract tenors and a strong counterparty in the Ontario Independent Electricity System Operator (IESO, Aa3 positive) to which the majority of assets are contracted and to which they pass through most of their costs. The company also has diversification benefits across its extensive fleet.

Offsetting these strengths, OPG is exposed to availability risk across its fleet of generation assets, and some hydrology risk. While small, its merchant generation segment has grown as a result of several 100% debt financed acquisitions and the potential remains for further debt financed M&A. Nonetheless, we expect the company's CFO pre-W/C to debt ratio to be sustained in the 20-25% range. The company is pursuing a CAD12.8 billion nuclear refurbishment project across 4 units at its Darlington nuclear generation station that carries a high level of execution risk. The company is also moving forward with a small modular reactor (SMR) at Darlington which carries significant execution risk. OPG expects to complete construction of the SMR in 2028.

OPG is 100% owned by the Province of Ontario and is considered a government related issuer (GRI) under our GRI methodology. The three notch uplift attributed to OPG as a GRI incorporates our expectation of an enduring link between OPG and the Province. Our high support assumption considers that OPG produces more than half of the power generated in the Province at a comparatively low cost, making its infrastructure essential to the Ontario economy. OPG also implements government policy, its board is appointed by the Province and the Ontario Electricity Financial Corporation (OEFC, Aa3 positive), a crown corporation, is a source of debt capital for OPG. Our assessment of high dependence reflects that both OPG and the Province largely rely on the same revenue base and share some political risks.

Exhibit 1

Historical CFO Pre-WC, Total Debt and CFO Pre-WC to Debt (CAD MM)



Source: Moody's Financial Metrics™

Credit strengths

» Primarily regulated generation facilities support stable cash flow generation

» Non-regulated generation segment dominated by long term contracts

» Our expectation of support from the Province of Ontario given its 100% ownership

» Diversification benefits by generating station and unit, and fuel source

Credit challenges

» CAD12.8 billion nuclear refurbishment and planned construction of an SMR have significant execution risk

» Merchant cash flow entails more risk

» Availability risk across the fleet, including low levels of hydrology risk

Rating outlook

The stable outlook incorporates the following expectations:

» The company will continue to execute the Darlington nuclear refurbishment on time and budget

» CFO pre-WC/debt in the 20-25% range

» The relationship with the Province remains stable and supportive

Factors that could lead to an upgrade

» The company is successful in its Darlington nuclear refurbishment and in largely mitigating the risks with the construction of (SMR) given the very high levels of execution risk.

» CFO pre-W/C/debt sustained above 20%

» An improvement in regulatory outcomes or business risk profile

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

» An upgrade of the Province to Aa1

Factors that could lead to a downgrade

» Challenges or delays executing the nuclear refurbishment or with the construction of the planned SMR

» A weakening of the business risk profile by, for example, further growing the merchant segment

» A reduction in the probability of support from the Province

» A deterioration in financial metrics such that CFO pre-WC/debt is forecast to fall below 12% on a sustained basis

Key indicators

Exhibit 2

Ontario Power Generation Inc. [1]

	Dec-19	Dec-20	Dec-21	Dec-22	LTM Mar-23
CFO Pre- C nterest nterest	6.0	6.1	5.8	6.5	6.6
CFO Pre- C Debt	19.1	17.0	18.1	25.2	24.0
CFO Pre-W/C – Dividends / Debt	19.0	16.8	17.9	25.0	23.9
Debt Capitali ation	44.2	47.9	40.7	33.6	33.2

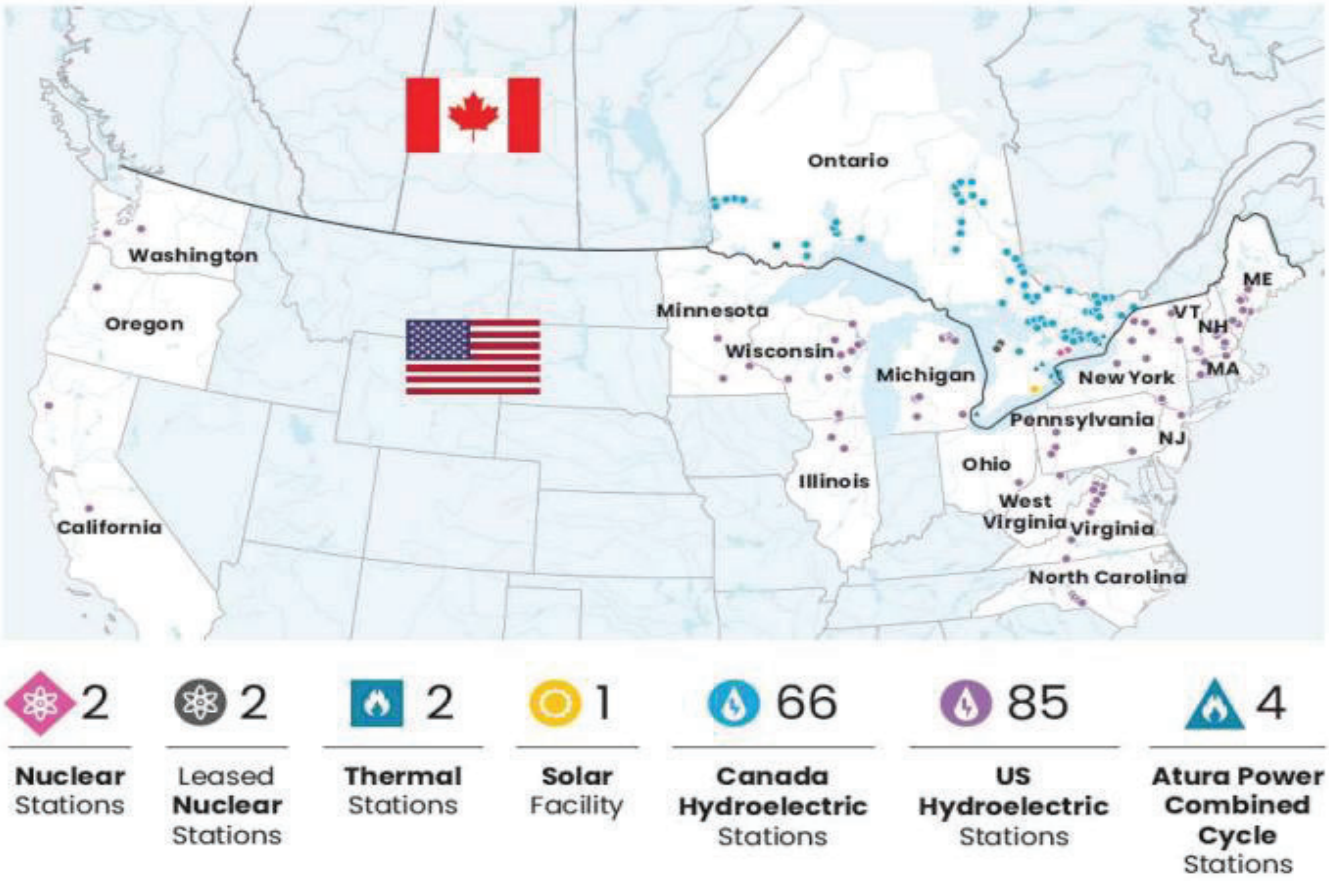
[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics™

Profile

Headquartered in Toronto, Ontario, OPG is an electricity generation company wholly owned by the Province with an in-service generating capacity of 18,225 MW at December 31, 2022. OPG owns and operates 75 generating stations, 2 of which are nuclear, 66 hydroelectric, 2 thermal, 1 solar and 4 combined-cycle natural gas-fired plants in Ontario, Canada. In the US, OPG also wholly or jointly owns and operates 85 hydroelectric stations and has interests in 14 other hydroelectric and 2 solar facilities. OPG's nuclear and most of its hydroelectric facilities are regulated by the Ontario Energy Board (OEB).

Exhibit 3

OPG's service territory



Source: OPG December 31, 2022

Detailed credit considerations

Primarily regulated and contracted assets generate predictable cash flow

OPG's strong business risk profile is driven by its high proportion of regulated and contracted cash flow. Regulated earnings from OEB's rate regulated assets accounted for 73% of EBITDA (all figures rounded) from its generating business segments in 2022, including 45% from the regulated nuclear generation segment and 27% from the regulated hydroelectric generation segment. The Atura Power combined cycle plants generated 13% of EBITDA and contracted hydro electric and other, which has more contracted cash flow than merchant, generated 14% of EBITDA. The company has extensive diversity by generation station and unit within each segment, reducing volatility. It also has some hydrology risk, albeit low, and negligible levels of commodity price risk, a key credit positive. Unlike most other regulated utilities, OPG owns generating assets only and does not have any lower risk transmission and distribution assets. As a result, as a higher risk generation company, OPG is exposed to availability risks on all of its assets.

The company's regulated assets should provide predictable cash flow going forward. A multiyear rate plan that is in place from 2022-2026 establishes volumetric prices for the regulated nuclear segment and a change in regulations provides pricing for regulated hydroelectric assets over this period.

The nuclear generation segment benefits from diversification across 2 nuclear generating stations, with 6 and 4 operating reactors respectively, that enable the company to maintain high levels of generation and cash flow while undertaking nuclear refurbishment. In response to a Provincial request, OPG is updating a feasibility assessment for the refurbishment of Pickering Units 5 to 8. The Pickering units are currently scheduled to be shutdown in the next few years.

In the second half of 2021, OPG reached a settlement with its intervenors that was subsequently approved by the OEB. The settlement led to a 2022-2026 nuclear generation revenue requirement of CAD16 billion, compared to CAD16.7 billion in the company's rate case application. Regulated prices are designed to support an allowed level of operating costs and earn a return on its capital costs for a forecast amount of generation. Significantly, the settlement supports growth in rate base over the period as the company continues to make progress on the Darlington refurbishment.

Nuclear rate base is allowed an ROE of 8.66% and hydroelectric 9.33% and both have equity capital of 45%. Performance that deviates by more than 300 bps in any given year may lead to a regulatory review. Rate case lag has improved considerably with the most recent rate case, where a payments order was issued in January 2022 with new rates effective that month, although the extensive use of deferral accounts that reduce cash flow is a credit negative. Rates have significantly increased over the past several years. As recently as the first half of 2017 rates were CAD 59.29 MWh, a price that, like the table below, incorporates rates riders and variance accounts.

Exhibit 4

	2023	2024	2025	2026
Regulated Nuclear Generation Total price ($/MWh)	109.04	104.63	108.19	118.91
Approved Nuclear Rate Base (CAD million)	8,615	11,033	12,188	12,992
Forecast Nuclear Production (TWh)	31.2	34.0	31.1	21.9
Regulated Hydroelectric Generation price ($/MWh)	44.91	44.91	44.57	44.57

Source: OPG December 31, 2022

The regulated hydroelectric facilities include 54 generating stations in Ontario across a number of river systems with prices established by an incentive rate mechanism. On 10 November 2020, the Province took steps to establish the hydroelectric base regulated price for the period 2022-2026 at the 2021 regulated price. While this provides price certainty for the period, it may be challenging for OPG to earn its allowed returns over the period given ongoing investments in rate base assets during the period that exceed depreciation. Mitigating this challenge is the increase in production that will directly result from some of these investments. Regulated hydroelectric prices for the period 1 June 2017 to 31 December 2021 were calculated annually using a base regulated price escalated with an OEB approved formula for inflation less a 0% productivity factor adjustment and a -0.3% stretch factor adjustment.

The contracted hydroelectric and other generation segment consists of lower risk contracted assets in Ontario and higher risk, primarily merchant US based assets. Ontario based assets are all under contract on generally favorable terms and almost all of the contracts are with the IESO. The largest of these is the project financed Lower Mattagami Energy Limited Partnership (A1 stable). It, and other contracted hydro facilities like it, including UMH Energy Partnership (A2 stable), have strong contract terms which include limited hydrology risk and contract expiries over the period 2059-2067. The two Ontario thermal plants in this segment have substantial capacity, but are largely peaking facilities and typically have low levels of generation. They are primarily compensated based on their availability and have cost pass through provisions, however they have shorter contract tenors compared to the contracted hydro facilities. The US assets have some contracts, but are primarily merchant assets with substantially more risk than the rest of the portfolio. OPG has grown its US presence and its Atura business segment through acquisitions in the past few years.

The Atura Power business consists of 4 combined cycle gas plants that operate under contract with the IESO or other long term contracts on similar terms to the above mentioned thermal plants. The longest of the contracts is the 900 MW Napanee plant that operates under a 20 year contract that expires in 2040.

Darlington nuclear refurbishment and SMR construction have significant execution risk

Weighing on the company's business risk profile is the ongoing nuclear refurbishment at the Darlington Generation Station, which is forecast to cost CAD12.8 billion and take about a decade to refurbish all 4 units. To date, refurbishment has gone relatively smoothly and the company believes that it will adhere to the overall cost of the project with the exception of cost increases driven by Covid. The company currently expects to complete the refurbishment of Unit 3 in Q3 2023, compared to an initial completion in early 2024. Unit 1 started refurbishment in February 2022 and management expects it to return to service in the second quarter of 2025. The regulatory

framework continues to incorporate the forecasted capex to bring the units in service, so it is already reflected in both rate base and revenues without the need for OPG to file a rate case.

Exhibit 5

Darlington refurbishment timeline

Darlington	Capacity	Refurbishment start date	Refurbishment completion date
Unit 2	878	Oct-16	Jun-20
Unit 3	878	Sep-20	Q3-2023
Unit 1	878	Feb-22	Q2-2025
Unit 4	878	Q3-2023	Q3-2026

Source: Company filings

The company is moving forward with its plan to complete construction of a 300 MW SMR in 2028. We believe that new nuclear construction has very high execution risk. The OEB has determined that SMR related costs may be recorded in a nuclear development variance account (NDVA). The NDVA, which does not have a limit but is subject to prudence review, had a balance of CAD111 million at FYE 2022. The company did not incorporate any spending into its 2022-2026 rate case application. With significant spending likely and no timelines for recovery of the balance or cash recovery of carrying costs, the burden on the company's balance sheet is likely to grow over time. The company has not yet provided an SMR cost forecast.

Financial metrics to remain reasonably predictable

We expect CFO pre-WC/debt to be in the range of 20-25% over the next few years with cash flow to remain reasonably predictable, with generation levels driving some variability. The variability in generation leads to a wider range in forecast financial metrics compared to transmission and distribution companies. The primary driver of improving financial metrics over the past few years has been the significant change in the company's pension plan, which had led to a decline in our pension driven debt adjustment to CAD311 million at FYE2022 from a high of CAD5 billion at FYE2020.

We expect internally generated cash flow and debt issuances to fund the capital program, which is focused on sustaining existing assets and Darlington refurbishment. The company has credit friendly financial policies and OPG seldom pays dividends with the only dividends in recent years paid connected to asset sales (property sales, not generation facilities) that it was directed to make by the Ontario government. However, unlike public companies, we think it could be challenging to raise additional equity if required, limiting OPG's financial flexibility.

Further debt financed M&A remains a risk, although management has indicated that they plan to focus on their existing assets. We believe that any further acquisitions or investments will likely be small and similar to the 48MW Racine Hydroelectric generation facility that OPG acquired for CAD112 million on 30 December 2021.

There is some structural subordination stemming from project finance debt at Canadian contracted assets totaling about CAD2.4 billion at FYE 2022 and about CAD486 million of debt on US assets. However, unlike the vast majority of regulated utilities, there is no debt outstanding at the regulated businesses that generated about 73% of EBITDA in 2022. That, in conjunction with primarily centralized funding for OPG, results in no notching for structural subordination.

High probability of support from the Province provides an uplift to OPG's credit profile

Given the 100% ownership interest held by the Province, OPG is considered a government related issuer (GRI) under our GRI methodology. Based on our estimate of a high probability of extraordinary support in case of financial distress, the A3 credit profile incorporates 3 notches of uplift from OPG's BCA of baa3.

The company's ratings incorporate our expectation that extraordinary financial support to OPG would be forthcoming from the Province if needed. Our high support assumption considers that OPG produces more than half of the power in the Province at a comparatively low cost, making its infrastructure essential to the Ontario economy. OPG also implements government policy which can have negative credit implications. For example, in an effort to reduce and smooth rate increases for customers, Ontario Regulation 53/05 mandated the creation of the rate smoothing and deferral account (RSDA), including the financing of the RSDA at the long term

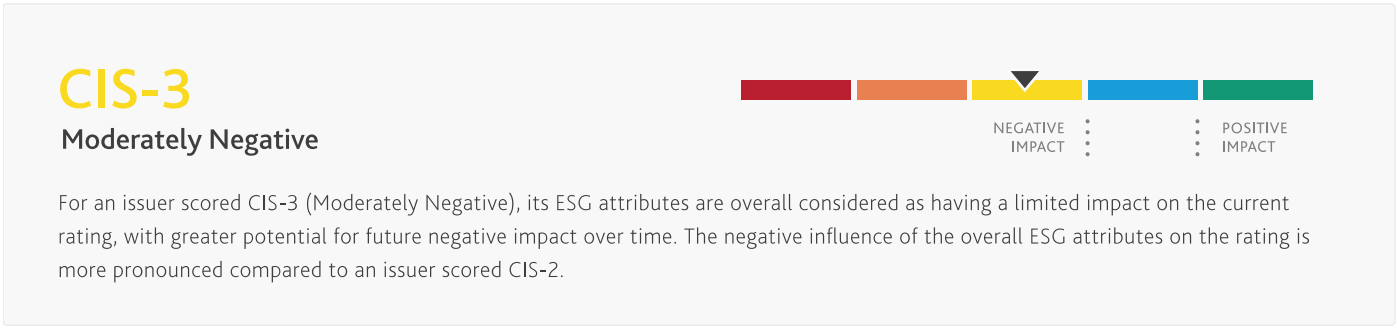
debt rate and recovery over a 10 year period after the Darlington refurbishment is complete. The Province also appoints OPG's board, reviews its business plans and is a source of debt financing through the OEFC. We do not believe there are any barriers that would prevent the Province from providing timely support.

Our assessment of high dependence reflects that both OPG and the Province largely rely on the same revenue base and share some political risks. While the OEFC is a source of financing, OPG has been increasing the level of its borrowing from public debt capital markets.

ESG considerations

OPG's ESG Credit Impact Score is CIS-3 (Moderately Negative)

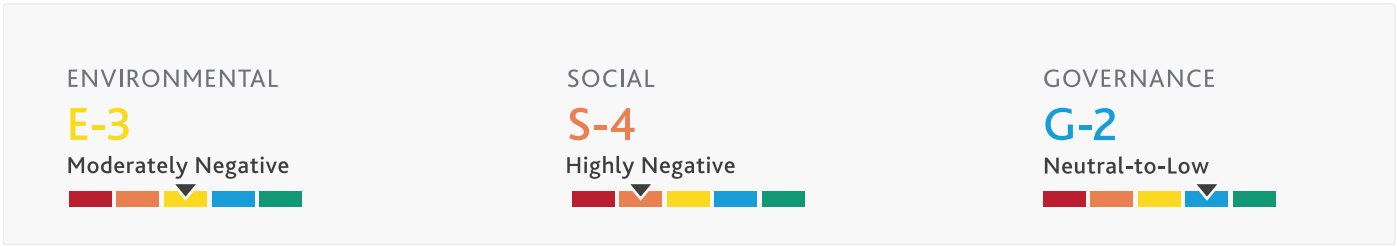
Exhibit 6
ESG Credit Impact Score



Source: Moody's Investors Service

OPG's **CIS-3** indicates that ESG considerations have a limited impact on the current credit rating with potential for greater negative impact over time as a result of physical climate risks and demographic and social trends related primarily to affordability.

Exhibit 7
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

OPG's **E-3** score reflects exposure to physical climate risks mostly due to extreme weather patterns which is a challenge for the sector. OPG's nuclear generation assets also have exposure to waste management and pollution risks. While the company has not had any issues with its nuclear fleet or nuclear waste, it remains an inherent risk for nuclear operators. The company has limited exposure to carbon transition risks owing to its portfolio of primarily nuclear and renewable assets.

Social

OPG's **S-4** score reflects the high risk related to demographic and societal trends associated with rate pressures as evidenced by some lengthy delays associated with recovering some costs. Factors contributing to rate pressures include more expensive sources of energy in the Province, particularly some high priced legacy renewable contracts.

Governance

OPG's **G-2** score is a function of its governance that is established by its sole owner. The company has some exposure to board structure, policies, & procedure risks resulting from its sole ownership by the Province of Ontario.

ESG Issuer Profile Scores and Credit Impact Scores for OPG are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for OPG on MDC and view the ESG Scores section.

Liquidity analysis

OPG has an adequate liquidity profile driven by about CAD3.6 billion of available credit facilities, unrestricted cash and expected cash flow that together are sufficient to cover its uses for the next 12 months.

As of March 2023, OPG has a CAD1 billion committed credit facility that expires in May 2027 and a USD750 million 364 day revolving committed facility that expires in November 2023 with a one year term out provision at the company's option. Both of these facilities backstop CAD1 billion and USD750 million commercial paper programs that had no commercial paper outstanding at March 2023. In addition the company has a drawings available of CAD892 million in a facility to support SMR investments that expires in Sept 2027 and CAD750 million undrawn with the OEFC that expires in December 2026. The company has asset level facilities of CAD400 million committed facility at Lower Mattagami Energy Limited Partnership that expires in August 2027 and a USD25 million committed facility at OPG Eagle Creek Holdings LLC and subsidiaries that combined supported letters of credit of about CAD80 million. We have conservatively assumed that letters of credit of CAD379 million that are not allocated to above listed credit facilities are supported by corporate facilities in our calculations of available credit facilities.

Moody's forecasts cash flow from operations of around CAD2.4 billion in the next twelve months, in addition to the available credit facilities of CAD3.6 billion and cash and cash equivalents of CAD1.4 billion as of 31 March 2023, to be sufficient to cover the uses comprising around CAD3.5 billion of expected capital expenditures and around CAD533 million of debt maturities in the next 12 months. We expect OPG will rely in part on debt to finance its ongoing capex and refinance its upcoming debt maturities. The company's liquidity position benefits from the lack of regular dividends payable to the Province.

There are material adverse change clauses in its credit facilities that could prevent borrowings under certain circumstances, a credit and liquidity negative. Moody's expects the company to manage its program maturities, cash on hand and its swing lines in a prudent fashion.

Rating methodology and scorecard factors

Exhibit 8

Methodology Scorecard Factors

Ontario Power Generation Inc.

Regulated Electric and Gas Utilities Industry Scorecard [1][2]	Current LTM 3/31/2023		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	Baa	Baa	Baa	Baa
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	Ba	Ba	Ba	Ba
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	A	A	A	A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	6.1x	Aa	6x - 7x	Aa
b) CFO pre-WC / Debt (3 Year Avg)	19.6%	Baa	20% - 25%	A
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	19.5%	A	20% - 25%	A
d) Debt / Capitalization (3 Year Avg)	40.1%	A	30% - 35%	Aa
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		Baa1		A3
HoldCo Structural Subordination Notching		0		0
a) Scorecard-Indicated Outcome		Baa1		A3
b) Actual Rating Assigned		A3		A3

Government-Related Issuer	Factor
a) Baseline Credit Assessment	baa3
b) Government Local Currency Rating	Aa3
c) Default Dependence	High
d) Support	High
e) Actual Rating Assigned	A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 03/31/2023(L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Appendix

Exhibit 9

Cash Flow and Credit Metrics (CAD MM) [1]

CF Metrics	Dec-19	Dec-20	Dec-21	Dec-22	LTM Mar-23
As Adjusted					
FFO	**1,828**	**2,538**	**2,231**	**2,471**	**2,363**
- Ot er	472	81	68	178	173
CFO Pre-WC	**2,300**	**2,619**	**2,299**	**2,649**	**2,536**
+/- ΔWC	99	103	59	223	-22
CFO	**2,399**	**2,722**	**2,358**	**2,872**	**2,514**
- Di	17	19	19	17	18
- Cape	1,851	1,663	1,943	2,432	2,432
FCF	**531**	**1,040**	**396**	**423**	**64**
(CFO Pre- C) Debt	19.1	17.0	18.1	25.2	24.0
(CFO Pre- C - Di idends) Debt	19.0	16.8	17.9	25.0	23.9
FFO Debt	15.2	16.4	17.6	23.5	22.4
RCF Debt	15.0	16.3	17.4	23.3	22.2
Re enue	6,022	7,240	6,877	7,349	7,221
nterest E pense	462	514	479	482	455
Net ncome	758	1,074	982	1,133	1,085
otal Assets	55,183	61,961	61,071	62,218	62,835
otal Liabilities	41,286	46,694	44,352	43,509	43,693
otal E uity	13,897	15,267	16,719	18,710	19,143

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months
Source: Moody's Financial Metrics™

Exhibit 10

Peer Comparison Table (USD MM) [1]

	Ontario Power Generation Inc. A3 (Stable)			Public Service Enterprise Group Incorporated Baa2 (Stable)			NextEra Energy, Inc. (P)Baa1 (Stable)			Constellation Energy Generation, LLC Baa2 (Positive)		
(In US millions)	FYE Dec-20	FYE Dec-21	FYE Dec-22	FYE Dec-20	FYE Dec-21	FYE Dec-22	FYE Dec-21	FYE Dec-22	LTM Mar-23	FYE Dec-20	FYE Dec-21	LTM Mar-23
Re enue	5,403	5,486	5,651	9,603	9,722	9,800	17,997	17,069	24,782	17,603	19,649	26,414
CFO Pre- C	1,955	1,834	2,037	2,951	2,845	2,398	8,494	8,479	9,824	3,147	2,884	2,902
otal Debt	12,129	10,064	7,770	18,486	19,822	21,047	47,833	54,651	70,485	9,826	10,947	9,054
CFO Pre- C nterest nterest	6.1	5.8	6.5	5.4	5.5	4.7	5.1	7.1	6.2	7.7	8.7	8.1
CFO Pre- C Debt	17.0	18.1	25.2	16.0	14.4	11.4	17.8	15.5	13.9	32.0	26.3	32.0
CFO Pre-W/C – Dividends / Debt	16.8	17.9	25.0	10.6	9.2	6.3	11.9	9.9	9.0	14.4	9.6	27.8
Debt Capitali ation	47.9	40.7	33.6	45.2	49.6	52.0	47.1	49.9	52.7	34.9	41.7	39.0

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade
Source: Moody's Financial Metrics™

Exhibit 11

Ontario Power Generation Inc. Moody's - Adjusted Debt Breakdown (CAD MM)

(CAD Millions)	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-22	LTM Mar-23
As Reported Debt	**7,878.0**	**8,390.0**	**10,382.0**	**9,848.0**	**10,217.0**	**10,241.0**
Pensions	3,656.0	3,585.0	5,023.0	2,864.0	311.0	311.0
Operating Leases	72.5	55.0	47.0	0.0	0.0	0.0
Non-Standard Adjustments	56.0	7.0	0.0	0.0	0.0	0.0
Moody's Adjusted Debt	**11,662.5**	**12,037.0**	**15,452.0**	**12,712.0**	**10,528.0**	**10,552.0**

Based on consolidated financial data of Ontario Power Generation Inc. All figures are calculated using Moody's estimates and standard adjustments
Source: Moody's Financial Metrics™

Exhibit 12

Ontario Power Generation Inc. Moody's - Adjusted EBITDA Breakdown (CAD MM)

(CAD Millions)	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-22	LTM Mar-23
As Reported EBITDA	**2,116.0**	**2,179.0**	**3,021.0**	**2,929.0**	**3,418.0**	**3,292.0**
Pensions	-37.0	-41.0	-160.0	-146.0	-239.0	-229.0
Operating Leases	16.0	16.0	12.0	0.0	0.0	0.0
nusual	-205.0	-52.0	0.0	-81.0	-143.0	-143.0
Moody's Adjusted EBITDA	**1,890.0**	**2,102.0**	**2,873.0**	**2,702.0**	**3,036.0**	**2,920.0**

Based on consolidated financial data of Ontario Power Generation Inc. All figures are calculated using Moody's estimates and standard adjustments
Source: Moody's Financial Metrics™

Ratings

Exhibit 13

Category	Moody's Rating
ONTARIO POWER GENERATION INC.	
Outlook	Stable
Senior Unsecured -Dom Curr	A3
Commercial Paper	P-2

Source: Moody's Investors Service

© 2023 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the credit rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from $1,000 to approximately $5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Charter Documents - Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1366450

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
21 December 2020

Update

Rate this Research

RATINGS

Ontario Power Generation Inc.

Domicile	Ontario, Canada
Long Term Rating	A3
Type	Senior Unsecured - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Gavin MacFarlane +1.416.214.3864
VP-Sr Credit Officer
gavin.macfarlane@moodys.com

Edna R Marinelarena +1.212.553.1383
Analyst
edna.marinelarena@moodys.com

Gajendra Mandal +1.416.214.3861
Associate Analyst
gajendra.mandal@moodys.com

Michael G. Haggarty +1.212.553.7172
Associate Managing Director
michael.haggarty@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Ontario Power Generation Inc.

Update to credit analysis

Summary

Ontario Power Generation's (OPG) A3 rating reflects a Baseline Credit Assessment (BCA) of baa3 with a 3 notch uplift based on high dependence on and a high probability of extraordinary support from the Province of Ontario (Aa3 stable).

OPG's credit profile benefits from its substantial regulated nuclear and hydroelectric operations that are expected to generate the vast majority of its relatively stable cash flow. OPG's contracted assets generally benefit from long contract tenors and a strong counterparty in the Ontario Independent Electricity System Operator (IESO, Aa3 stable) to which the majority of assets are contracted and to which they pass through most of their costs. The company also has diversification benefits across its extensive fleet. Offsetting these strengths, OPG is exposed to availability risk across its fleet of generation assets, and some hydrology risk. While small, its merchant generation segment has grown as a result of several 100% debt financed acquisitions and the potential remains for further debt financed M&A. Nonetheless, we expect the company's CFO pre-W/C to debt ratio to be sustained in the 12-16% range. The company is also pursuing a CAD12.8 billion nuclear refurbishment project across 4 units at its Darlington nuclear generation station that carries a very high level of execution risk.

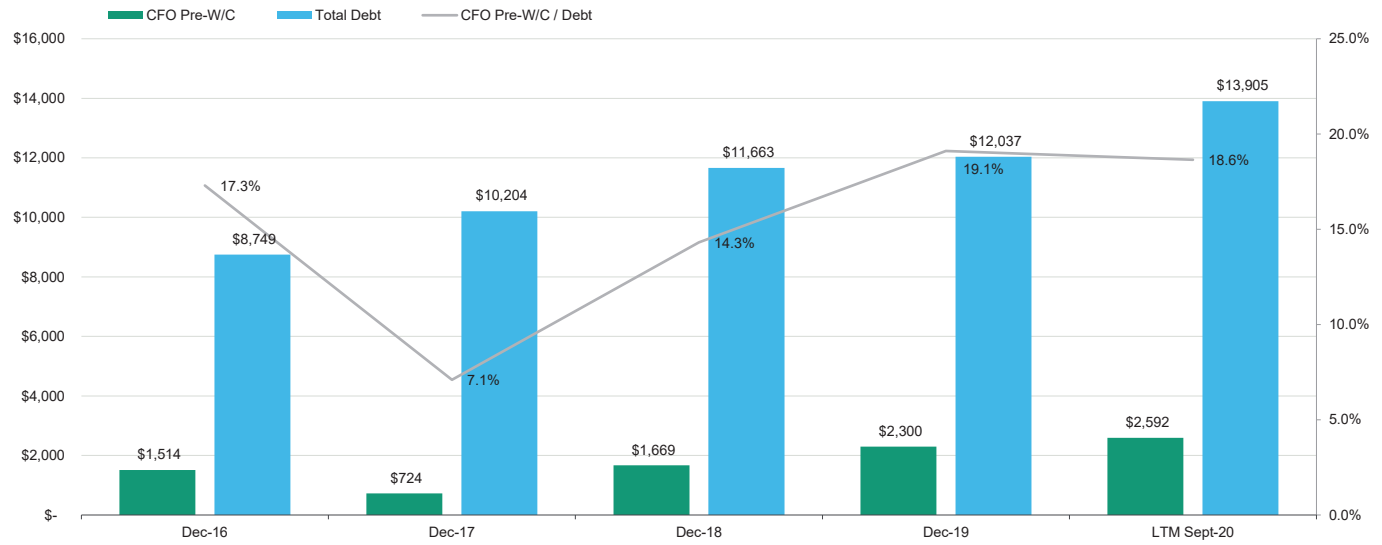
OPG is 100% owned by the Province of Ontario and is considered a government related issuer (GRI) under our GRI methodology. The three notch uplift attributed to OPG as a GRI incorporates our expectation of an enduring link between OPG and the Province. Our high support assumption considers that OPG produces more than half of the power generated in the Province at a comparatively low cost, making its infrastructure essential to the Ontario economy. OPG also implements government policy, its board is appointed by the Province and the Ontario Electricity Financial Corporation (OEFC, Aa3 stable), a crown corporation, is a source of debt capital for OPG. Our assessment of high default dependence reflects that both OPG and the Province largely rely on the same revenue base and share some political risks.

COVID-19 developments

The rapid spread of the coronavirus outbreak, severe global economic shock, low oil prices, and asset price volatility are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. We regard the coronavirus outbreak as a social risk under our ESG framework given the substantial implications for public health and safety. However, we expect OPG will be relatively resilient to recessionary pressures because of its rate regulated business model and supportive regulatory mechanisms.

Exhibit 1

Historical CFO Pre-WC, Total Debt and CFO Pre-WC to Debt (CAD MM)



Source: Moody's Financial Metrics

Credit strengths

» Primarily regulated generation facilities support stable cash flow generation

» Non-regulated generation segment dominated by long term contracts

» Our expectation of support from the Province of Ontario given its 100% ownership

» Diversification benefits by both generating station and fuel source

Credit challenges

» CAD12.8 billion nuclear refurbishment project underway has a very high level of execution risk

» Financial metrics pressured by three debt financed acquisitions with the potential for further debt financed M&A

» Small but growing merchant cash flow has more risk

» Availability risk across the fleet, including low levels of hydrology risk

Rating outlook

The stable outlook incorporates the following expectations:

» The company continues to execute the Darlington nuclear refurbishment on time and budget

» CFO pre-WC/debt remains in the 12-16% range

» The relationship with the Province remains stable and supportive

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Factors that could lead to an upgrade

» A material increase in financial metrics such that CFO pre-WC/debt is sustained above 20%

» An improvement in regulatory outcomes or business risk profile

Factors that could lead to a downgrade

» Challenges or delays executing the Darlington nuclear refurbishment

» A weakening of the business risk profile by, for example, further growing the merchant segment

» A reduction in the probability of support from the Province

» A deterioration in financial metrics such that CFO pre-WC/debt is forecast to fall below 12% on a sustained basis

Key indicators

Exhibit 2

Ontario Power Generation Inc. [1]

	Dec-16	Dec-17	Dec-18	Dec-19	LTM Sept-20
CFO Pre-W/C + Interest / Interest	4.9x	2.8x	4.7x	6.0x	5.6x
CFO Pre-W/C / Debt	17.3%	7.1%	14.3%	19.1%	18.6%
CFO Pre-W/C – Dividends / Debt	17.1%	7.0%	11.7%	19.0%	18.5%
Debt / Capitalization	43.9%	44.7%	45.6%	44.2%	45.6%

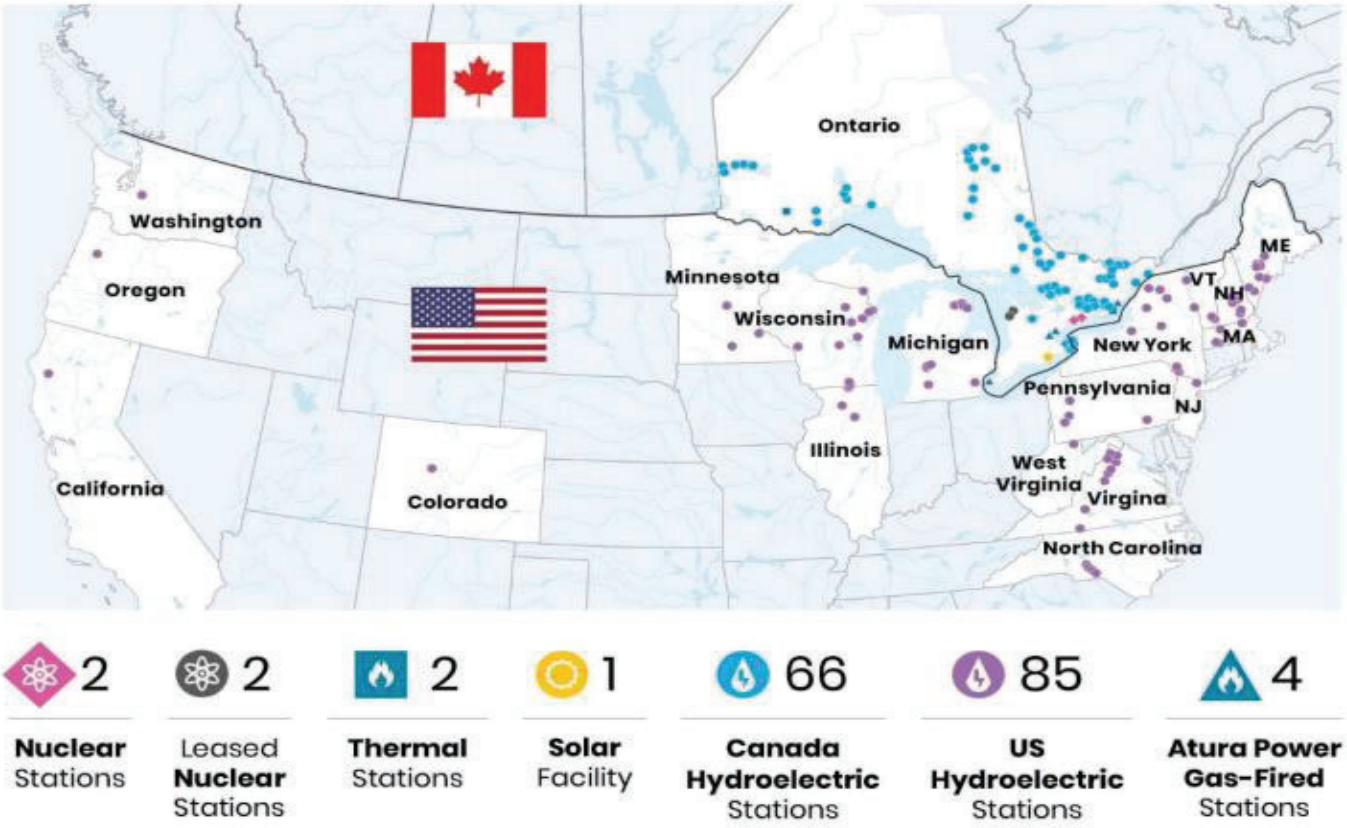
[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics

Profile

Headquartered in Toronto, Ontario, OPG is an electricity generation company wholly owned by the Province with an in-service generating capacity of 18,876 MW at Sept 30, 2020. At that time OPG owned and operated 75 generating stations, 2 of which are nuclear, 66 hydroelectric, 2 thermal, 1 solar and 4 combined-cycle natural gas-fired plants in Ontario, Canada. In the US, OPG also wholly or jointly owns and operates 85 hydroelectric stations and has interests in 14 other hydroelectric and 2 solar facilities. OPG's nuclear and most of its hydroelectric facilities are regulated by the Ontario Energy Board (OEB).

Exhibit 3

OPG's service territory



Source: OPG Sept 30 2020

Detailed credit considerations

Primarily regulated and contracted assets generate predictable cash flow

OPG's strong business risk profile is driven by its high proportion of regulated and contracted cash flow. Regulated earnings from OEB rate regulated assets will decline from FYE 2019 reported levels of about 80% of EBITDA towards 70% in 2021. Contracted assets will increase from about 19% to the low 20% range while higher risk US assets that are primarily merchant plants will increase from a negligible amount in 2018 to the low single digits. Changes in the EBITDA mix are primarily driven by recent M&A activity. The company has extensive diversity by business line and within each segment that reduces volatility. It also has some hydrology risk, albeit low, and negligible levels of commodity price risk, a key credit positive. Unlike most other regulated utilities, OPG owns generating assets only and does not have any lower risk transmission and distribution assets. As a result, as a higher risk generation company, OPG is exposed to availability risks on all of its assets.

The company's regulated assets should provide reasonably stable cash flow going forward. A multi-year rate decision currently in place from 2017-2021 established prices for the regulated nuclear and hydroelectric assets over this period.

The nuclear generation facilities are regulated by a custom incentive regulation decision that was issued in December 2017. It established prices for generation and incorporates a step up in rate base, reflected in higher rates, as work progressed on the first Darlington nuclear unit refurbishment. Rates in the first half of 2017 of $59.29 MWh grew to $77.96 in the second half of that year and will reach $95.83 (inclusive of rate riders and variance accounts) in 2021, which has supported growth in earnings. Nuclear rate base is allowed an ROE of 8.8% and hydroelectric 9.3% and both have equity capital of 45%.

Achieving the allowed ROE in the nuclear segment may be challenging given an OM&A cost disallowance of about CAD100 million primarily for performance and compensation when benchmarked to comparators. However, this has been offset by improvements

throughout the business, in particular higher generation levels than previously anticipated in recent years. The segment also benefits from diversification across 2 nuclear generating stations, with 6 and 4 operating reactors respectively, that enable the company to maintain high levels of generation and cash flow while undertaking the nuclear refurbishment. The shutdown of the Pickering nuclear generating station in 2024 will reduce diversity and, with fewer operating nuclear units, heighten the impact of any unplanned outages.

The regulated hydroelectric facilities includes 54 generating stations in Ontario across a number of river systems with prices established by incentive rate mechanism. Regulated prices for the period beginning after June 1, 2017 are calculated annually and use a base regulated price escalated with an OEB approved formula for inflation less a 0% productivity factor adjustment and a -0.3% stretch factor adjustment. On November 10, 2020, the Province took steps to establish the hydroelectric base regulated price for the period 2021-2026 at the 2021 based regulated price. While this provides price certainty for the period, it may be challenging for OPG to earn its allowed returns over the period given ongoing investments in rate base assets during the period that exceed depreciation.

The regulated segments have been challenged by rate case and cash flow lag. The last rate decision was published in December 2017 with a payment amount order issued on March 29, 2018, well after the 2017-2021 period had begun. Regulated prices prior to June 1, 2017 had been established in the fourth quarter of 2014. The company frequently has regulatory assets and liabilities which may take several years to be recovered, leading to cash flow variability, a credit negative. We expect the company to file its next regulated nuclear rate case in the near term. We anticipate that the company will continue to receive rates that support the company's ongoing investments in their Darlington nuclear refurbishment project.

The contracted and other generating segment consists of lower risk contracted assets in Ontario and higher risk, primarily merchant US based assets. The company has completed both contracted and merchant acquisitions in the past few years driving growth in earnings and cash flow.

Ontario based assets are all under contract on generally favorable terms and almost all of the contracts are with the IESO. The largest of these is the project financed Lower Mattagami Energy Limited Partnership (A1 stable). It, and other contracted hydro facilities like it, including UMH Energy Partnership (A2 stable), have strong contract terms which include limited hydrology risk and contract expiries over the period 2059-2067. We expect these assets to contribute about 40% of the segment's EBITDA in 2021. The Ontario thermal plants in this segment have substantial capacity, but are largely peaking facilities and have low levels of generation. They are primarily compensated based on their availability and have cost pass through provisions, however they have shorter contract tenors compared to the contracted hydro facilities.

The Ontario CCGT plants that were acquired on April 29, 2020 for $2.8 billion have a similar risk profile as the existing thermal fleet in Ontario. A key hurdle to closing the transaction that led to some delays was the successful completion of the Napanee 900MW CCGT which has a 20 year contract from the IESO. The US assets, which consist of Eagle Creek and the acquisition of Cube Hydro that closed October 2019, have some contracts, but are primarily merchant assets with substantially more risk than the rest of the portfolio.

Exhibit 4

OPG acquired assets

Asset acquired	Capacity (MW)	Fuel feedstock	Announcement date	Closing date	Enterprise value (CAD billion)	Acquisition Price (CAD billion)	Assumed debt (CAD billion)
Ontario CCGT	1858	Natural Gas	30-Jul-19	29-Apr-20	2.8	2.8	0
Cube Hydro	385	Hydro	25-Jun-19	7-Oct-19	1.5	1.1	0.4
Eagle Creek	226(1)	76 hydro 2 solar plants	9-Aug-18	27-Nov-18	0.7	0.4	0.3

[1] 226MW at FYE 2018.
Source: Company filings

Darlington nuclear refurbishment carries a very high level of execution risk

Also weighing on the company's' business risk profile is the ongoing nuclear refurbishment at the Darlington Generation Station, which is forecast to cost CAD12.8 billion and take about a decade to refurbish all 4 units. The first refurbished unit returned to service in June of 2020. While the refurbishment of the first unit was a few months behind schedule, management believes that the overall cost and schedule to complete all 4 units remains on target with a modest Covid pandemic driven delay. The start of the unit 3 refurbishment was pushed back 3-4 months as a result of Covid and all subsequent refurbishments will likely be similarly delayed. The delay in the start to the refurbishment of Unit 3 led to higher generation levels than previously anticipated in 2020, driving increased cash flow. The last regulatory decision incorporated the forecasted capex to bring Unit 2 in service, so it is already reflected in both rate base and revenues without the need for OPG to file a rate case.

Exhibit 5
Darlington refurbishment timeline

Darlington	Capacity	Refurbishment start date	Refurbishment completion date
Unit2	878	Oct-16	Jun-20
Unit 3	878	Sep-20	Q1 2024
Unit 1	878	Q1 2022	Q2 2025
Unit 4	878	Q3 2023	Q4 2026

Source: Company filings

Financial metrics pressured by three debt financed acquisitions

We expect CFO pre-WC/Debt to be in the range of 12-16% over the next few years. Financial metrics will decline as the company digests recent debt financed acquisitions and the nuclear business, which has benefited from higher than anticipated generation levels, sees a reduction in generation levels. Collectively, the acquisitions reflect an enterprise value of CAD5 billion that has contributed to the increase in debt financing on the company's balance sheet. Despite the increase in debt, CFO Pre-W/C to debt remained resilient at 18.6% over the last twelve months ending September 30, 2020, only slightly down from 19.1% at FYE 2019. The company's CFO Pre-W/C has increased so far in 2020 as a result of several factors including 1) higher generation from the nuclear fleet owing to delays in the start of refurbishment at Unit 3, 2) some deferrals of planned maintenance into 2021 and 3) contributions from recently acquired assets. We expect cash flow and financial metrics to decline in 2021, primarily as a result of lower generation in the nuclear segment. Further debt financed M&A remains a risk, although management has indicated that they plan to focus on their existing assets. We believe any further acquisitions or investments will likely remain small.

We expect internally generated cash flow and debt issuances to fund the capital program, of which half is focussed on the Darlington refurbishment. The company seldom pays dividends with the only dividends paid connected to asset sales (property sales, not generation facilities) that it was directed to make by the Ontario government.

There is some structural subordination stemming from project finance debt at Canadian contracted assets totaling about CAD2 billion at FYE 2019 and about CAD700 million of debt on US assets. However, unlike the vast majority of regulated utilities, there is no debt outstanding at the regulated businesses that post acquisitions will generate about 70% of EBITDA. That, in conjunction with primarily centralized funding for OPG, results in no notching for structural subordination. As of Q2 2019, OPG no longer consolidates Fair Hydro Trust, leading to a reduction in consolidated debt of CAD900 million.

High support from the Province of Ontario provides an uplift to OPG's credit profile

Given the 100% ownership interest held by the Province, OPG is considered a government related issuer (GRI) under our GRI methodology. Based on our estimate of high support in case of financial distress, the A3 credit profile incorporates 3 notches of uplift from OPG's BCA of baa3.

The company's ratings incorporate our expectation that extraordinary financial support to OPG would be forthcoming from the Province if needed. Our high support assumption considers that OPG produces more than half of the power in the Province at a

comparatively low cost, making its infrastructure essential to the Ontario economy. OPG also implements government policy that can have mixed credit implications. The most recent example was OPG's role in Fair Hydro Trust, which was created by an act of Provincial legislation and designed to a play a significant role in reducing residential electricity rates by about 25%. Following a change in Provincial government and further legislative changes, as of Q2 2019, OPG no longer consolidates the Trust, resulting in a decline in OPG's consolidated debt of CAD900 million. The Province also appoints OPG's board, agrees to its business plans and is a source of debt financing through the OEFC. We do not believe there are any barriers that would prevent the Province from providing timely support.

Our assessment of high default dependence reflects that both OPG and the Province largely rely on the same revenue base and they share some political risks. While the OEFC is a source of financing, OPG has been increasing the level of its borrowing from public debt capital markets.

ESG considerations

OPG has a low carbon transition risk given that the vast majority of generation comes from hydro and nuclear facilities. Its hydro facilities face some hydrology risk while a long-term nuclear refurbishment program entails high execution risk. Although two of OPG's three most recent acquisitions have been hydro facilities, it recently announced the acquisition of 1,858 MW of natural gas assets in Ontario, exposing it so some modest incremental carbon transition risk. In November 2020, OPG committed to achieve net zero carbon emission by 2040. Social risks are primarily related to demographic and societal trends and customer relations in Ontario, as its infrastructure is critical to the economy of the Province. OPG has developed programs and key success measures in order to continue to maintain its social license. OPG's governance benefits from 9 of its 10 directors being independent and by benchmarking itself to various governance guidelines.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section

Liquidity analysis

OPG has an adequate liquidity profile driven by its CAD3.2 billion (around CAD1.6 billion available as of September 2020) of credit facilities and expected cash flow that together are sufficient to cover its uses for the next 12 months.

As of September 2020, OPG has a CAD1 billion committed credit facility of which around CAD950 million matures in May of 2024 and CAD50 million matures in May of 2023. OPG also has a USD750 million 364 day revolving committed facility that expires in November of 2021 with a one year term out provision at the company's option. Both of these facilities backstop CAD1 billion and USD750 million commercial paper programs that had CAD658 million outstanding as of September 2020. The company also has a CAD800 million committed credit facility with the OEFC that matures in December 2021 of which CAD300 million is available that we expect to be extended in the near term, an important consideration in our liquidity analysis. In addition, the company has CAD400 million committed facility at Lower Mattagami Energy Limited Partnership. In March 2020, the company executed a CAD1 billion term loan facility (CAD 400 million outstanding as of September 2020) with expiry in March 2021, however because the expiry of this facility is less than a year we do not include it in our liquidity calculations.

Moody's forecasts cash flow from operations of around CAD1.8-1.9 billion in the next twelve months in addition to the available credit facilities and cash and cash equivalents of CAD828 million as of September 2020 to be sufficient to cover the uses comprising around CAD2.6 billion of expected capital expenditure and around CAD1.5 billion of debt maturities in the next 12 months. We expect OPG will rely in part on debt to finance its ongoing capex and refinance its upcoming debt maturities. The company's liquidity position benefits from the lack of regular dividends payable to the Province.

There are material adverse change clauses in its credit facilities that could prevent borrowings under certain circumstances. Moody's expects the company to manage its program maturities, cash on hand and its swinglines in a prudent fashion.

Rating methodology and scorecard factors

Rating Factors
Ontario Power Generation Inc.

Regulated Electric and Gas Utilities Industry [1][2]	Current LTM 9/30/2020		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	Baa	Baa	Baa	Baa
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	Ba	Ba	Ba	Ba
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	A	A	A	A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	5.2x	A	4.5x - 5.5x	A
b) CFO pre-WC / Debt (3 Year Avg)	16.7%	Baa	12% - 16%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	15.7%	Baa	12% - 16%	Baa
d) Debt / Capitalization (3 Year Avg)	44.8%	A	45% - 49%	Baa
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		Baa1		Baa1
HoldCo Structural Subordination Notching		0		0
a) Scorecard-Indicated Outcome		Baa1		Baa1
b) Actual Rating Assigned		A3		A3

Government-Related Issuer	Factor
a) Baseline Credit Assessment	baa3
b) Government Local Currency Rating	Aa3
c) Default Dependence	High
d) Support	High
e) Actual Rating Assigned	A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 9/30/2020(L);
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Ratings

Exhibit 7

Category	Moody's Rating
ONTARIO POWER GENERATION INC.	
Outlook	Stable
Senior Unsecured -Dom Curr	A3
Commercial Paper	P-2

Source: Moody's Investors Service

Appendix

Exhibit 8

Cash Flow and Credit Metrics [1]

CF Metrics	Dec-16	Dec-17	Dec-18	Dec-19	LTM Sept-20
As Adjusted					
FFO	1,563	1,044	1,482	1,828	2,383
+/- Other	(49)	(320)	187	472	209
CFO Pre-WC	1,514	724	1,669	2,300	2,592
+/- ΔWC	180	80	(160)	99	422
CFO	1,694	804	1,509	2,399	3,014
- Div	14	15	301	17	19
- Capex	1,693	1,713	1,648	1,851	1,539
FCF	(13)	(924)	(440)	531	1,456
(CFO Pre-W/C) / Debt	17.3%	7.1%	14.3%	19.1%	18.6%
(CFO Pre-W/C - Dividends) / Debt	17.1%	7.0%	11.7%	19.0%	18.5%
FFO / Debt	17.9%	10.2%	12.7%	15.2%	17.1%
RCF / Debt	17.7%	10.1%	10.1%	15.0%	17.0%
Revenue	5,653	5,158	5,537	6,022	6,980
Cost of Good Sold	701	684	668	674	757
Interest Expense	390	404	446	462	564
Net Income	349	403	270	758	972
Total Assets	44,415	48,831	52,134	55,183	59,700
Total Liabilities	34,167	37,233	39,399	41,286	44,603
Total Equity	10,248	11,598	12,735	13,897	15,097

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months
Source: Moody's Financial Metrics

Exhibit 9

Ontario Power Generation Inc. Moody's - Adjusted Debt Breakdown

(In CN $ Millions)	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19	LTM Ending Sept-20
As Reported Debt	**5,684.0**	**5,522.0**	**6,579.0**	**7,878.0**	**8,390.0**	**10,251.0**
Pensions	2,614.0	3,029.0	3,437.0	3,656.0	3,585.0	3,585.0
Operating Leases	106.3	184.4	171.3	72.5	55.0	49.0
Non-Standard Adjustments	13.0	14.0	17.0	56.0	7.0	20.0
Moody's - Adjusted Debt	**8,417.3**	**8,749.4**	**10,204.3**	**11,662.5**	**12,037.0**	**13,905.0**

Based on consolidated financial data of Ontario Power Generation Inc. All figures are calculated using Moody's estimates and standard adjustments
Source: Moody's Financial Metrics

Exhibit 10

Peer Comparison Table [1]

	Ontario Power Generation Inc. A3 Stable			Public Service Enterprise Group Incorporated Baa1 Stable			NextEra Energy, Inc. (P)Baa1 Stable			Exelon Corporation Baa2 Stable		
(in US millions)	FYE Dec-18	FYE Dec-19	LTM Sept-20	FYE Dec-18	FYE Dec-19	LTM Sept-20	FYE Dec-18	FYE Dec-19	LTM Sept-20	FYE Dec-18	FYE Dec-19	LTM Sept-20
Revenue	4,274	4,538	5,191	9,696	10,076	9,679	16,727	19,204	18,189	35,978	34,438	33,265
CFO Pre-W/C	1,288	1,733	1,928	3,224	3,111	3,012	7,287	7,938	8,589	8,412	8,176	7,864
Total Debt	8,539	9,282	10,410	16,509	17,416	18,332	37,302	42,303	48,016	40,803	42,843	44,204
CFO Pre-W/C / Debt	14.3%	19.1%	18.6%	19.5%	17.9%	16.4%	19.5%	18.8%	17.9%	20.6%	19.1%	17.8%
CFO Pre-W/C – Dividends / Debt	11.7%	19.0%	18.5%	14.0%	12.4%	11.1%	13.8%	12.9%	12.2%	17.3%	15.8%	14.4%
Debt / Capitalization	45.6%	44.2%	45.6%	45.3%	45.1%	45.4%	44.9%	45.4%	48.4%	47.9%	47.7%	47.9%

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade
Source: Moody's Financial Metrics

© 2020 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND/OR ITS CREDIT RATINGS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S INVESTORS SERVICE DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S INVESTORS SERVICE CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from $1,000 to approximately $2,700,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1255812

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S RATINGS

CREDIT OPINION
24 June 2024

Update

Send Your Feedback

RATINGS

Ontario Power Generation Inc.

Domicile	Ontario, Canada
Long Term Rating	A3
Type	Senior Unsecured - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Gavin MacFarlane +1.416.214.3864
VP-Sr Credit Officer
gavin.macfarlane@moodys.com

Yifei Qin +1.647.417.6291
Ratings Associate
yifei.qin@moodys.com

Michael G. Haggarty +1.212.553.7172
Associate Managing Director
michael.haggarty@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Ontario Power Generation Inc.

Update to credit analysis

Summary

Ontario Power Generation's (OPG) credit profile reflects a Baseline Credit Assessment (BCA) of baa3 with a 3 notch uplift based on its high dependence on and a high probability of extraordinary support from the Province of Ontario (Aa3 positive).

OPG's credit profile benefits from its substantial regulated nuclear and hydroelectric operations that are expected to generate the vast majority of its relatively stable cash flow. OPG's contracted assets generally exhibit long contract tenors and have a strong counterparty in the Ontario Independent Electricity System Operator (IESO, Aa3 positive) to which most assets are contracted and to which they pass through most of their costs. The company also has diversification benefits across its extensive fleet.

Offsetting these credit strengths, OPG has a large capital program that has very high levels of execution risk associated with some nuclear capital expenditures. OPG has exceeded our expectations on its Darlington nuclear refurbishment by completing its most recent unit 169 days ahead of schedule. The company's success at Darlington may carry over as it embarks on the refurbishment of units 5-8 of the Pickering nuclear generating station as well.

The company is also moving forward with a small modular reactor (SMR) program at Darlington which carries very high levels of execution risk. OPG expects the first of four potential units to be in commercial operation in 2029. While we expect these units to form part of its regulated fleet, at this time it is unclear what the extent of the regulatory support, if any, the company will have for the Pickering refurbishment and the SMR program during construction.

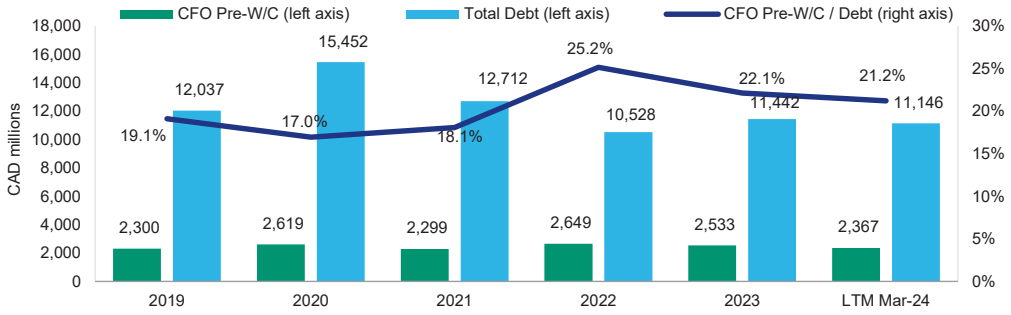
We expect the company's CFO pre-W/C to debt ratio to be sustained in the 17%-22% range over the next few years. OPG does not pay a dividend and reinvests all of its cash flow into maintaining and growing its asset base, although we expect debt to grow to fund its capital program. The company is exposed to availability risk across its fleet of generation assets and some hydrology risk. While small, its merchant generation segment has grown as a result of several 100% debt financed acquisitions and we think OPG's large capital program lessens the probability of additional, material debt financed M&A transactions.

OPG is 100% owned by the Province of Ontario and is considered a government related issuer (GRI) under our GRI methodology. The three notch uplift attributed to OPG as a GRI incorporates our expectation of an enduring link between OPG and the Province. Our high support assumption considers that OPG produces more than half of the power generated in the Province at a comparatively low cost, making its infrastructure essential to the Ontario economy. OPG also implements government policy, its board is appointed by the Province

and the Ontario Electricity Financial Corporation (OEFC, Aa3 positive), a crown corporation, is a source of debt capital for OPG. Our assessment of high dependence reflects that both OPG and the Province largely rely on the same revenue base and share some political risks.

Exhibit 1

Historical CFO Pre-W/C, Total Debt and CFO Pre-W/C to Debt



All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Periods are fiscal year-end unless indicated.
Source: Moody's Financial Metrics™

Credit strengths

» Primarily regulated generation facilities support stable cash flow generation

» Non-regulated generation segment dominated by long term contracts

» Our expectation of support from the Province of Ontario given its 100% ownership

» Diversification benefits by power generation site and units, as well as fuel source

Credit challenges

» Large capital program, which has very high levels of execution risk associated with some nuclear capital expenditures

» Uncertain regulatory support for large capital projects during construction

» Merchant cash flow entails more risk

» Availability risk across the fleet, including potential weak hydro conditions

Rating outlook

The stable outlook incorporates the following expectations:

» The company will continue to execute the Darlington nuclear refurbishment on time and budget

» It will maintain a CFO pre-WC/debt ratio in the 17-22% range over the next few years

» The relationship with the Province will remain stable and supportive

Factors that could lead to upgrade

» An upgrade is unlikely given the very high levels of execution risk associated with some of its upcoming nuclear capital expenditures

» CFO pre-WC/debt sustained above 20%

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

» An improvement in regulatory outcomes

» An upgrade of the Province to Aa1

Factors that could lead to downgrade

» Challenges, delays or cost overruns related to its capital program

» A reduction in the probability of support from the Province

» A deterioration in financial metrics such that CFO pre-WC/debt is forecast to fall below 15% on a sustained basis

» A weakening of the business risk profile by, for example, by further growing the merchant segment

Key indicators

Exhibit 2

Ontario Power Generation Inc.

	2019	2020	2021	2022	2023	LTM Mar-24
CFO Pre- C nterest nterest	7.1	6.1	5.8	6.5	7.2	6.5
CFO Pre- C Debt	19.1	17.0	18.1	25.2	22.1	21.2
CFO Pre-W/C – Dividends / Debt	19.0	16.8	17.9	25.0	22.0	21.1
Debt Capitali ation	44.2	47.9	40.7	33.6	33.6	32.7

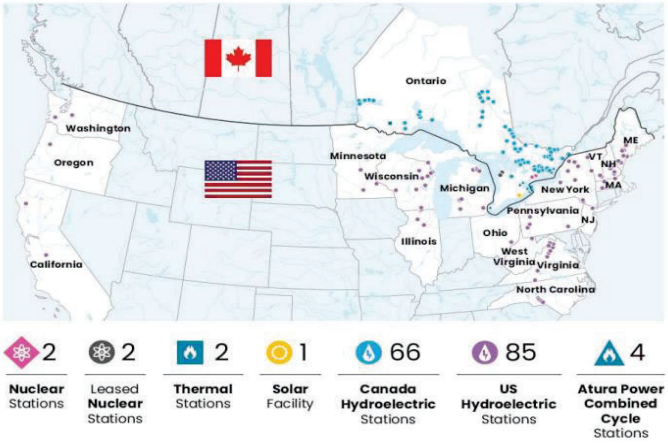
All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Periods are fiscal year-end unless indicated.
Source: Moody's Financial Metrics™

Profile

Headquartered in Toronto, Ontario, OPG is an electricity generation company wholly owned by the Province with an in-service generating capacity of 18,236 MW at March 31, 2024. OPG owns and operates 75 generating stations, 2 of which are nuclear, 66 hydroelectric, 2 thermal, 1 solar and 4 combined-cycle natural gas-fired plants in Ontario, Canada. In the US, OPG also wholly or jointly owns and operates 85 hydroelectric stations and has interests in 14 other hydroelectric and 2 solar facilities. OPG's nuclear and most of its hydroelectric facilities are regulated by the Ontario Energy Board (OEB).

Exhibit 3

OPG's service territory



Source: Company filings

Detailed credit considerations

Primarily regulated and contracted assets generate predictable cash flow

OPG's strong business risk profile is driven by its high proportion of regulated and contracted cash flow. Regulated earnings from OEB's rate regulated assets accounted for 75% of the EBITDA (all figures rounded) from its generating business segments during last twelve months end 31 March 2024, including 48% from the regulated nuclear generation segment and 27% from the regulated hydroelectric generation segment. The Atura Power combined cycle plants generated 18% of EBITDA and contracted hydroelectric and other, which has more contracted cash flow than merchant, generated 7% of EBITDA.

The company has extensive diversity by generation station and unit within each segment, reducing volatility. It also has some hydro risk, albeit low, and negligible levels of commodity price risk, a key credit positive. Unlike most other regulated utilities, OPG owns generating assets only and does not have any lower risk transmission and distribution assets. As a result, as a higher risk generation company, OPG is exposed to availability risks on all of its assets which drives more variability in its financial results compared to most T&D companies.

The company's regulated assets should provide predictable cash flow going forward. A multiyear rate plan in place from 2022-2026 establishes volumetric prices for the regulated nuclear segment and a change in Ontario Regulation 53/05 undertaken by the Province provides pricing for regulated hydroelectric assets over this period.

The nuclear generation segment benefits from diversification across 2 nuclear generating stations, with 6 (Pickering) and 4 (Darlington) operating reactors respectively, that enable the company to maintain high levels of generation and cash flow while undertaking nuclear refurbishment. Pickering Units 1 and 4 are set to be shut down in the second half of 2024.

In the second half of 2021, OPG reached a settlement with its intervenors that was subsequently approved by the OEB. The settlement led to a 2022-2026 nuclear generation revenue requirement of CAD16 billion, compared to CAD16.7 billion in the company's rate case application. Regulated prices are designed to support an allowed level of operating costs and earn a return on its capital costs for a forecast amount of generation. Significantly, the settlement supports growth in rate base over the period as the company continues to make progress on the Darlington refurbishment.

Nuclear rate base for the period 2022-2026 is allowed an ROE of 8.66% and hydroelectric 9.33% and both have equity capital of 45%. Performance that deviates by more than 300 bps in any given year may lead to a regulatory review. Regulatory lag has improved considerably with the most recent rate case, where a payments order was issued in January 2022 with new rates effective that month, although the extensive use of deferral accounts that reduce cash flow is a credit negative. Nuclear rates have significantly increased over the past several years. As recently as the first half of 2017, nuclear rates were CAD 59.29 MWh, a price that, like the table below, incorporates rates riders for variance and deferral accounts. The table below includes rates increases to both nuclear and hydroelectric rates following a 13 June 2024 OEB decision that addressed several issues, including multiple variance accounts.

Exhibit 4

	2023	2024	2025	2026
Regulated Nuclear Generation Total price ($/MWh)	109.0	107.8	111.6	123.8
Approved Nuclear Rate Base (CAD million)	8,615.0	11,033.0	12,189.0	12,992.0
Forecast Nuclear Production (TWh)	31.2	34.0	31.1	21.9
Regulated Hydroelectric Generation price ($/MWh)	44.9	47.5	47.2	47.2

Rates for 2024-2026 effective 1 July 2024
Source: Ontario Energy Board

The regulated hydroelectric facilities include 54 generating stations in Ontario across a number of river systems with prices established by an incentive rate mechanism. On 10 November 2020, the Province took steps to establish the hydroelectric base regulated price for the period 2022-2026 at the 2021 regulated price. While this provides price certainty for the period, it may be challenging at times for OPG to earn its allowed returns over the period given ongoing investments in rate base assets that exceed depreciation. Mitigating this challenge is the increase in production that will directly result from some of these investments.

The contracted hydroelectric and other generation segment consists of lower risk contracted assets in Ontario and higher risk, primarily merchant US based assets. Ontario based assets are all under contract on generally favorable terms and almost all of the contracts are with the IESO. The largest of these is the project financed Lower Mattagami Energy Limited Partnership (A1 stable). It, and other contracted hydro facilities like it, including UMH Energy Partnership (A2 stable), have strong contract terms which include limited hydro risk and contract expiries over the 2059-2067 period. The two Ontario thermal plants in this segment have substantial capacity, but are largely peaking facilities and typically have low levels of generation. They are primarily compensated based on their availability and have cost pass through provisions, however they have shorter contract tenors compared to the contracted hydro facilities.

OPG has grown its US presence and its Atura business segment through acquisitions in the past few years. The Atura Power business consists of 4 combined cycle gas plants that operate under contract with the IESO or other long term contracts on similar terms to the above mentioned thermal plants. The latest contract expiry is the 900 MW Napanee plant that operates under a 20 year contract that expires in 2040. This segment is also pursuing opportunities in battery storage and hydrogen production, including the construction of a 250MW four hour battery storage system at the site of one of its gas plants. It expects to complete construction in 2026 and the investment is supported by a 21 year capacity agreement with the IESO. The US assets have some contracts, but are primarily merchant assets with substantially more risk than the rest of the portfolio.

Large, nuclear focused capital program with varying degrees of execution risk

We expect OPG's large capital program to grow rapidly to about CAD5-6 billion a year with varying degrees of execution risk. Weighing on the company's business risk profile in particular is the risk associated with nuclear capex with the company's small modular reactor program at the very high end of the risk spectrum, with less risk associated with Pickering refurbishment and lower risk associated with Darlington refurbishment. At this time, it is unclear what regulatory support, if any, the company will have for Pickering refurbishment and the SMR program during construction. For example the company may capitalize an allowance for funds used during construction which would provide no cash flow support or it may receive cash construction work in progress which would provide comparably more support. We expect the company will publish a cost estimate associated with the SMR program within the next year. Moving forward with large projects without a public cost estimate and certainty on the degree of regulatory support during construction differentiates OPG from investor owned utilities.

Darlington refurbishment execution risk is diminishing

Execution risk associated with nuclear refurbishment at the Darlington Generation Station is diminishing given the company's strong track record of execution on the first 2 units. Unit 3 connected to the grid 169 days ahead of schedule, resulting in the production of an incremental 3TWh of electricity. The company applied more than 1000 lessons learned from Unit 2's refurbishment and applied that to Unit 3 and management continues to incorporate learnings into subsequent units. The refurbishment is tracking to its forecast cost of CAD12.8 billion with the exception of cost increases driven by COVID.

Given the success at Unit 3, management now expects Unit 1 to complete refurbishment and return to service in Q4 of 2024, well ahead of its prior projected in service date of Q2 2025. The time table for Unit 4 is the second half of 2026, although we think there is a high probability that this unit will also return to service well ahead of schedule. The regulatory framework continues to incorporate the forecasted capex to bring the units in service, so it is already reflected in both rate base and revenues without the need for OPG to file a rate case.

Exhibit 5

Darlington refurbishment timeline

Darlington	Capacity	Refurbishment start date	Refurbishment completion date
Unit 2	878	Oct-16	Jun-20
Unit 3	878	Sep-20	Jul-23
Unit 1	878	Feb-22	Q4-2024
Unit 4	878	Jul-23	H2-2026

Source: Company filings

Pickering refurbishment also moving forward but awaiting nuclear regulatory approval

Following a request from the Provincial government, OPG updated the feasibility assessment for the refurbishment of Pickering Units 5 to 8, which had been scheduled for shutdown in the coming years. Subsequently, the Provincial government requested that OPG proceed with the refurbishment of these units. In response, the company has sanctioned CAD2 billion in capital expenditure to advance the project. The refurbishment plan is contingent on receiving approvals from the Canadian Nuclear Safety Commission (CNSC). The company's schedule involves shutting down Units 5 to 8 in 2026, with a phased plan to return units to service by the mid 2030's. Units 1 and 4 are slated for shutdown in the latter half of 2024, while Units 2 and 3 were placed in safe storage more than a decade ago.

Small modular reactors entail high execution risk

The company is also planning to build four 300 MW SMR's adjacent to the Darlington station, that we view as new nuclear construction entailing very high execution risk. The company expects the first unit to be in commercial operation in 2029, and will start construction on subsequent units only after the first one is complete, with the remaining units in service in the mid-2030's. Each SMR will be a GE Hitachi BWRX-300 reactor and the company expects to yield benefits from a fleet approach.

The OEB has determined that SMR related costs may be recorded in a nuclear development variance account (NDVA). The NDVA does not have a limit but is subject to prudence review. A 13 June 2024 OEB decision approved the recovery of CAD108 million over the period 1 July 2024 through the end of 2026. These costs were associated with the non-capital preliminary planning and preparation costs that were incurred between 2020 and 2022. The company did not incorporate any SMR related spending into its 2022-2026 rate case application. With significant spending likely in the next few years and uncertainty around regulatory support during construction, the burden on the company's balance sheet is likely to grow over time. The company has not yet provided an SMR cost forecast, but we believe a cost estimate is likely following the receipt of a license to construct from the CNSC in early 2025. We believe execution risk will be highest with the first unit, with diminishing risk on subsequent units.

Financial metrics to remain reasonably predictable

We expect CFO pre-WC/debt to be in the range of 17-22% over the next few years with cash flow to remain reasonably predictable, although generation levels will drive some variability. These variations in generation result in a wider range in forecast financial metrics compared to transmission and distribution companies. We expect the remaining units at Darlington to be completed ahead of schedule, providing some support to financial metrics. Nonetheless, pressure on metrics may build in the latter part of the decade as the company progresses with both the Pickering refurbishment and the SMR's since they do not currently have any form of cash flow recovery during construction and will result in significant debt issuances.

We expect both internally generated cash flow and debt issuances to fund the capital program, which is focused primarily on nuclear capex, sustaining capital and other smaller projects that have relatively low levels of execution risk. The company exhibits credit supportive financial policies and OPG seldom pays a dividend. However, the offset to this is that, unlike public companies, we think it could be challenging to issue equity if required, limiting OPG's financial flexibility.

Further debt financed M&A remains a risk, although management has indicated that they plan to focus on their existing assets and, given the planned nuclear projects, the company has ample organic growth opportunities.

There is some structural subordination stemming from project finance debt at Canadian contracted assets totaling about CAD2.4 billion at 31 March 2024 and about CAD486 million of debt on US assets. However, unlike the vast majority of regulated utilities, there is no debt outstanding at the key regulated businesses that generated about 72% of EBITDA in 2023. That, in conjunction with primarily centralized funding at OPG, results in no notching for structural subordination.

A driver of improving financial metrics over the past few years has been the significant change in the company's pension plan, which had led to a decline in our pension driven debt adjustment to CAD900 million at 31 March 2024 from a high of CAD5 billion at FYE2020, supporting financial metrics. The company is also eligible for different types of investment tax credits, and these will likely provide incremental support to the company's financial profile over time.

High probability of support from the Province provides an uplift to OPG's credit profile

Given the 100% ownership interest of the Province, OPG is considered a government related issuer (GRI) under our GRI methodology. Based on our estimate of a high probability of extraordinary support in case of financial distress, the A3 credit profile incorporates 3 notches of uplift from OPG's BCA of baa3.

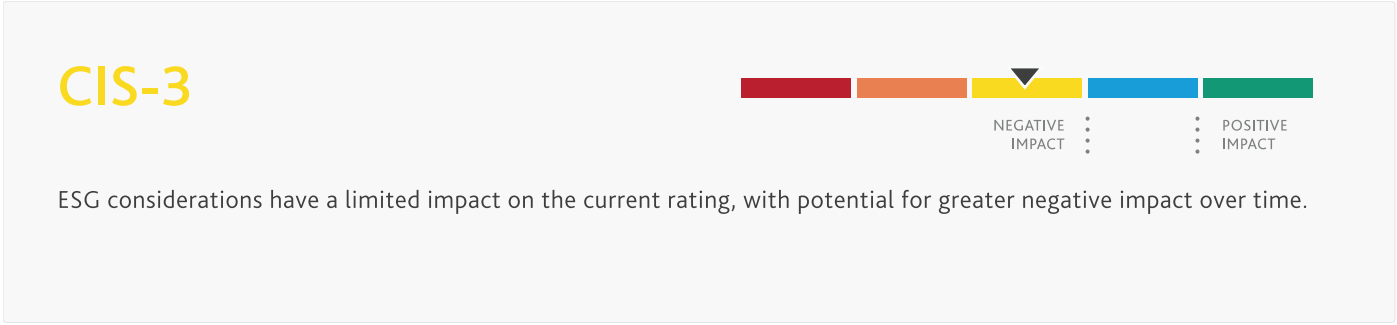
The company's ratings incorporate our expectation that extraordinary financial support to OPG would be forthcoming from the Province if needed. Our high support assumption considers that OPG produces more than half of the power in the Province at a comparatively low cost, making its infrastructure essential to the Ontario economy. OPG also implements government policy which can have negative credit implications. For example, in an effort to reduce and smooth rate increases for customers, Ontario Regulation 53/05 mandated the creation of the rate smoothing and deferral account (RSDA), including the financing of the RSDA at the long term debt rate and recovery over a 10 year period after the Darlington refurbishment is complete. The Province also appoints OPG's board, reviews its business plans and is a source of debt financing through the OEFC. We do not believe there are any barriers that would prevent the Province from providing timely support.

Our assessment of high dependence reflects that both OPG and the Province largely rely on the same revenue base and share some political risks. While the OEFC is a source of financing, OPG has been increasing the level of its borrowing from public debt capital markets.

ESG considerations

Ontario Power Generation Inc.'s ESG credit impact score is CIS-3

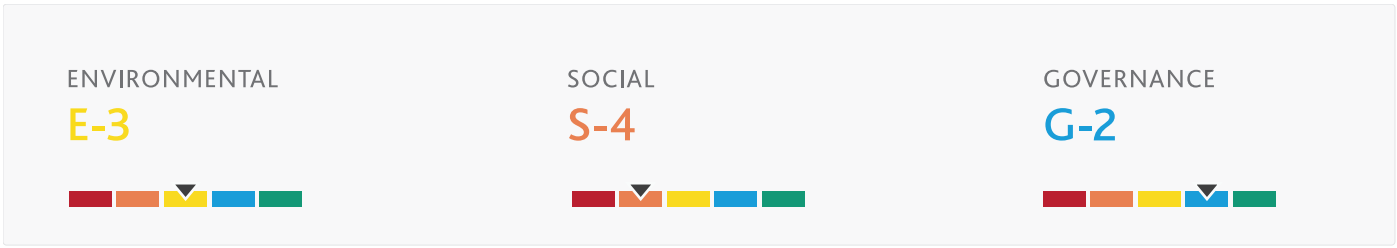
Exhibit 6
ESG credit impact score



Source: Moody's Ratings

OPG's **CIS-3** indicates that ESG considerations have a limited impact on the current credit rating with potential for greater negative impact over time as a result of physical climate risks and demographic and social trends related primarily to affordability.

Exhibit 7
ESG issuer profile scores



Source: Moody's Ratings

Environmental

OPG's **E-3** score reflects exposure to physical climate risks mostly due to extreme weather patterns which is a challenge for the sector. OPG's nuclear generation assets also have exposure to waste management and pollution risks. While the company has not had any issues with its nuclear fleet or nuclear waste, it remains an inherent risk for nuclear operators. The company has limited exposure to carbon transition risks owing to its portfolio of primarily nuclear and renewable assets.

Social

OPG's **S-4** score reflects the high risk related to demographic and societal trends associated with rate pressures as evidenced by some lengthy delays associated with recovering some costs. Factors contributing to rate pressures include more expensive sources of energy in the Province, particularly some high priced legacy renewable contracts.

Governance

OPG's **G-2** score is a function of its governance that is established by its sole owner. The company has some exposure to board structure, policies, & procedure risks resulting from its sole ownership by the Province of Ontario.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

OPG has an adequate liquidity profile driven by about CAD3.3 billion of available credit facilities, unrestricted cash and expected cash flow that together are sufficient to cover its uses for the next 12 months.

As of March 31, 2024, OPG had a CAD1 billion committed credit facility that expires in May 2028 and a USD750 million 364 day revolving committed facility that expires in November 2024 with a one year term out provision at the company's option. Both of these facilities backstop CAD1 billion and USD750 million commercial paper programs that had no commercial paper outstanding at December 2023. In addition, the company has drawings of CAD571 million available on a facility from the Canada Infrastructure Bank to support SMR investments that expires in Sept 2027 and CAD750 million undrawn on a facility with the OEFC that expires in December 2026.

The company has asset level facilities of CAD460 million committed at Lower Mattagami Energy Limited Partnership that expires in August 2028 and a USD20 million committed facility at OPG Eagle Creek Holdings LLC and subsidiaries that combined supported letters of credit of about CAD85 million. We have conservatively assumed that letters of credit of CAD445 million that are not allocated to above listed credit facilities are supported by corporate facilities and are not reflected in our calculations of available credit facilities.

Moody's forecasts cash flow from operations over the next twelve months to be close to the CAD2.4 billion it generated over the last twelve months. In addition to the available credit facilities of CAD3.3 billion and cash and cash equivalents (including restricted cash of CAD22 million at 31 December 2023) of CAD0.9 billion as of 31 March 2024, these sources should be sufficient to cover uses comprising CAD5-6 billion of expected capital expenditures and around CAD203 million of debt maturities in the next 12 months. We expect OPG will rely in part on debt to finance its ongoing capex and refinance its upcoming debt maturities. The company's liquidity position benefits from the lack of regular dividends payable to the Province.

There are material adverse change clauses in its credit facilities that could prevent borrowings under certain circumstances, a credit and liquidity negative. Moody's expects the company to manage its program maturities, cash on hand and its swing lines in a prudent fashion.

Rating methodology and scorecard factors

The principal methodology used for this rating is the Regulated Electric and Gas Utilities rating methodology. The scorecard- indicated outcome for our 12-18 months forward view is Baa1, two notches above the BCA of baa3 with the difference attributable to elevated capex risk and OPG's generation asset base compared to all peers having at least some lower risk transmission and distribution assets.

Exhibit 8

Methodology scorecard factors

Ontario Power Generation Inc.

Regulated Electric and Gas Utilities Industry Scorecard	Current LTM 3/31/2024		Moody's 12-18 Month Forward View	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	Baa	Baa	Baa	Baa
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	Ba	Ba	Ba	Ba
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	A	A	A	A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	6.5x	Aa	6x - 8x	Aa
b) CFO pre-WC / Debt (3 Year Avg)	21.7%	Baa	17% - 22%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	21.6%	A	17% - 22%	A
d) Debt / Capitalization (3 Year Avg)	35.2%	A	35% - 40%	A
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		Baa1		Baa1
HoldCo Structural Subordination Notching		0		0
a) Scorecard-Indicated Outcome		Baa1		Baa1
b) Actual Rating Assigned		A3		A3

Government-Related Issuer	**Factor**
a) Baseline Credit Assessment	baa3
b) Government Local Currency Rating	Aa3
c) Default Dependence	High
d) Support	High
e) Actual Rating Assigned	A3

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Moody's forecasts are Moody's opinion and do not represent the views of the issuer.

Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Appendix

Exhibit 9

Peer comparison

Ontario Power Generation Inc.

	Ontario Power Generation Inc. A3 Stable			Constellation Energy Generation, LLC Baa1 Stable			NextEra Energy, Inc. Baa1 Stable		
(in $ millions)	FY Dec-22	FY Dec-23	LTM Mar-24	FY Dec-21	FY Dec-22	FY Dec-23	FY Dec-22	FY Dec-23	LTM Mar-24
Re enue	5,651	5,510	5,468	19,649	24,440	24,918	20,956	28,114	27,129
CFO Pre- C	2,037	1,877	1,756	2,884	2,753	3,990	10,108	11,439	12,110
otal Debt	7,770	8,677	8,236	10,947	8,193	11,294	64,810	72,206	78,432
CFO Pre- C nterest nterest	6.5	7.2	6.5	8.7	8.7	8.9	15.0	4.2	5.6
CFO Pre- C Debt	25.2	22.1	21.2	26.3	33.6	35.3	15.6	15.8	15.4
CFO Pre-W/C – Dividends / Debt	25.0	22.0	21.1	9.6	31.3	24.4	10.3	10.5	10.3
Debt Capitali ation	33.6	33.6	32.7	41.7	36.2	43.6	52.2	50.5	52.1

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics™

Exhibit 10

Moody's – adjusted cash flow metrics

Ontario Power Generation Inc.

(in CAD millions)	2019	2020	2021	2022	2023	LTM Mar-24
FFO	**1,828.2**	**2,538.3**	**2,231.0**	**2,471.0**	**2,590.0**	**2,409.0**
- Ot er	472.0	81.0	68.0	178.0	(57.0)	(42.0)
CFO Pre-WC	**2,300.2**	**2,619.3**	**2,299.0**	**2,649.0**	**2,533.0**	**2,367.0**
+/- ΔWC	99.0	103.0	59.0	223.0	(114.0)	114.0
CFO	**2,399.2**	**2,722.3**	**2,358.0**	**2,872.0**	**2,419.0**	**2,481.0**
- Di	17.0	19.0	19.0	17.0	19.0	19.0
- Cape	1,851.2	1,663.3	1,943.0	2,432.0	2,782.0	2,864.0
FCF	**531.0**	**1,040.0**	**396.0**	**423.0**	**(382.0)**	**(402.0)**
(CFO Pre- C) Debt	19.1	17.0	18.1	25.2	22.1	21.2
(CFO Pre- C - Di idends) Debt	19.0	16.8	17.9	25.0	22.0	21.1
FFO Debt	15.2	16.4	17.6	23.5	22.6	21.6
RCF Debt	15.0	16.3	17.4	23.3	22.5	21.4
Re enue	6,022.0	7,240.0	6,877.0	7,349.0	7,434.0	7,371.0
nterest E pense	374.9	514.0	478.6	482.0	411.6	428.2
Net ncome	832.8	1,073.8	981.5	1,132.6	1,448.9	1,230.2
otal Assets	55,183.0	61,961.0	61,071.0	62,218.0	65,569.0	65,899.0
otal Liabilities	41,286.4	46,694.4	44,351.6	43,508.5	45,261.2	45,331.2
otal E uity	13,896.6	15,266.6	16,719.4	18,709.5	20,307.9	20,567.9

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Periods are fiscal year-end unless indicated.
Source: Moody's Financial Metrics™

Exhibit 11

Moody's – adjusted Debt reconciliation

Ontario Power Generation Inc.

(in CAD millions)	2019	2020	2021	2022	2023	LTM Mar-24
As reported debt	**8.4**	**10.4**	**9.8**	**10.2**	**10.5**	**10.2**
Pensions	3.6	5.0	2.9	0.3	0.9	0.9
Operating Leases	0.1	0.0	-	-	-	-
Non-Standard Adjustments	0.0	-	-	-	-	-
Moody's – adjusted debt	**12.0**	**15.5**	**12.7**	**10.5**	**11.4**	**11.1**

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Periods are fiscal year-end unless indicated.
Source: Moody's Financial Metrics™

Exhibit 12

Moody's – adjusted EBITDA reconciliation

Ontario Power Generation Inc.

(in CAD millions)	2019	2020	2021	2022	2023	LTM Mar-24
As reported EBITDA	**2.2**	**3.0**	**2.9**	**3.4**	**3.6**	**3.4**
Pensions	(0.0)	(0.2)	(0.1)	(0.2)	(0.2)	(0.2)
Operating Leases	0.0	0.0	-	-	-	-
nusual	(0.1)	-	(0.1)	(0.1)	-	-
Moody's – adjusted EBITDA	**2.1**	**2.9**	**2.7**	**3.0**	**3.4**	**3.2**

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Periods are fiscal year-end unless indicated.
Source: Moody's Financial Metrics™

Ratings

Exhibit 13

Category	Moody's Rating
ONTARIO POWER GENERATION INC.	
Outlook	Stable
Senior Unsecured -Dom Curr	A3
Commercial Paper	P-2

Source: Moody's Ratings

© 2024 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.
CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED OR OTHERWISE MADE AVAILABLE BY MOODY'S (COLLECTIVELY, "MATERIALS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S MATERIALS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S MATERIALS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND MATERIALS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND MATERIALS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND MATERIALS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES OR OTHERWISE MAKES AVAILABLE ITS MATERIALS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.
MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND MATERIALS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR MATERIALS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.
ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. FOR CLARITY, NO INFORMATION CONTAINED HEREIN MAY BE USED TO DEVELOP, IMPROVE, TRAIN OR RETRAIN ANY SOFTWARE PROGRAM OR DATABASE, INCLUDING, BUT NOT LIMITED TO, FOR ANY ARTIFICIAL INTELLIGENCE, MACHINE LEARNING OR NATURAL LANGUAGE PROCESSING SOFTWARE, ALGORITHM, METHODOLOGY AND/OR MODEL.
MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND MATERIALS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.
All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the credit rating process or in preparing its Materials.
To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.
To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.
NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.
Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Charter Documents - Director and Shareholder Affiliation Policy."
Moody's SF Japan K.K., Moody's Local AR Agente de Calificación de Riesgo S.A., Moody's Local BR Agência de Classificação de Risco LTDA, Moody's Local MX S.A. de C.V, I.C.V., Moody's Local PE Clasificadora de Riesgo S.A., and Moody's Local PA Calificadora de Riesgo S.A. (collectively, the "Moody's Non-NRSRO CRAs") are all indirectly wholly-owned credit rating agency subsidiaries of MCO. None of the Moody's Non-NRSRO CRAs is a Nationally Recognized Statistical Rating Organization.
Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.
Additional terms for India only: Moody's credit ratings, Assessments, other opinions and Materials are not intended to be and shall not be relied upon or used by any users located in India in relation to securities listed or proposed to be listed on Indian stock exchanges.
Additional terms with respect to Second Party Opinions (as defined in Moody's Investors Service Rating Symbols and Definitions): Please note that a Second Party Opinion ("SPO") is not a "credit rating". The issuance of SPOs is not a regulated activity in many jurisdictions, including Singapore. JAPAN: In Japan, development and provision of SPOs fall under the category of "Ancillary Businesses", not "Credit Rating Business", and are not subject to the regulations applicable to "Credit Rating Business" under the Financial Instruments and Exchange Act of Japan and its relevant regulation. PRC: Any SPO: (1) does not constitute a PRC Green Bond Assessment as defined under any relevant PRC laws or regulations; (2) cannot be included in any registration statement, offering circular, prospectus or any other documents submitted to the PRC regulatory authorities or otherwise used to satisfy any PRC regulatory disclosure requirement; and (3) cannot be used within the PRC for any regulatory purpose or for any other purpose which is not permitted under relevant PRC laws or regulations. For the purposes of this disclaimer, "PRC" refers to the mainland of the People's Republic of China, excluding Hong Kong, Macau and Taiwan.

REPORT NUMBER 1406438

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

S&P Global
Ratings

RatingsDirect®

Research Update:

Ontario Power Generation Inc. Ratings Affirmed On Acquistion Of Cube Hydro; Taken Off UCO; Outlook Stable

June 25, 2019

Rating Action Overview

- On June 25, 2019, Ontario Power Generation Inc. (OPG) announced the acquisition of Cube Hydro for about $1.12 billion.
- The acquisition signals the company's strategy to expand into the nonregulated power business, which we view as higher risk relative to its regulated utility operations. As a result, we revised the company's overall business risk to satisfactory from strong reflecting the increased exposure to unregulated business and cash flow.
- At the same time, we reviewed our ratings on OPG that we labeled as "under criteria observation" (UCO) after publishing our revised Ratios and Adjustments criteria on April 1, 2019.
- Following our review, we revised OPG's financial risk profile to significant from aggressive and comparable rating analysis modifier to neutral.
- Furthermore, we revised our financial policy modifier on OPG to negative, reflecting the potential for further debt-funded acquisitions over our outlook period that could materially increase the company's leverage.
- We affirmed our ratings on OPG, including the 'BBB+' issuer credit rating, the 'BBB+' senior unsecured debt rating, and the A-1(Low) Canada National Scale Commercial Paper rating.
- The stable outlook reflects our view of the steady relationship between the utility and the Government of Ontario and that OPG will continue to generate majority of its cash flow from its low-risk regulated generation operations.

PRIMARY CREDIT ANALYST

Andrew Ng
Toronto
+ 1 (416) 507 2545
andrew.ng
@spglobal.com

SECONDARY CONTACT

Obioma Ugboaja
New York
+ 1 (212) 438 7406
obioma.ugboaja
@spglobal.com

Rating Action Rationale

The affirmation reflects an improvement to the utility's financial position as a result of our revised Ratios and Adjustments criteria that was published on April 1, 2019. However, this improvement is offset by the company's new growth strategy to pursue higher risk nonregulated power generation

THIS WAS PREPARED EXCLUSIVELY FOR USER JONATHAN SOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

businesses through debt-funded acquisitions.

On June 25, 2019, OPG announced the acquisition of Cube Hydro for about $1.12 billion. OPG has steadily increased its cash flow contribution from nonregulated power generation sources over the past years. This is evident with the acquisition of Eagle Creek Renewable Energy LLC in August 2018. While we continue to expect the majority of OPG's cash flow will be backed by its stable regulated generation operations, the utility's nonregulated power operations has become a sizable part of OPG's overall cash flow profile, with about 20% of its EBITDA from nonregulated power generation. As a result, our decision to revise OPG's business risk to satisfactory from strong largely reflects the company's increased exposure and risk to nonregulated power.

Our business risk assessment on OPG continues to reflect the company's stable regulated electricity generation under a generally supportive regulatory framework and effective management of regulatory risk. OPG has a strong market position in Ontario, accounting for about half of the province's total electricity production in 2018. Moreover, Ontario has a strong and diverse economy with modest population growth that provides stable demand to electricity. Further supporting our business risk is OPG's diverse portfolio of generation assets in Ontario comprising two nuclear stations, 66 hydroelectric stations, one biomass station, one solar facility, one oil and gas-fired station, and two co-owned combined cycle gas-fired stations. Although the company's hydroelectric assets are exposed to hydrology risk, its multiple river systems partially mitigate this.

On its nonregulated power operations, the majority of cash flow is backed by long-term contracts with more than five years remaining, favorable rate constructs, investment-grade counterparties, and minimal exposure to electricity commodity risks. Furthermore, OPG's merchant power participates in the NYISO, PJM, and SERC power markets, which are well-established with predictable market rules.

From a financial perspective, we assess OPG's financial risk profile using our medial-volatility financial benchmark table, reflecting the company's lower-risk regulated electric generation operation and effective management of regulatory risk. The company's credit metrics, including funds from operation (FFO) to debt, improve modestly under the revised Ratios and Adjustments criteria. However, this is offset by the company's large capital plan that includes the Darlington refurbishment program and debt-funded acquisition growth strategy. Our base-case assumptions include capital expenditure of about C$2.0 billion per year, acquisition of Cube Hydro, approved rate case for 2017-2021, and recovery of deferral and variance accounts of C$535 million in 2019-2021. We forecast OPG's FFO to debt of about 13%-15% in 2019-2021. As part of our cash flow analysis, we exclude all cash flow and debt related to the Fair Hydro Plan, including about C$900 million of senior debt at Fair Hydro Trust (FHT).

We expect OPG's growth strategy to be primarily debt-funded over our outlook horizon. Due to the timing, quantum, and uncertain nature of acquisitions, leverage could become materially higher than our base-case forecast over time and depresses credit metrics. For this reason, we also revised our financial policy modifier to negative to capture these event risks.

Collectively, these revisions result in a stand-alone credit profile (SACP) of 'bb+' for OPG. In our view, there is a high likelihood that OPG's provincial owner, the Government of Ontario, will provide timely extraordinary support to the utility during periods of financial distress. We base this on our view that OPG plays an important role to Ontario because it supplies about half of the province's electricity. In addition, the utility also plays a vital role to Ontario's energy and environmental policies. Furthermore, the province has a track record of providing support, both directly and indirectly, to the utility. As a result, OPG's relationship with the government provides a three-notch rating enhancement to its SACP.

THIS WAS PREPARED EXCLUSIVELY FOR USER JONATHAN SOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that OPG will continue to generate the vast majority of its revenues from regulated generation operations, which provides stable and predictable cash flows, and that the company will not experience any adverse regulatory decisions, material delays, or cost overruns associated with the Darlington refurbishment plan. Furthermore, our outlook reflects a stable relationship between OPG and its owner, the Province of Ontario. During our two-year outlook period, we expect FFO to debt to be about 13%-15% in 2019 to 2020.

Downside scenario

We could take a negative rating action on OPG over the next 12 to 18 months if the company's financial measures show material deterioration with FFO to debt consistently below 11%. This could happen if the company experiences material delays and cost overruns in its Darlington refurbishment program, material adverse regulatory decisions, or significant debt-funded acquisitions. Alternatively, any downgrade to Ontario or unexpected deterioration in the relationship between OPG and Ontario could also result in a negative rating action.

Upside scenario

We could take a positive rating action on OPG if the utility's SACP improves by two notches. All else being equal with the relationship with the province, this would result in a one-notch upgrade to the utility. This could happen if the company improves its business risk by not pursuing nonregulated power operation, which has a higher industry risk, and improves its financial position with FFO to debt consistently above 25%. However, we view this as unlikely during our outlook period given OPG has a large capital plan to execute on the Darlington refurbishment project and the company's growth strategy to pursue unregulated power operation.

Company Description

OPG is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario. The utility supplies about half of the electricity in the province and is wholly owned by the Province of Ontario, which also holds a majority of the company's long-term debt. The company is the largest clean energy generator in Ontario, with an in-service capacity of about 16,344 megawatts.

Our Base-Case Scenario

- OPG continues to focus on regulated electricity generation with regulated and nonregulated cash flow mix at about 80% and 20%, respectively.
- The Ontario Energy Board, the provincial regulator, will continue to operate in a transparent, stable, and predictable manner.
- The utility will not experience any adverse regulatory decisions.
- Capital spending will average about C$2.0 billion per year, including the Darlington refurbishment project, which we expect will not incur material cost overruns or delays.

THIS WAS PREPARED EXCLUSIVELY FOR USER JONATHAN SOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

- Acquisition of Cube Hydro for about $1.12 billion.

Liquidity

We assess OPG'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. Moreover, liquidity should benefit from the company's likely ability to absorb high-impact, low-probability events without the need for refinancing, its well-established and solid relationships with banks, and its satisfactory standing in the credit markets. In the event of unexpected financial stress, we expect the utility would scale back on its capital expenditures to preserve the credit metrics.

Principal Liquidity Sources:

- Cash and liquid investments available of about C$511 million as of first quarter of 2019;
- Cash FFO of about C$1.6 billion over the next 12 months; and
- Committed credit facilities availability of about C$1.11 billion.

Principal Liquidity Uses:

- Debt maturities of about C$642 million including short-term borrowings;
- Maintenance capital expenditures of about C$702 million over the next 12 months; and
- Acquisition of Cube Hydro for about $1.12 billion (C$1.5 billion).

Issue Ratings - Subordination Risk Analysis

Capital structure

OPG's capital structure consists of about C$7.2 billion in long- and short-term debt, excluding the FHT senior secured debt, of which about C$2.4 billion is secured project debt with the remaining C$4.8 billion unsecured as of March 31, 2019.

Analytical conclusions

We rate the senior unsecured debt 'BBB+', the same as the issuer credit rating on the utility, because priority debt is less than 50% of total consolidated debt. We also rate OPG's commercial paper at A-1(Low) on the Canadian National Scale.

Ratings Score Snapshot

Issuer Credit Rating: BBB+/Stable/--

Business risk: Satisfactory

- Country risk: Very low
- Industry risk: Low

THIS WAS PREPARED EXCLUSIVELY FOR USER JONATHAN SOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

- Competitive position: Satisfactory

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: bbb-

Modifiers

- Diversification/Portfolio effect: Neutral
- Capital structure: Neutral
- Financial policy: Negative (-1 notch)
- Liquidity: Adequate
- Management and governance: Satisfactory
- Comparable rating analysis: Neutral

Stand-alone credit profile: bb+

- Related government rating: A+
- Likelihood of government support: High (+3 notches from SACP)

Related Criteria

- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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
- Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 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, 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

THIS WAS PREPARED EXCLUSIVELY FOR USER JONATHAN SOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Ratings List

Ratings Affirmed	
Ontario Power Generation Inc.	
Issuer Credit Rating	BBB+/Stable/--
Ontario Power Generation Inc.	
Senior Unsecured	BBB+
Commercial Paper	A-1(LOW)

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

THIS WAS PREPARED EXCLUSIVELY FOR USER JONATHAN SOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

THIS WAS PREPARED EXCLUSIVELY FOR USER JONATHAN SOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

S&P Global
Ratings

RatingsDirect®

Research Update:

Ontario Power Generation Inc. Outlook Revised To Negative From Stable, Ratings Affirmed On Gas Asset Acquisitions

July 30, 2019

Rating Action Overview

- On July 30, 2019, Toronto-based utility company Ontario Power Generation Inc. (OPG) announced the acquisition of several gas-generation assets from affiliates of TC Energy for about C$2.87 billion
- OPG also announced the acquisition of the remaining 50% interest in Brighton Beach, a combined-cycle natural gas-fired generation station, from Canadian Utilities Ltd., an ATCO subsidiary.
- The acquisitions continue OPG's strategy to expand into additional nonregulated power operations, which we view as higher risk than its regulated utility operations. Given our view of OPG's higher business risk, we are revising our ratings downside threshold to 13%, resulting in limited cushion for the current ratings on OPG.
- We are revising our outlook on OPG to negative from stable.
- We are also affirming our ratings on OPG, including the 'BBB+' issuer credit rating, the 'BBB+' senior unsecured debt rating, and the 'A-1(Low)' Canada National Scale commercial paper rating.
- The negative outlook reflects the potential for limited cushion in OPG's credit metrics upon closing of the transaction, additional acquisitions over our outlook horizon that could further stress credit metrics and execution and integration risks associated with recent transactions.

PRIMARY CREDIT ANALYST

Andrew Ng
Toronto
+ 1 (416) 507 2545
andrew.ng
@spglobal.com

SECONDARY CONTACT

Obioma Ugboaja
New York
+ 1 (212) 438 7406
obioma.ugboaja
@spglobal.com

Rating Action Rationale

The negative outlook follows OPG's announced acquisitions of several gas-generation assets from affiliates of TC Energy and Canadian Utilities Ltd. In June 2019, OPG also announced the acquisition of Cube Hydro for about $1.12 billion. We view these as indicative of OPG's strategy to expand its higher risk nonregulated footprint. In addition, the timing of the transactions raises both execution and integration risks. As such, we revised our ratings downside threshold to 13%,

THIS WAS PREPARED EXCLUSIVELY FOR USER JONATHAN SOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

potentially resulting in limited cushion for current ratings on OPG.

We expect these transactions could increase OPG's total debt position by up to about C$4.6 billion over the next 12 months, more than half of its current outstanding long- and short-term debt of about C$8 billion as of March 31, 2019. Although this is offset by cash flow generated by the assets, the large quantum of debt increases over a short period will stress credit metrics in the short term and leaves little room for any operational underperformance or integration issues.

Our business risk assessment continues to reflect OPG's stable regulated electricity generation operation under a generally supportive regulatory framework and effective management of regulatory risk. We expect regulated operation will continue to provide about 70% of OPG's cash flow. Although the transaction will increase the utility's unregulated power exposure, contributing about 30% of overall cash flow, this is offset by long-term contracts with more than five years remaining, favorable rate constructs, investment-grade counterparties, and minimal exposure to electricity commodity risks.

From a financial perspective, we continue to assess OPG's financial risk profile using our medial-volatility financial benchmark table, reflecting the company's lower-risk regulated electric generation operation and effective management of regulatory risk. Although our revised Ratios and Adjustments criteria provide some benefits to OPG's credit metrics, including funds from operation (FFO) to debt, this is offset by the company's large capital plan that includes the Darlington refurbishment program and acquisitions. Our base-case assumptions include capital expenditure (capex) of about C$2 billion per year, the acquisition of Cube Hydro and gas-generation assets total about C$4.6 billion, approved rate case for 2017-2021, and recovery of deferral and variance accounts of C$535 million in 2019-2021. We forecast FFO to debt of about 13% in 2019-2021. As part of our cash flow analysis, we continue to exclude all cash flow and debt related to the Fair Hydro Plan, including about C$900 million of senior debt at Fair Hydro Trust (FHT).

In addition, our ratings on OPG also reflect the potential for further acquisitions over our outlook horizon that could pressure credit metrics. Thus, we continue to apply a negative financial policy modifier.

Our view of the relationship between OPG and its provincial owner, the Government of Ontario, is unchanged. We continue to believe there is a high likelihood that the province will provide timely extraordinary support during financial distress. We base this on our view that OPG plays an important role to Ontario by supplying about half of Ontario's electricity. The utility also plays a vital role in Ontario's energy and environmental policies. Furthermore, the province has a track record of providing support, both directly and indirectly, to the utility. As a result, OPG's relationship with the government provides a three-notch rating enhancement to its stand-alone credit profile (SACP).

Outlook

The negative outlook reflects the potential for limited cushion in OPG's credit metrics and weak financial measures as a result of recent acquisitions. Furthermore, the negative outlook also reflects the potential for additional acquisitions during our outlook period that could further stress credit metrics and the execution and integration risks associated with the transaction. During our two-year outlook period, we expect FFO to debt of about 13% from 2019-2020.

Downside scenario

THIS WAS PREPARED EXCLUSIVELY FOR USER JONATHAN SOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

We could downgrade OPG over the next 12-18 months if its financial measures deteriorate, with FFO to debt consistently below 13%. This could happen with material delays and cost overruns in its Darlington refurbishment program, material adverse regulatory decisions, or significant debt-funded acquisitions. Alternatively, any downgrade of Ontario or unexpected deterioration in the relationship between OPG and Ontario could also result in a downgrade.

Upside scenario

We could revise the outlook on OPG to stable if it improves its financial measures upon close of the transaction with FFO to debt consistently above 15%. Alternatively, we could also revise the outlook if OPG shows financial discipline in its acquisition strategy.

Company Description

OPG is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity. The utility supplies about half of the electricity in the province and is wholly owned by the Province of Ontario, which also holds a majority of OPG's long-term debt. OPG is the largest clean energy generator in Ontario, with an in-service capacity of about 16,344 megawatts.

Our Base-Case Scenario

- OPG continues to focus on regulated electricity generation, with regulated cash flow of 70% and nonregulated 30%.
- The Ontario Energy Board, the provincial regulator, continues to operate in a transparent, stable, and predictable manner.
- The utility will not experience any adverse regulatory decisions.
- Capital spending will average about C$2 billion per year, including the Darlington refurbishment project, which we expect will not incur material cost overruns or delays.
- Acquisition of Cube Hydro and gas-generation assets total for about C$4.6 billion.

Liquidity

We assess OPG's liquidity as adequate because we believe its 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. Moreover, liquidity should benefit from the company's likely ability to absorb high-impact, low-probability events without the need for refinancing, well-established and solid relationships with banks, and satisfactory standing in the credit markets. In the event of unexpected financial stress, we expect the utility would scale back capex to preserve credit metrics.

Principal liquidity sources:

- About C$511 million cash and liquid investments available as of the first quarter of 2019;
- Cash FFO of about C$1.7 billion over the next 12 months; and
- Committed credit facilities availability of about C$1.91 billion.

THIS WAS PREPARED EXCLUSIVELY FOR USER JONATHAN SOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Principal liquidity uses:

- Debt maturities of about C$642 million, including short-term borrowings;
- Maintenance capex of about C$700 million; and
- Acquisition of Cube Hydro and gas-generation assets for about C$1.7 billion, closing in 2019.

Issue Ratings - Subordination Risk Analysis

Capital structure

OPG's capital structure consists of about C$7.2 billion in long- and short-term debt, excluding the FHT senior secured debt, of which about C$2.4 billion is secured project debt and the remaining C$4.8 billion is unsecured as of March 31, 2019.

Analytical conclusions

We rate the senior unsecured debt 'BBB+', the same as the issuer credit rating on the utility, because priority debt is less than 50% of total consolidated debt. We also rate OPG's commercial paper 'A-1(Low)' on the Canadian National Scale.

Ratings Score Snapshot

Issuer Credit Rating	BBB+/Negative/--
Business risk	Satisfactory
Country risk	Very low
Industry risk	Low
Competitive position	Satisfactory
Financial risk	Significant
Cash flow/Leverage	Significant
Anchor	bbb-
Modifiers	
Diversification/Portfolio effect	Neutral
Capital structure	Neutral
Financial policy	Negative (-1 notch)
Liquidity	Adequate
Management and governance	Satisfactory
Comparable rating analysis	Neutral
Stand-alone credit profile	bb+
Related government rating	A+
Likelihood of government support	High (+3 notches from SACP)

THIS WAS PREPARED EXCLUSIVELY FOR USER JONATHAN SOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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
- Criteria | Corporates | Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, 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, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Ontario Power Generation Inc.		
Issuer Credit Rating	BBB+/Negative/--	BBB+/Stable/--
Ratings Affirmed		
Ontario Power Generation Inc.		
Senior Unsecured	BBB+	
Commercial Paper	A-1(LOW)	

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

THIS WAS PREPARED EXCLUSIVELY FOR USER JONATHAN SOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

THIS WAS PREPARED EXCLUSIVELY FOR USER JONATHAN SOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

S&P Global
Ratings

RatingsDirect®

Ontario Power Generation Inc.'s US$750 Million Commercial Paper Program Rated 'A-2'

December 2, 2019

TORONTO (S&P Global Ratings) Dec. 2, 2019--S&P Global Ratings today assigned its 'A-2' rating to Ontario Power Generation Inc.'s (OPG) US$750 million commercial paper (CP) program. This is based on our 'BBB+' long-term issuer credit ratings on OPG.

The notes issued under the CP program are unsecured and rank pari passu with OPG's other unsecured and unsubordinated indebtedness.

PRIMARY CREDIT ANALYST

Andrew Ng
Toronto
+ 1 (416) 507 2545
andrew.ng
@spglobal.com

SECONDARY CONTACTS

Obioma Ugboaja
New York
+ 1 (212) 438 7406
obioma.ugboaja
@spglobal.com

Mayur Deval
Toronto
(1) 416-507-3271
mayur.deval
@spglobal.com

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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
- Criteria | Corporates | Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, 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, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

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

THIS WAS PREPARED EXCLUSIVELY FOR USER JONATHAN SOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

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

THIS WAS PREPARED EXCLUSIVELY FOR USER JONATHAN SOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

THIS WAS PREPARED EXCLUSIVELY FOR USER JONATHAN SOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

S&P Global
Ratings

Research

Research Update:

Ontario Power Generation Inc. Outlook Revised To Stable From Negative; 'BBB+' Rating Affirmed

July 17, 2020

Rating Action Overview

- Toronto-based utility company Ontario Power Generation Inc. (OPG) recently completed the refurbishment of the Darlington Nuclear Generating Station Unit 2, on time and on budget. Unit 2's refurbishment is the first of four units S&P Global Ratings expects the company will complete by 2026. The company's on-time and on-budget record increases our confidence that the other three units will also be completed without incurring project delays or materially higher costs.
- Earlier this year, OPG completed the acquisition of several contracted gas-generation assets. We believe that the company will pause on its significant acquisition strategy for at least the next one to two years, leading to more certain and less volatile cash flows.
- We are revising our outlook on OPG to stable from negative and affirming our ratings on OPG, including the 'BBB+' issuer credit rating, the 'BBB+' senior unsecured debt rating, commercial paper rating of A-2, and the 'A-1(Low)' Canada National Scale commercial paper rating. We are also revising upwards our business risk profile on OPG to strong from satisfactory.
- The stable outlook incorporates OPG's recently improved operating performance and our view for more stable volatile cash flows, reflecting our expectations that the company will pause on its acquisition strategy, continue to effectively manage regulatory risk, and our increased confidence that future nuclear refurbishments will be completed on time and on budget. We also expect that funds from operations (FFO) to debt will reflect 14%-15%.

PRIMARY CREDIT ANALYST

Mayur Deval
Toronto
(1) 416-507-3271
mayur.deval
@spglobal.com

SECONDARY CONTACT

Andrew Ng
Toronto
+ 1 (416) 507 2545
andrew.ng
@spglobal.com

Rating Action Rationale

We revised the outlook to stable from negative. The company's recent refurbishment of the Darlington Nuclear Generating Station Unit 2 and our expectations that the company will temporarily pause its significant acquisition strategy increase our confidence that future cash flows will be less volatile. Also, for 2019 the company's financial measures exceeded our expectations, reflecting operational improvements and effective cost management. We expect these improvements will be sustained and lead to consistently improved financial performance. We previously expected FFO to debt of about 13% and our revised base case expects FFO to debt

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

of 14%-15%.

We revised the business risk profile upwards to strong from satisfactory. Our revised business risk profile reflects our expectations for more stable and predictable cash flows. The business risk profile is supported by the company's regulated operation that constitutes about 70% of consolidated EBITDA and is regulated by the Ontario Energy Board (OEB). The company benefits from the generally supportive regulatory environment that includes using an incentive ratemaking methodology for hydroelectric and a custom incentive regulation framework for nuclear. In addition, the company uses various regulatory mechanisms, which smooth cash flow and we view as supportive of credit quality.

The business risk profile is hurt by the company's growing contracted unregulated power exposure, which will contribute about 30% of consolidated EBITDA. The contracted unregulated power business increases the company's volumetric, operational, and commodity risks. These risks are partially offset by the business' long-term contracts with creditworthy counterparties. Because of OPG's unregulated power exposure, we assess the company at the lower end of the range for its business risk profile category, compared to peers. We assess the comparable rating analysis modifier as negative to reflect these higher risks.

The company's financial measures are modestly improving but still at the lower end of the range for the significant financial risk profile category. We revised our financial expectations for the company upwards, reflecting operational improvements, effective cost management, and reduced capital spending. Specifically, we expect FFO to debt of 14%-15% compared to our previous expectations of 13%. The improvement primarily reflects our expectations for increased generation availability and electricity output. We also expect operation and maintenance costs will be generally flat reflecting some cost increases that are offset by enhanced productivity. In addition, we expect 2020 capital spending will be about C$100 million lower.

We continue to assess OPG's financial risk profile using our medial-volatility financial benchmark table, reflecting the company's lower-risk regulated electric generation operation and effective management of regulatory risk. Under our base-case forecast that includes fewer planned outage days for nuclear plants in 2020, average annual capital expenditure of about C$2 billion, approved rate case for 2017-2021, and no significant acquisitions for the next one to two years, we forecast FFO to debt around 14%-15% for 2020-2022, consistent with the lower end of the range for its financial risk profile category. We assess the comparable rating analysis modifier as negative to account for these relatively weak financial measures for its financial risk profile category.

We assess the financial policy modifier and the comparable ratings analysis modifier as negative, lowering the company's standalone credit profile by two notches. We continue to assess the financial policy modifier as negative to account for the company's longer-term strategy of generally growing through acquisitions that can result in significantly weaker financial measures than in our base case. Despite our near-term expectation that the company will pause on acquisitions, we expect that after this pause the company will likely resume with acquisitions. Because the company does not rely on equity contributions from its parent such acquisitions could result in significantly weaker financial measures.

We assess the comparable rating analysis modifier as negative to reflect our expectations that the company's business and financial risk profiles are at the lower-end of the range for their respective categories.

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

We assess the government of Ontario as highly likely to provide extraordinary support for OPG. Our ratings on OPG incorporates a high likelihood that OPG's provincial owner, the Government of Ontario, will provide extraordinary support to the utility during periods of financial distress. OPG plays an important role to Ontario because it supplies about half of the province's electricity and the utility plays a vital role to Ontario's energy/environmental policies. In addition, the province has a track record of providing support, both directly and indirectly, to the utility. Our assessment of high likelihood of extraordinary government provides three-notch rating enhancement for OPG.

Outlook

The stable outlook incorporates our view for more stable cash flows, reflecting our expectations that the company will pause on its acquisition strategy, continue to effectively manage regulatory risk, and our increased confidence that future nuclear refurbishments will be completed on time and on budget. We also expect funds from operations (FFO) to debt of 14%-15%.

Downside scenario

We could take a negative rating action on OPG over the next 12-18 months if the company's financial measures weaken, reflecting FFO to debt consistently below 13%. This could happen if the company experiences delays and cost overruns at its Darlington refurbishment program, adverse regulatory decisions, or significant debt-funded acquisitions. Alternatively, a downgrade to the Province of Ontario or an unexpected deterioration in the relationship between OPG and Ontario could also result in a negative rating action.

Upside scenario

Although highly unlikely, we could take a positive rating action on OPG over the next 24 months if there is no change to the company's relationship with the Province of Ontario, the company's nonutility businesses do not grow through additional acquisitions, and the company's financial measures materially improve, reflecting FFO to debt consistently greater than 20%.

Company Description

OPG is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario. The utility supplies about half of the electricity in the province and is wholly owned by the Province of Ontario, which also holds a significant portion of the company's long-term debt. The company is the largest clean energy generator in Ontario, with an in-service capacity of about 18,000 megawatts.

Our Base-Case Scenario

- OPG continues to focus on regulated electricity generation with regulated and nonregulated cash flow mix at about 70% and 30%, respectively.
- OEB, the provincial regulator, will continue to operate in a transparent, stable, and predictable manner.
- The utility will not experience any adverse regulatory decisions.

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

- Capital spending will average about C$2 billion per year, including the Darlington refurbishment project, which we expect will not incur material cost overruns or delays.
- No significant acquisitions during our outlook period.

Liquidity

We assess OPG'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. Moreover, liquidity should benefit from the company's likely ability to absorb high-impact, low-probability events without the need for refinancing, its well-established and solid relationships with banks, and its satisfactory standing in the credit markets. In the event of unexpected financial stress, we expect the utility would scale back on its capital expenditures to preserve the credit metrics.

Principal Liquidity Sources:

- Estimated cash and liquid investments available of about C$500 million;
- Forecasted cash FFO of about C$2.36 billion; and
- Available credit facilities of about C$1.7 billion.

Principal Liquidity Uses:

- Debt maturities, including commercial paper outstanding of about C$1.1 billion;
- Capital expenditures of about C$2 billion over the next 12 months;
- Working capital requirements of about C$50 million; and
- Payments of dividends to non-controlling interests of about C$20 million.

Issue Ratings - Subordination Risk Analysis

Capital structure

OPG's capital structure consists of about C$8.8 billion in long- and short-term debt, of which about C$2.87 billion is secured project debt with the remaining C$5.9 billion unsecured as of March 31, 2020.

Analytical conclusions

We rate the senior unsecured debt 'BBB+', the same as the issuer credit rating on the utility, because priority debt is less than 50% of total consolidated debt. We also rate OPG's commercial paper at 'A-1(Low)' on the Canadian National Scale.

Ratings Score Snapshot

Issuer Credit Rating: BBB+/Stable/--

Business risk: Strong

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

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

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: bbb

Modifiers

- Diversification/Portfolio effect: Neutral
- Capital structure: Neutral
- Financial policy: Negative (-1 notch)
- Liquidity: Adequate
- Management and governance: Satisfactory
- Comparable rating analysis: Negative (-1 notch)
- Stand-alone credit profile: bb+

Related government rating: A+

Likelihood of government support: High (+3 notches from SACP)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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
- Criteria | Corporates | Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, 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

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Entities, Nov. 13, 2012

- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Ontario Power Generation Inc.		
Issuer Credit Rating	BBB+/Stable/--	BBB+/Negative/--
Ratings Affirmed		
Ontario Power Generation Inc.		
Senior Unsecured	BBB+	
Commercial Paper	A-1(LOW)	
Commercial Paper	A-2	

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

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Copyright © 2024 Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

S&P Global
Ratings

RatingsDirect®

Ontario Power Generation Inc.

Primary Credit Analysts:
Mayur Deval, Toronto (1) 416-507-3271; mayur.deval@spglobal.com
Omar El Gamal, Toronto; omar.elgamal@spglobal.com

Secondary Contacts:
Andrew Ng, Toronto + 1 (416) 507 2545; andrew.ng@spglobal.com
Gerrit W Jepsen, CFA, New York + 1 (212) 438 2529; gerrit.jepsen@spglobal.com

Research Assistant:
Naman Agarwal, Pune

Table Of Contents

Credit Highlights

Outlook

Our Base-Case Scenario

Company Description

Peer Comparison

Business Risk

Financial Risk

Liquidity

Environmental, Social, And Governance

Group Influence

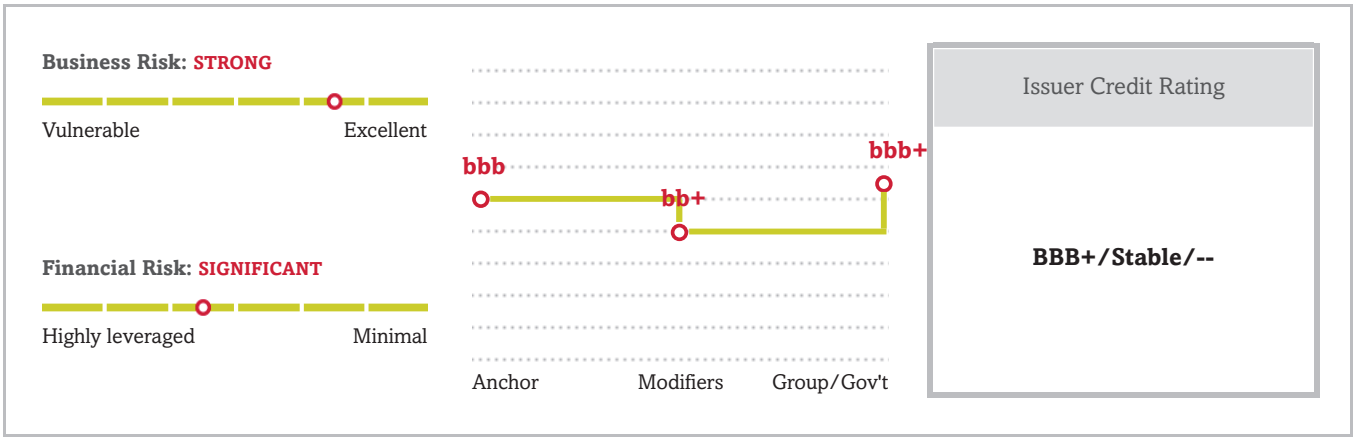
Issue Ratings - Subordination Risk Analysis

Table Of Contents (cont.)

Ratings Score Snapshot

Related Criteria

Ontario Power Generation Inc.



Credit Highlights

Overview

Key strengths	Key risks
Lower-risk, rate-regulated utility operations.	Limited geographical and regulatory diversity.
Diverse portfolio of power-generating assets.	Refurbishment of legacy nuclear generation plants exposes company to execution risks.
High likelihood of extraordinary government support.	

The Darlington Nuclear Plant refurbishment project exposes Ontario Power Generation Inc. (OPG) to execution risk. The refurbishment project that started in 2016 is still in progress and has remained on course for timely completion, even with a slight delay of Unit 3 due to COVID-19. OPG expects to complete the project within the C$12.8 billion budget. Any material cost overruns could weaken credit measures.

Regulatory approval of hydroelectric base regulated prices for the 2021-2026 period will provide consistent cash flow without major deviations from the current trend. The Ontario Energy Board (OEB) approved the annual formulaic adjustment to increase the base regulated price for OPG's regulated hydroelectric facilities for the year 2021 and set OPG's hydroelectric base regulated price from January 1, 2022, through Dec. 31, 2026, equal to the 2021 hydroelectric base regulated rate. The rate base approved is similar to current trends and does not affect the revenue trend of OPG's hydroelectric segment. This will help OPG maintain stable cash flows through the approved periods.

Deferral of planned maintenance outages and refurbishment delays caused by COVID-19 had a positive effect on 2020 financial results. In 2020, due to COVID-19, OPG's financial measures strengthened from maintenance deferrals, reducing operating expenses, and the Darlington refurbishment delay, increasing electricity production. In addition, the recently acquired natural gas fleet at Atura Power added to generation output and cash flow. Financial metrics also benefited from higher regulated rates.

OPG continues to invest in its nuclear generation. In addition to the Darlington refurbishment project, OPG is working on installing small modular nuclear reactors at Darlington.

Outlook: Stable

The stable outlook incorporates our view for more stable cash flows, reflecting our expectations that the company will pause on its acquisition strategy, continue to effectively manage regulatory risk, and our increased confidence that future nuclear refurbishments will be completed on time and on budget. We also expect funds from operations (FFO) to debt of 13%-15%.

Downside scenario

We could take a negative rating action on OPG over the next 12-18 months if the company's financial measures weaken, reflecting FFO to debt consistently below 13%. This could happen if the company experiences delay and cost overruns at its Darlington refurbishment program, adverse regulatory decisions, or significant debt-funded acquisitions. Alternatively, a downgrade to the Province of Ontario or an unexpected deterioration in the relationship between OPG and the province could also result in a negative rating action.

Upside scenario

Although highly unlikely, we could take a positive rating action on OPG over the next 24 months if there is no change to the company's relationship with the Province of Ontario, the company's nonutility businesses do not grow through additional acquisitions, and the company's financial measures materially improve, reflecting FFO to debt consistently greater than 20%.

Our Base-Case Scenario

Assumptions

- OPG will continue to focus on regulated electricity generation businesses in Ontario.
- Annual capital spending of about C$2.4 billion per year in 2021-2023.
- Dividend payments averaging about C$20 million per year in 2021-2023.
- Consistent base regulated prices for hydroelectric generation for the 2022-2026 period.
- No material acquisitions.
- All debt maturities are refinanced.

Key metrics

Ontario Power Generation Inc.--Key Metrics

	2021e	2022f	2023f
FFO to debt (%)	13-15	12-14	12-14
Debt to EBITDA (x)	6-6.6	6-6.6	6-6.6

Ontario Power Generation Inc.--Key Metrics (cont.)

	2021e	2022f	2023f
FFO cash interest coverage (x)	6-6.5	6-6.5	5.5-6

e--Estimated. f--Forecast. FFO--Funds from operations.

Company Description

OPG is an Ontario-based electricity generation company. OPG's generation fleet has about 18,900 megawatts (MW) of capacity. OPG is wholly owned by the Province of Ontario.

Peer Comparison

Table 1

Ontario Power Generation Inc.--Peer Comparison

Industry Sector: Electric

	Ontario Power Generation Inc.	Hydro One Inc.	ENMAX Corp.	ATCO Ltd.
Ratings as of July 28, 2021	BBB+/Stable/--	A-/Stable/A-2	BBB-/Negative/--	A-/Negative/--
	--Fiscal year ended Dec. 31, 2020--			
(Mil. C$)				
Revenue	7,240.0	7,250.0	2,626.2	3,944.0
EBITDA	3,412.0	2,377.0	680.6	1,712.0
Funds from operations (FFO)	2,779.1	1,837.1	510.4	1,236.5
Interest expense	417.9	515.0	172.9	465.5
Cash interest paid	391.9	507.0	156.7	444.5
Cash flow from operations	2,722.1	1,946.1	546.0	1,359.5
Capital expenditure	1,653.0	1,786.0	449.1	1,015.0
Free operating cash flow (FOCF)	1,069.1	160.1	96.9	344.5
Discretionary cash flow (DCF)	1,050.1	(450.0)	42.9	(142.0)
Cash and short-term investments	889.0	712.0	27.9	1,064.0
Debt	15,814.0	15,952.5	4,381.2	9,835.3
Equity	15,532.0	10,898.0	2,416.5	7,114.0
Adjusted ratios				
EBITDA margin (%)	47.1	32.8	25.9	43.4
Return on capital (%)	7.2	5.8	6.2	6.5
EBITDA interest coverage (x)	8.2	4.6	3.9	3.7
FFO cash interest coverage (x)	8.1	4.6	4.3	3.8
Debt/EBITDA (x)	4.6	6.7	6.4	5.7
FFO/debt (%)	17.6	11.5	11.6	12.6
Cash flow from operations/debt (%)	17.2	12.2	12.5	13.8
FOCF/debt (%)	6.8	1.0	2.2	3.5
DCF/debt (%)	6.6	(2.8)	1.0	(1.4)

Business Risk: Strong

A strong business risk profile reflects our expectations for more stable and predictable cash flows. The business risk profile is supported by the company's regulated operation that constitutes about 70% of consolidated EBITDA and is regulated by the OEB. The company benefits from the generally supportive regulatory environment that includes using an incentive ratemaking methodology for hydroelectric and a custom incentive regulation framework for nuclear. In addition, the company uses various regulatory mechanisms, which smooth cash flow and we view as supportive of credit quality.

The business risk profile is affected by the company's growing contracted nonregulated generation, which will contribute about 30% of consolidated EBITDA. The contracted nonregulated power business increases the company's volumetric, operational, and commodity risks. These risks are partially offset by the business' long-term contracts with creditworthy counterparties. Because of OPG's nonregulated power exposure, we assess the company at the lower end of the range for its business risk profile category, as compared to peers.

Financial Risk: Significant

Under our base-case scenario, which assumes capital spending averaging about C$2.4 billion per year and dividend payments of about C$20 million, we expect FFO to debt of about 13%-15% in 2021. This measure weakens into the 12%-14% range in 2022 and 2023 due to the refurbishment of multiple units at the Darlington Station. We also anticipate that OPG's adjusted debt to EBITDA will average in the 6x-6.6x range over the next few years. Over the same period, our supplemental ratio of adjusted FFO cash interest coverage will be about 5.5x-6.5x, bolstering our financial risk profile assessment. We do not expect material negative discretionary cash flow in the next few years, limiting external funding needs that could include debt issuances. We base our assessment on our medial-volatility table financial benchmarks, reflecting the company's lower-risk regulated electric generation operations and effective management of regulatory risk. These benchmarks are more relaxed than those we use for typical corporate issuers.

Financial summary

Table 2

Ontario Power Generation Inc.--Financial Summary

Industry Sector: Electric

	--Fiscal year ended Dec. 31--				
	2020	**2019**	**2018**	**2017**	**2016**
(Mil. C$)					
Revenue	7,240.0	6,022.0	5,474.0	5,144.1	5,653.0
EBITDA	3,412.0	2,460.0	2,019.0	1,609.1	2,225.0
Funds from operations (FFO)	2,779.1	1,860.2	1,530.4	1,159.2	1,849.3
Interest expense	417.9	346.8	277.7	292.9	351.7
Cash interest paid	391.9	299.8	286.6	254.9	277.7
Cash flow from operations	2,722.1	2,399.2	1,510.4	797.2	1,575.3

Table 2

Ontario Power Generation Inc.--Financial Summary (cont.)

Industry Sector: Electric

	--Fiscal year ended Dec. 31--				
	2020	**2019**	**2018**	**2017**	**2016**
Capital expenditure	1,653.0	1,837.0	1,635.0	1,691.0	1,563.0
Free operating cash flow (FOCF)	1,069.1	562.2	(124.6)	(893.8)	12.3
Discretionary cash flow (DCF)	1,050.1	545.2	(425.6)	(908.8)	(1.7)
Cash and short-term investments	889.0	648.0	349.0	418.0	186.0
Gross available cash	889.0	648.0	349.0	418.0	398.0
Debt	15,814.0	13,175.0	11,437.4	10,583.2	9,706.9
Equity	15,532.0	14,275.0	13,127.0	11,911.0	10,508.0
Adjusted ratios					
EBITDA margin (%)	47.1	40.9	36.9	31.3	39.4
Return on capital (%)	7.2	5.4	5.2	4.4	5.0
EBITDA interest coverage (x)	8.2	7.1	7.3	5.5	6.3
FFO cash interest coverage (x)	8.1	7.2	6.3	5.5	7.7
Debt/EBITDA (x)	4.6	5.4	5.7	6.6	4.4
FFO/debt (%)	17.6	14.1	13.4	11.0	19.1
Cash flow from operations/debt (%)	17.2	18.2	13.2	7.5	16.2
FOCF/debt (%)	6.8	4.3	(1.1)	(8.4)	0.1
DCF/debt (%)	6.6	4.1	(3.7)	(8.6)	(0.0)

Reconciliation

Table 3

Ontario Power Generation Inc.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts

	--Fiscal year ended Dec. 31, 2020--							
Ontario Power Generation Inc. reported amounts (mil. C$)								
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Capital expenditure**
	10,382.0	15,354.0	3,398.0	2,076.0	304.0	3,412.0	2,824.0	1,765.0
S&P Global Ratings' adjustments								
Cash taxes paid	--	--	--	--	--	(241.0)	--	--
Cash interest paid	--	--	--	--	--	(278.0)	--	--
Reported lease liabilities	47.0	--	--	--	--	--	--	--
Operating leases	--	--	12.0	1.9	1.9	(1.9)	10.1	--
Postretirement benefit obligations/deferred compensation	6,274.0	--	--	--	--	--	--	--
Accessible cash and liquid investments	(889.0)	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	112.0	(112.0)	(112.0)	(112.0)

Table 3

Ontario Power Generation Inc.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (cont.)								
Dividends received from equity investments	--	--	13.0	--	--	--	--	--
Income (expense) of unconsolidated companies	--	--	(11.0)	--	--	--	--	--
Nonoperating income (expense)	--	--	--	45.0	--	--	--	--
Noncontrolling interest/minority interest	--	178.0	--	--	--	--	--	--
Total adjustments	5,432.0	178.0	14.0	46.9	113.9	(632.9)	(101.9)	(112.0)
S&P Global Ratings' adjusted amounts								
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Capital expenditure**
	15,814.0	15,532.0	3,412.0	2,122.9	417.9	2,779.1	2,722.1	1,653.0

Liquidity: Adequate

We assess OPG'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. Moreover, liquidity should benefit from the company's likely ability to absorb high-impact, low-probability events without the need for refinancing, its well-established and solid relationships with banks, and its satisfactory standing in the credit markets.

Principal liquidity sources

- Cash and liquid investments of about C$835 million
- Average credit facility availability of C$ 1.425 billion
- Estimated cash FFO of about C$2.5 billion

Principal liquidity uses

- Debt maturities of about C$1.5 billion
- Capital spending of C$2.5 billion
- Dividends of about C$20 million

Debt maturities

- 2021: C$439 million
- 2022: C$206 million
- 2023: C$73 million
- 2024: C$616 million
- 2025: C$579 million

Environmental, Social, And Governance

The company's current generation capacity of about 18,900 MW consists of 30% regulated nuclear, 34% regulated hydroelectric, 14% contracted gas, and about 22% contracted hydroelectric and others. OPG has released a climate change plan that outlines the company's sustainability goals. The plan aims to achieve net-zero carbon emissions by 2040 through technologies such as small modular reactors, hydro upgrades, electrification, nuclear refurbishment, and nature-based solutions. OPG's social and governance factors are in line with those of other regulated utilities.

Group Influence

Our ratings on OPG incorporate a high likelihood that OPG's provincial owner, the Government of Ontario, will provide extraordinary support to the utility during periods of financial distress. OPG plays an important role to Ontario because it supplies about half of the province's electricity. In addition, the utility plays a vital role to Ontario's energy and environmental policies. Furthermore, the province has a record of providing support, both directly and indirectly, to the utility. For these reasons, we view the likelihood of extraordinary government support for OPG as high.

Issue Ratings - Subordination Risk Analysis

Capital structure

OPG's capital structure consists of roughly C$10 billion in debt.

Analytical conclusions

We rate the senior unsecured debt the same as the issuer credit rating on OPG because priority debt is less than 50% of total consolidated debt. We also rate OPG's commercial paper at 'A-1(Low)' on the Canadian National Scale.

Ratings Score Snapshot

Issuer Credit Rating

BBB+/Stable/--

Business risk: Strong

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

Financial risk: Significant

- **Cash flow/leverage:** Significant

Anchor: bbb

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Negative (-1 notch)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Negative (-1 notch)

Stand-alone credit profile : bb+

- **Related government rating:** A+
- **Likelihood of government support:** High (+3 notches from SACP)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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
- Criteria | Corporates | Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, 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, Nov. 13, 2012
- ARCHIVE | General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

Business Risk Profile	Financial 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 August 13, 2021)*

Ontario Power Generation Inc.	
Issuer Credit Rating	BBB+/Stable/--
Commercial Paper	
Canada National Scale Commercial Paper	A-1(LOW)
Senior Unsecured	BBB+
Issuer Credit Ratings History	
17-Jul-2020	BBB+/Stable/--
30-Jul-2019	BBB+/Negative/--
07-Jul-2015	BBB+/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.

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

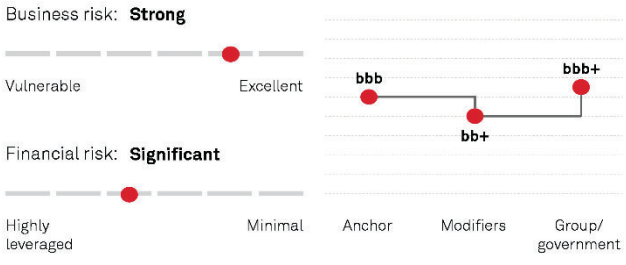
S&P Global
Ratings

RatingsDirect®

Ontario Power Generation Inc.

August 3, 2022

Ratings Score Snapshot



BBB+/Stable/--

Issuer credit rating

PRIMARY CONTACT

Mayur Deval
Toronto
1-416-507-3271
mayur.deval
@spglobal.com

SECONDARY CONTACT

Matthew L O'Neill
New York
1-212-438-4295
matthew.oneill
@spglobal.com

RESEARCH CONTRIBUTOR

Mohak Shah
CRISIL Global Analytical Center,
an S&P Global Ratings affiliate
Mumbai

Credit Highlights

Overview

Key strengths	Key risks
Lower-risk, rate-regulated utility operations.	Limited geographic and regulatory diversity.
Diverse portfolio of power-generating assets.	Refurbishment of legacy nuclear generation plant exposes it to execution risk.
High likelihood of extraordinary government support.	Robust capital spending leads to negative discretionary cash flow, indicating a need for external funding.

Ontario Power Generation Inc. (OPG) is exposed to execution risks stemming from the refurbishment of the Darlington Nuclear Plant. It expects to refurnish all four units by the end of 2026. The refurbishment project, which began in 2016, is still in progress and remains on track for a timely completion despite a slight delay due to COVID-19. The refurbishment of Unit 2 was completed in June 2020 while the remaining units are still in progress. OPG expects Unit 3, Unit 1, and Unit 4 to be in service by 2024, 2025, and 2026, respectively. We expect the company to assess and seek ways to manage the effects of the COVID-19 pandemic on the project's total cost, which is otherwise continuing to track in-line the $12.8 billion budget. Any material cost overruns would pressure OPG's credit measures.

We expect OPG will continue to manage its regulatory risk and maintain financial measures in the lower half of our significant financial risk profile category. Specifically, we expect the company's funds from operations (FFO) to debt will be in the 13.0%-15.5% range throughout the forecast period.

Outlook

The stable outlook on OPG incorporates our expectation for more stable cash flows, our belief that it has paused its acquisition spending and continues to effectively manage its regulatory risk, as well as our expectation that it will complete its future nuclear refurbishments on time and on budget. We also forecast FFO to debt of 13.0%-15.5%.

Downside scenario

We could take a negative rating action on OPG over the next 12-18 months if its financial measures weaken, including FFO to debt of consistently below 13%. This could occur if the company experiences delay and cost overruns in its Darlington refurbishment program and adverse regulatory decisions or undertakes significant debt-funded acquisitions. Alternatively, we could lower our rating if we downgrade the Province of Ontario or there is an unexpected deterioration in the relationship between OPG and the province.

Upside scenario

Although highly unlikely, we could take a positive rating action on OPG over the next 24 months if there is no change to its relationship with the Province of Ontario, it doesn't expand its nonutility businesses through acquisitions, and it materially improves its financial measures, including FFO to debt of consistently more than 20%.

Our Base-Case Scenario

Assumptions

- OPG will continue to manage its regulatory risk;
- Capital spending averaging C$3.2 billion-C$3.6 billion per year through 2024;
- Dividend payments averaging about C$20 million per year;
- No material acquisitions; and
- All debt maturities are refinanced or repaid.

Key metrics

Ontario Power Generation Inc.--Key Metrics*

	2021a	2022e	2023f
FFO to debt (%)	17.7	14-15	15-16
Debt to EBITDA (x)	4.6	5.5-6.0	5.0-5.5

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

Company Description

OPG is an Ontario-based electricity generation company. The company's generation fleet comprises about 18,100 megawatts (MW) of capacity. OPG is wholly owned by the Province of Ontario.

Peer Comparison

Ontario Power Generation Inc.--Peer Comparisons

	Ontario Power Generation Inc.	Hydro One Inc.	ENMAX Corp.	ATCO Ltd.
Foreign currency issuer credit rating	BBB+/Stable/--	A-/Stable/A-2	BBB-/Negative/--	BBB+/Stable/--
Local currency issuer credit rating	BBB+/Stable/--	A-/Stable/A-2	BBB-/Negative/--	BBB+/Stable/--
Period	Annual	Annual	Annual	Annual
Period ending	2021-12-31	2021-12-31	2021-12-31	2021-12-31
Mil.	C$	C$	C$	C$
Revenue	6,877	7,185	3,097	4,289
EBITDA	2,944	2,539	668	1,745
Funds from operations (FFO)	2,400	2,010	528	1,263
Interest	383	515	158	462
Cash interest paid	371	509	167	432
Operating cash flow (OCF)	2,358	2,052	633	1,313
Capital expenditure	1,943	1,990	513	1,340
Free operating cash flow (FOCF)	415	62	120	(28)
Discretionary cash flow (DCF)	396	(566)	62	(733)
Cash and short-term investments	868	499	41	1,073
Gross available cash	868	499	41	1,073
Debt	13,582	15,779	4,254	10,113
Equity	16,967	11,260	2,715	7,169
EBITDA margin (%)	42.8	35.3	21.6	40.7
Return on capital (%)	6.0	6.1	4.9	6.2
EBITDA interest coverage (x)	7.7	4.9	4.2	3.8
FFO cash interest coverage (x)	7.5	5.0	4.2	3.9
Debt/EBITDA (x)	4.6	6.2	6.4	5.8
FFO/debt (%)	17.7	12.7	12.4	12.5
OCF/debt (%)	17.4	13.0	14.9	13.0
FOCF/debt (%)	3.1	0.4	2.8	(0.3)

Ontario Power Generation Inc.--Peer Comparisons

DCF/debt (%)	2.9	(3.6)	1.5	(7.2)

Business Risk

Our assessment on OPG's business risk incorporates its mostly low-risk, regulated operations under the generally supportive regulatory oversight of the Ontario Energy Board (OEB), its effective management of regulatory risk, its limited regulatory and geographic diversity, and its exposure to execution risk related to the refurbishment of its legacy nuclear generation plant. The company generates about 70% of its consolidated EBITDA from its business regulated by the OEB, which we view as a generally constructive regulatory environment. We expect that OPG will continue to manage its regulatory risk and benefit from credit-supportive regulatory mechanisms, including an incentive ratemaking methodology for hydroelectric and a custom incentive regulation framework for nuclear.

Our assessment of OPG's business risk profile also incorporates its growing contracted nonregulated generation, which will account for about 30% of its consolidated EBITDA. The contracted nonregulated power business increases the company's volumetric, operational, and commodity risks. However, these risks are partially offset by the business' long-term contracts with creditworthy counterparties. Given OPG's nonregulated power exposure, we assess it as being at the lower end of the range for its business risk profile category when compared with its peers. In addition, the company is exposed to execution risks related to its Darlington Nuclear Plant refurbishment project.

Financial Risk

We use our medial-volatility table financial benchmarks to assess OPG's financial risk, which reflects its lower-risk regulated electric generation operations and effective management of regulatory risk. These benchmarks are more relaxed than the benchmarks we use for typical corporate issuers. Under our base-case scenario, we assume capital spending averaging of C$3.2 billion-C$3.6 billion per year through 2024 and dividends of about C$20 million per year. We also expect OPG's discretionary cash flow will remain negative due to its elevated capital spending, indicating a need for external funding. In addition, we forecast the company's FFO to debt will be in the 13.0%-15.5% range throughout our forecast period. Over the same period, we anticipate its S&P Global Ratings-adjusted FFO cash interest coverage will be in the 5.0x-6.0x range, which further bolsters our financial risk profile assessment.

Debt maturities

- 2022: C$179 million;
- 2023: C$44 million;
- 2024: C$607 million;
- 2025: C$579 million;
- 2026: C$675 million; and
- Thereafter: C$7.6 billion.

Ontario Power Generation Inc.--Financial Summary

Period ending	Dec-31-2016	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021
Reporting period	2016a	2017a	2018a	2019a	2020a	2021a
Display currency (mil.)	C$	C$	C$	C$	C$	C$

Ontario Power Generation Inc.--Financial Summary

Revenues	5,653	5,144	5,474	6,022	7,240	6,877
EBITDA	2,225	1,609	2,019	2,460	3,412	2,944
Funds from operations (FFO)	1,849	1,159	1,530	1,860	2,779	2,400
Interest expense	352	293	278	347	418	383
Cash interest paid	278	255	287	300	392	371
Operating cash flow (OCF)	1,575	797	1,510	2,399	2,722	2,358
Capital expenditure	1,563	1,691	1,635	1,837	1,653	1,943
Free operating cash flow (FOCF)	12	(894)	(125)	562	1,069	415
Discretionary cash flow (DCF)	(2)	(909)	(426)	545	1,050	396
Cash and short-term investments	186	418	349	648	889	868
Gross available cash	398	418	349	648	889	868
Debt	9,707	10,583	11,437	13,175	15,814	13,582
Common equity	10,508	11,911	13,127	14,275	15,532	16,967
Adjusted ratios						
EBITDA margin (%)	39.4	31.3	36.9	40.9	47.1	42.8
Return on capital (%)	5.0	4.4	5.2	5.4	7.2	6.0
EBITDA interest coverage (x)	6.3	5.5	7.3	7.1	8.2	7.7
FFO cash interest coverage (x)	7.7	5.5	6.3	7.2	8.1	7.5
Debt/EBITDA (x)	4.4	6.6	5.7	5.4	4.6	4.6
FFO/debt (%)	19.1	11.0	13.4	14.1	17.6	17.7
OCF/debt (%)	16.2	7.5	13.2	18.2	17.2	17.4
FOCF/debt (%)	0.1	(8.4)	(1.1)	4.3	6.8	3.1
DCF/debt (%)	(0.0)	(8.6)	(3.7)	4.1	6.6	2.9

Reconciliation Of Ontario Power Generation 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-31-2021									
Company reported amounts	9,848	16,789	6,877	2,945	1,813	301	2,944	2,440	19	2,025
Cash taxes paid	-	-	-	-	-	-	(173)	-	-	-
Cash interest paid	-	-	-	-	-	-	(289)	-	-	-
Lease liabilities	50	-	-	-	-	-	-	-	-	-

Reconciliation Of Ontario Power Generation 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
Postretirement benefit obligations/ deferred compensation	4,552	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(868)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	82	(82)	(82)	-	(82)
Income (expense) of unconsolid. cos.	-	-	-	(1)	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	39	-	-	-	-	-
Noncontrolling/ minority interest	-	178	-	-	-	-	-	-	-	-
Total adjustments	3,734	178	-	(1)	39	82	(544)	(82)	-	(82)
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	13,582	16,967	6,877	2,944	1,852	383	2,400	2,358	19	1,943

Liquidity

We assess OPG's liquidity as adequate because we believe its liquidity sources will likely be more than 1.1x its uses over the next 12 months and meet its cash outflows even if its EBITDA declines by 10%. Moreover, we anticipate the company would likely be able to absorb high-impact, low-probability events without needing to refinance and view it as having well-established and solid relationships with its banks and a satisfactory standing in the credit markets.

Principal liquidity sources

- Cash and liquid investments of about C$935 million;
- Average credit facility availability of C$2.15 billion; and
- Estimated cash FFO of about C$2.45 billion.

Principal liquidity uses

- Debt maturities of about C$335 million;
- Capital spending of C$3.3 billion; and
- Dividends of about C$20 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

- Natural capital - Waste and pollution	- Health and safety	- N/A

N/A--Not applicable. 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 Indicators: Definition And Applications, " published Oct. 13, 2021.

Environmental factors are a moderately negative consideration in our credit rating analysis of Ontario Power Generation Inc. because it has a consolidated exposure to nuclear and hydro generation. The company's nuclear generation exposes it to waste and storage challenges while its hydro generation exposes it to water resource use. Social factors are a moderately negative consideration in our credit rating analysis based on the health and safety risks related to its nuclear generation.

Group Influence

Our ratings on OPG incorporate a high likelihood that its provincial owner, the Government of Ontario, will provide extraordinary support to the utility during periods of financial distress. OPG plays an important role for Ontario because it supplies about half of the province's electricity. In addition, the utility plays a vital role in Ontario's energy and environmental policies. Furthermore, the province has a record of providing support, both directly and indirectly, to the utility. For these reasons, we view the likelihood of extraordinary government support as high.

Issue Ratings--Subordination Risk Analysis

Capital structure

OPG's capital structure comprises roughly C$10 billion of debt.

Analytical conclusions

We rate the company's senior unsecured debt at the same level as our issuer credit rating because its priority debt is less than 50% of its total consolidated debt. We also rate OPG's commercial paper at 'A-1(Low)' on the Canadian National Scale.

Rating Component Scores

Foreign currency issuer credit rating	**BBB+/Stable/--**
Local currency issuer credit rating	**BBB+/Stable/--**
Business risk	**Strong**
Country risk	Very Low
Industry risk	Low
Competitive position	Strong
Financial risk	**Significant**
Cash flow/leverage	Significant
Anchor	**bbb**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Negative (-1 notch)
Liquidity	Adequate (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile	**bb+**

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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
- Criteria | Corporates | Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, 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 August 03, 2022)*

Ontario Power Generation Inc.	
Issuer Credit Rating	BBB+/Stable/--
Commercial Paper	
Canada National Scale Commercial Paper	A-1(LOW)

Ontario Power Generation Inc.

Ratings Detail (as of August 03, 2022)*

Senior Unsecured	BBB+

Issuer Credit Ratings History

17-Jul-2020	BBB+/Stable/--
30-Jul-2019	BBB+/Negative/--
07-Jul-2015	BBB+/Stable/--

Related Entities

Hydro One 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-

Hydro One Ltd.

Issuer Credit Rating	A-/Stable/--
Senior Unsecured	BBB+

Ontario (Province of)

Issuer Credit Rating	A+/Stable/A-1
Commercial Paper	
Foreign Currency	A-1
Senior Unsecured	A+

UMH Energy Partnership

Senior Secured	BBB+/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.

Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

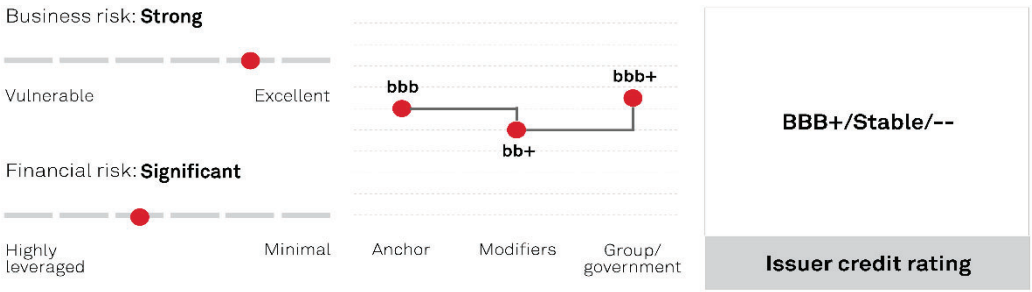
S&P Global
Ratings

RatingsDirect®

Ontario Power Generation Inc.

August 8, 2023

Ratings Score Snapshot



Primary contact

Mayur Deval
Toronto
1-416-507-3271
mayur.deval
@spglobal.com

Secondary contact

Matthew L O'Neill
New York
1-212-438-4295
matthew.oneill
@spglobal.com

Research contributor

Piyush Seth
CRISIL Global Analytical Center, an S&P Global Ratings affiliate
Pune

Credit Highlights

Overview

Key strengths	Key risks
Lower-risk, rate-regulated utility operations.	Limited geographic and regulatory diversity.
Diverse portfolio of power-generating assets.	Refurbishment of legacy nuclear generation plant exposes it to execution risk.
High likelihood of extraordinary government support.	Robust capital spending leads to negative discretionary cash flow, indicating a need for external funding.

Ontario Power Generation Inc. (OPG) is exposed to execution risks from the refurbishment of the Darlington Nuclear Plant. It expects to refurbish all four units by the end of 2026. The refurbishment project, which began in 2016, is still in progress and remains on track for a timely completion. The company recently announced that it successfully refurbished Darlington Nuclear Generating Station Unit 3 169 days ahead of schedule. This is a major milestone in OPG's nuclear refurbishment project, which it expects will extend the power plant's lifecycle 30 years. Refurbishing the four Darlington units remains on plan for completion by the end of 2026. We expect OPG to assess and seek ways to manage the effects of the COVID-19 pandemic on the project's total cost, which is otherwise still in line with the $12.8 billion budget. Any material

cost overruns would pressure OPG's credit measures. However, the early return of Unit 3 will modestly improve OPG's cash flow.

The ultimate parent of OPG, the Province of Ontario, has directed OPG to conduct a technical feasibility assessment to determine if Pickering Units 5-8 should be refurbished. The province also announced its support for the continued operation of Pickering generating station Units 5-8 up to September 2026 to manage electricity demand growth. We continue to monitor the outcome of the assessment; the current base-case capital forecast does not include any potential investments related to Pickering refurbishment.

The Ontario government and OPG announced the commencement of planning and licensing for three additional small modular reactors (SMRs) at the Darlington nuclear site. The company partnered with GE Hitachi Nuclear Energy, SNC-Lavalin, and Aecon to construct a 300 megawatt (MW) SMR project at the Darlington facility. The Canadian Infrastructure Bank provided a $970 million commitment to fund the project. The company expects to complete the construction of the first unit by the end of 2028. As OPG scales up its investment in SMR projects, it will be highly important that it funds them in a credit-supportive manner and that its recovery is based on rate-regulated mechanisms to preserve its credit quality.

As reported in Canadian popular media, New Brunswick Power Corporation (NB Power) and OPG are exploring a potential partnership that could involve a partial ownership stake in the Point Lepreau nuclear generating station. Since its completed refurbishment in 2012, NB Power's Point Lepreau generating station has been affected by operational challenges, with its most recent December shutdown further adding to the company's debt burden and hurting its profit for fiscal 2022-23. NB Power seeks to leverage OPG's expertise to support the power plant. The effect on OPG's credit quality will largely depend on the details of the potential partnership including, operational involvement, and financial liability related to this nuclear plant. We continue to monitor for further developments.

We expect OPG will continue to manage its regulatory risk and maintain financial measures in the lower half of our significant financial risk profile category. Specifically, we expect funds from operations (FFO) to debt of around 17% in 2023 and 13.0%-14.0% in 2024 and 2025.

Outlook

The stable outlook on OPG incorporates the following expectations: more stable cash flows, a pause in acquisition spending, effective management of its regulatory risk, and that OPG will complete its future nuclear refurbishments on time and on budget. We also forecast FFO to debt of 13.0%-14%.

Downside scenario

We could take a negative rating action on OPG over the next 12-18 months if its financial measures weaken, including FFO to debt consistently below 13%. This could occur if the company experiences delays and cost overruns in its Darlington refurbishment program, faces adverse regulatory decisions, or undertakes significant debt-funded acquisitions. Alternatively, we could lower our rating if we downgrade the Province of Ontario or the relationship between OPG and the province unexpectedly deteriorates.

Upside scenario

Although highly unlikely, we could take a positive rating action on OPG over the next 24 months if there is no change to its relationship with the Province of Ontario, it doesn't expand its nonutility businesses through acquisitions, and it materially improves its financial measures, including FFO to debt consistently more than 20%.

Our Base-Case Scenario

Assumptions

- OPG continues to manage its regulatory risk;
- Capital spending averages C$3.75 billion per year through 2025;
- Distribution to noncontrolling interest holders average about C$20 million per year;
- There are no material acquisitions; and
- All debt maturities are refinanced or repaid.

Key metrics

Ontario Power Generation Inc.--Forecast summary

Period ending	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026
(Mil. CAD)	2019a	2020a	2021a	2022a	2023e	2024f	2025f	2026f
EBITDA	2,460	3,412	2,944	3,161	2,996	2,539	3,086	3,863
Less: Cash interest paid	(300)	(392)	(371)	(359)	(374)	(405)	(464)	(516)
Less: Cash taxes paid	(300)	(241)	(173)	(207)	(260)	(149)	(210)	(327)
Funds from operations (FFO)	1,860	2,779	2,400	2,595	2,362	1,985	2,411	3,020
Capital expenditure (capex)	1,837	1,653	1,943	2,432	3,687	3,721	3,856	4,255
Dividends	17	19	19	17	19	19	19	15
Debt	13,175	15,814	13,582	10,000	13,774	15,438	16,893	18,124
Adjusted ratios								
Debt/EBITDA (x)	5.4	4.6	4.6	3.2	4.6	6.1	5.5	4.7
FFO/debt (%)	14.1	17.6	17.7	25.9	17.1	12.9	14.3	16.7
FFO cash interest coverage (x)	7.2	8.1	7.5	8.2	7.3	5.9	6.2	6.9

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. C$--Canadian dollar.

Company Description

OPG is an Ontario-based electricity generation company. The company's generation fleet comprises about 18,225 MW of capacity. OPG is wholly owned by the Province of Ontario.

Peer Comparison

Ontario Power Generation Inc.--Peer Comparisons

	Ontario Power Generation Inc.	Hydro One Inc.	Enmax Corp.
Foreign currency issuer credit rating	BBB+/Stable/--	A-/Stable/A-2	BBB-/Stable/--
Local currency issuer credit rating	BBB+/Stable/--	A-/Stable/A-2	BBB-/Stable/--
Period	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2022-12-31
Mil.	C$	C$	C$
Revenue	7,349	7,740	3,663
EBITDA	3,161	2,801	719
Funds from operations (FFO)	2,595	2,177	561
Interest	381	525	158
Cash interest paid	359	591	158
Operating cash flow (OCF)	2,872	2,121	716
Capital expenditure	2,432	1,999	581
Free operating cash flow (FOCF)	440	122	135
Discretionary cash flow (DCF)	423	(540)	73
Cash and short-term investments	1,753	458	48
Gross available cash	1,753	458	48
Debt	10,000	15,244	4,120
Equity	18,989	11,682	3,073
EBITDA margin (%)	43.0	36.2	19.6
Return on capital (%)	7.1	6.4	5.2
EBITDA interest coverage (x)	8.3	5.3	4.6
FFO cash interest coverage (x)	8.2	4.7	4.6
Debt/EBITDA (x)	3.2	5.4	5.7
FFO/debt (%)	25.9	14.3	13.6
OCF/debt (%)	28.7	13.9	17.4
FOCF/debt (%)	4.4	0.8	3.3
DCF/debt (%)	4.2	(3.5)	1.8

Business Risk

Our assessment on OPG's business risk incorporates its mostly low-risk, regulated operations under the generally supportive regulatory oversight of the Ontario Energy Board (OEB), its effective management of regulatory risk, its limited regulatory and geographic diversity, and its exposure to execution risk related to the refurbishment of its legacy nuclear generation plant. The company generates about 70% of its consolidated EBITDA from its business regulated by the OEB, which we view as a generally constructive regulatory environment. We expect that OPG will continue to manage its regulatory risk and benefit from credit-supportive regulatory

mechanisms, including an incentive ratemaking methodology for hydroelectric and a custom incentive regulation framework for nuclear.

Our assessment of OPG's business risk profile also incorporates its contracted nonregulated generation, which accounts for about 30% of its consolidated EBITDA. The contracted, nonregulated power business increases the company's volumetric, operational, and commodity risks. However, these risks are partially offset by the business' long-term contracts with creditworthy counterparties. Given OPG's nonregulated power exposure, we assess it at the lower end of the range for its business risk profile category compared with its peers. In addition, the company is exposed to execution risks related to its Darlington Nuclear Plant refurbishment project.

Financial Risk

We use our medial-volatility table financial benchmarks to assess OPG's financial risk, which reflects its lower-risk, regulated electric generation operations and effective management of regulatory risk. These benchmarks are more relaxed than the benchmarks we use for typical corporate issuers. Under our base-case scenario, we assume capital spending averaging C$3.75 billion per year through 2025 and dividends of about C$20 million per year. We also expect OPG's discretionary cash flow will remain negative due to its elevated capital spending, indicating a need for external funding. In addition, we forecast FFO to debt around 17% in 2023 and 13.0%-14.0% in 2024 and 2025. Over the same period, we anticipate its S&P Global Ratings-adjusted FFO cash interest coverage will be about 6.0xx, which further bolsters our financial risk profile assessment.

Debt maturities

- 2023: C$43 million;
- 2024: C$606 million;
- 2025: C$589 million;
- 2026: C$674 million;
- 2027: C$530 million; and
- Thereafter: C$7.7 billion.

Ontario Power Generation 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
Display currency (mil.)	C$	C$	C$	C$	C$	C$
Revenues	5,144	5,474	6,022	7,240	6,877	7,349
EBITDA	1,609	2,019	2,460	3,412	2,944	3,161
Funds from operations (FFO)	1,159	1,530	1,860	2,779	2,400	2,595
Interest expense	293	278	347	418	383	381
Cash interest paid	255	287	300	392	371	359
Operating cash flow (OCF)	797	1,510	2,399	2,722	2,358	2,872
Capital expenditure	1,691	1,635	1,837	1,653	1,943	2,432
Free operating cash flow (FOCF)	(894)	(125)	562	1,069	415	440

Ontario Power Generation Inc.--Financial Summary

Discretionary cash flow (DCF)	(909)	(426)	545	1,050	396	423
Cash and short-term investments	418	349	648	889	868	1,753
Gross available cash	418	349	648	889	868	1,753
Debt	10,583	11,437	13,175	15,814	13,582	10,000
Common equity	11,911	13,127	14,275	15,532	16,967	18,989
Adjusted ratios						
EBITDA margin (%)	31.3	36.9	40.9	47.1	42.8	43.0
Return on capital (%)	4.4	5.2	5.4	7.2	6.0	7.1
EBITDA interest coverage (x)	5.5	7.3	7.1	8.2	7.7	8.3
FFO cash interest coverage (x)	5.5	6.3	7.2	8.1	7.5	8.2
Debt/EBITDA (x)	6.6	5.7	5.4	4.6	4.6	3.2
FFO/debt (%)	11.0	13.4	14.1	17.6	17.7	25.9
OCF/debt (%)	7.5	13.2	18.2	17.2	17.4	28.7
FOCF/debt (%)	(8.4)	(1.1)	4.3	6.8	3.1	4.4
DCF/debt (%)	(8.6)	(3.7)	4.1	6.6	2.9	4.2

Reconciliation Of Ontario Power Generation 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	10,217	18,813	7,349	3,161	2,037	256	3,161	2,997	17	2,557
Cash taxes paid	-	-	-	-	-	-	(207)	-	-	-
Cash interest paid	-	-	-	-	-	-	(234)	-	-	-
Lease liabilities	62	-	-	-	-	-	-	-	-	-
Postretirement benefit obligations/ deferred compensation	1,474	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(1,753)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	125	(125)	(125)	-	(125)
Nonoperating income (expense)	-	-	-	-	64	-	-	-	-	-

Reconciliation Of Ontario Power Generation 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
Noncontrolling/ minority interest	-	176	-	-	-	-	-	-	-	-
Total adjustments	(217)	176	-	-	64	125	(566)	(125)	-	(125)
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	10,000	18,989	7,349	3,161	2,101	381	2,595	2,872	17	2,432

Liquidity

We assess OPG'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 its net sources will remain positive even if its consolidated EBITDA declines 10%. We believe the company's predictable regulatory framework provides it with cash flow stability even in times of economic stress, which supports our use of slightly lower thresholds to assess its liquidity.

In addition, we believe OPG can absorb high-impact, low-probability events. This reflects its $3.2 billion various credit facilities and our expectation that it can reduce its high capital spending during stressful periods. Furthermore, our assessment reflects the company's generally prudent risk management, solid relationships with its banking group, and satisfactory standing in the credit markets.

Overall, we anticipate OPG can withstand adverse market circumstances over the next 12 months while maintaining sufficient liquidity to meet its obligations. The company's next major long debt maturity is in 2024, when about $600 million comes due, which we expect it will proactively address well in advance of the due date.

Principal liquidity sources

- Cash and liquid investments of about C$1.59 billion;
- Average credit facility availability of C$3.2 billion; and
- Estimated cash FFO of about C$2.3 billion.

Principal liquidity uses

- Debt maturities of about C$533 million;
- Capital spending of C$3.7 billion; and
- Distributions to noncontrolling interest holders of about C$20 million.

Environmental, Social, And Governance

Environmental factors are a moderately negative consideration in our credit rating analysis of OPG because it has a consolidated exposure to nuclear and hydroelectric generation. The company's nuclear generation exposes it to waste and storage challenges while its hydroelectric generation exposes it to water resource use.

Social factors are a moderately negative consideration in our credit rating analysis based on the health and safety risks related to its nuclear generation. However, OPG undertakes several initiatives, including nuclear byproduct and waste management, that comply with the Canadian Nuclear Safety Commission's (CNSC) rigorous regulatory requirements and employs a

comprehensive nuclear safety and emergency preparedness program designed to protect employees and the public, the environment, property, and assets, all while ensuring operational continuity. In addition, to manage the water resources, OPG uses hydrological models, weather forecasts, satellite imagery, weather station data, and other tools to manage water levels, flows, and water storage. These initiatives somewhat offset the environmental and social risks.

Group Influence

Our ratings on OPG incorporate a high likelihood that its provincial owner, the Government of Ontario, will provide extraordinary support to the utility during periods of financial distress. OPG plays an important role for Ontario because it supplies about half of the province's electricity. In addition, the utility plays a vital role in Ontario's energy and environmental policies. Furthermore, the province has a record of providing support, both directly and indirectly, to the utility. For these reasons, we view the likelihood of extraordinary government support as high.

Issue Ratings--Subordination Risk Analysis

Capital structure

OPG's capital structure comprises roughly C$10.1 billion of debt.

Analytical conclusions

We rate the company's senior unsecured debt at the same level as our issuer credit rating because its priority debt is less than 50% of its total consolidated debt. We also rate OPG's commercial paper at 'A-1(Low)' on the Canadian National Scale.

Rating Component Scores

Foreign currency issuer credit rating	BBB+/Stable/--
Local currency issuer credit rating	BBB+/Stable/--
Business risk	Strong
Country risk	Very Low
Industry risk	Low
Competitive position	Strong
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	bbb
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Negative (-1 notch)
Liquidity	Adequate (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile	bb+

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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
- Criteria | Corporates | Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, 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, Nov. 13, 2012
- ARCHIVE | General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (as of August 08, 2023)*

Ontario Power Generation Inc.

Issuer Credit Rating	BBB+/Stable/--
Commercial Paper	
Canada National Scale Commercial Paper	A-1(LOW)
Senior Unsecured	BBB+

Issuer Credit Ratings History

17-Jul-2020	BBB+/Stable/--
30-Jul-2019	BBB+/Negative/--
07-Jul-2015	BBB+/Stable/--

Related Entities

Hydro One Inc.

Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2

Ontario Power Generation Inc.

Ratings Detail (as of August 08, 2023)*

Canada National Scale Commercial Paper	A-1(LOW)
Senior Unsecured	A-
Hydro One Ltd.	
Issuer Credit Rating	A-/Stable/--
Senior Unsecured	BBB+
Ontario (Province of)	
Issuer Credit Rating	A+/Positive/A-1
Commercial Paper	
Foreign Currency	A-1
Senior Unsecured	A+
UMH Energy Partnership	
Senior Secured	BBB+/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.

Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

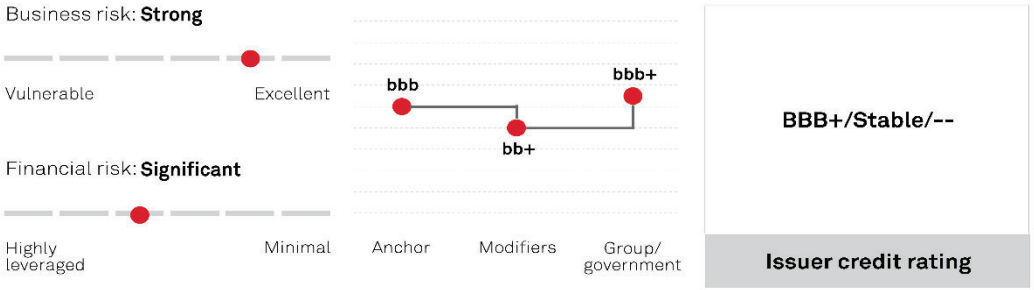
S&P Global
Ratings

RatingsDirect®

Ontario Power Generation Inc.

August 14, 2024

Ratings Score Snapshot



Primary contact

Mayur Deval
Toronto
1-416-507-3271
mayur.deval
@spglobal.com

Secondary contact

Matthew L O'Neill
New York
1-212-438-4295
matthew.oneill
@spglobal.com

Credit Highlights

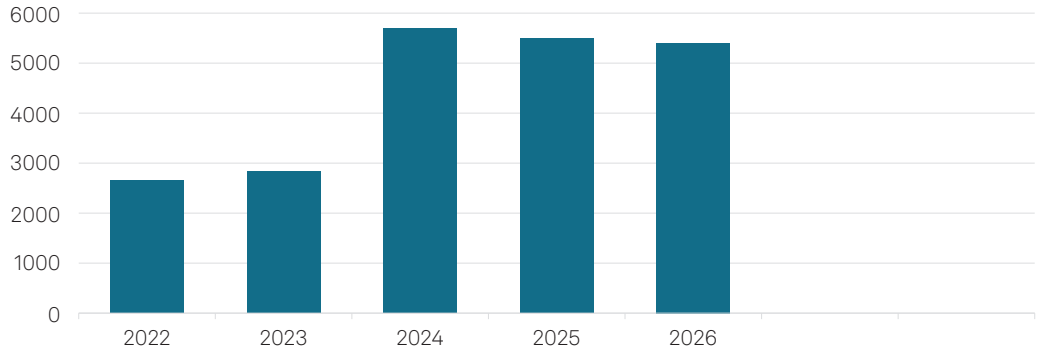
Overview

Key strengths	Key risks
Lower-risk, rate-regulated utility operations.	Limited geographic and regulatory diversity.
Diverse portfolio of power-generating assets.	Refurbishment of legacy nuclear generation plant exposes it to execution risk.
High likelihood of extraordinary government support.	Robust capital spending leads to negative discretionary cash flow, indicating a need for external funding.

Ontario Power Generation Inc. (OPG) is exposed to execution risks from several large capital investment projects. OPG's current forecasted capital investments budget is roughly 40% higher than the previous budget. The significantly higher capital investment plan primarily includes procuring long-lead components necessary for the refurbishment of Units 5-8 of the Pickering Nuclear Generating Station (GS), the ongoing Darlington Nuclear GS refurbishment, and other development projects. OPG has established a strong track record of executing Darlington GS refurbishment on time and on budget. However, the company's strategy of undertaking multiple large-scale projects in the coming years exposes OPG to potential execution risks.

THIS WAS PREPARED EXCLUSIVELY FOR USER JONATHAN SOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Total capital expenditure

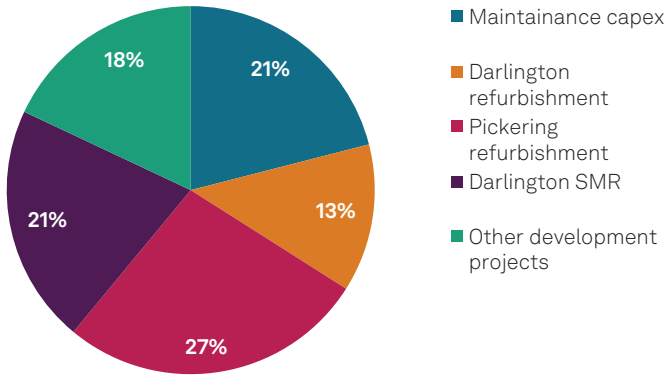


Source: S&P Global Ratings.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

Forecasted capex mix

2024-2026



Source: S&P Global Ratings.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

OPG's investment in developing first of a kind (FOAK) technology of small modular reactors (SMRs) is exposed to potential construction risk. Developing new nuclear power plants is a highly complex project characterized by extensive timelines, multi-billion-dollar investments, and inherent execution risks that can lead to significant cost overruns and delays. OPG partnered with GE Hitachi Nuclear Energy, AtkinsRealis, and Aecon to construct a 300-megawatt (MW) SMR project at the Darlington facility, with the potential to expand by constructing three additional SMRs at the same site. In our view, FOAK projects are highly susceptible to construction difficulties because the design is complex and could lead to cost overruns and delays.

The first SMR unit is expected to have a capacity of 300 MWs and the company plans to commission the unit by the end of 2029. In addition, OPG initiated the commencement of planning and licensing for three additional SMRs at the Darlington nuclear site, which is expected to start nuclear power plant construction phase only after the first unit is successfully commissioned. The Canadian Infrastructure Bank provided a $970 million commitment to fund

THIS WAS PREPARED EXCLUSIVELY FOR USER JONATHAN SOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

the project. Additionally, we expect the company to benefit from direct or indirect federal government incentives including clean electricity investment tax credit and clean technology investment tax credit to partially fund these investments.

As OPG scales up its investment in SMR projects, we believe the company's financial metrics could weaken if the company fails to execute the projects on time and on budget, does not fund its initial investments or cost overruns in credit supportive manner, or experiences regulatory lag in the recovery of its investments.

OPG's refurbishment of the Darlington Nuclear Plant remains on track for a timely completion. The company expects to refurbish all four units by the end of 2026. The company recently announced that it successfully refurbished Darlington Nuclear Generating Station Unit 3 169 days ahead of schedule and the Unit 1 and 4 continue to undergo refurbishments with an expectation that Unit 1 will return to service in Q4 2024, ahead of the schedule. Refurbishing the four Darlington units remains on plan for completion by the end of 2026. We expect OPG to assess and seek ways to manage the effects of the COVID-19 pandemic on the project's total cost, which is otherwise still in line with the $12.8 billion budget. Any material cost overruns would pressure OPG's credit measures. However, the expected early return of Unit 1 will modestly improve OPG's cash flow.

Furthermore, OPG plans to refurbish four units at the Pickering Nuclear Generating Station and other existing hydroelectric plants aimed at modernizing the infrastructure and improving generation capacity. Currently, the company remains focused on conducting pre-execution phase activities, which include preliminary engineering work and securing long-lead components for the Pickering refurbishment.

We expect OPG will continue to manage its regulatory risk and maintain financial measures in the lower half of our significant financial risk profile category. Specifically, we expect funds from operations (FFO) to debt of around 14.0%-16.0% through 2026 with modest financial cushion.

Outlook

The stable outlook on OPG incorporates the following expectations: more stable cash flows, no significant acquisitions, effective management of its regulatory risk, and that OPG will complete its future nuclear investments including refurbishments and small modular reactors on time and on budget. We also forecast FFO to debt of 14%-16%.

Downside scenario

We could lower our ratings on OPG over the next 12-18 months if its financial measures weaken, including FFO to debt consistently below 13%. This could occur if the company experiences delays and cost overruns in its Darlington refurbishment program, faces adverse regulatory decisions, or undertakes significant debt-funded acquisitions. Alternatively, we could lower our rating if we downgrade the Province of Ontario or the relationship between OPG and the province unexpectedly deteriorates.

Upside scenario

Although highly unlikely, we could raise our ratings on OPG over the next 24 months if there is no change to its relationship with the Province of Ontario, it doesn't expand its nonutility

THIS WAS PREPARED EXCLUSIVELY FOR USER JONATHAN SOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

businesses through acquisitions, and it materially improves its financial measures, including FFO to debt consistently more than 20%.

Our Base-Case Scenario

Assumptions

- OPG continues to manage its regulatory risk;
- Capital spending averages C$5.5 billion per year through 2026;
- Distribution to noncontrolling interest holders average about C$20 million per year;
- There are no material acquisitions; and
- All debt maturities are refinanced or repaid.

Company Description

OPG is an Ontario-based electricity generation company. The company's generation fleet comprises about 18,225 MW of capacity. OPG is wholly owned by the Province of Ontario.

Business Risk

Our assessment on OPG's business risk incorporates its mostly low-risk, regulated operations under the generally supportive regulatory oversight of the Ontario Energy Board (OEB), its effective management of regulatory risk, its limited regulatory and geographic diversity, and its exposure to execution risk related to the refurbishment of its legacy nuclear generation plant. The company generates about 70% of its consolidated EBITDA from its business regulated by the OEB, which we view as a generally constructive regulatory environment. We expect OPG will continue managing its regulatory risk and benefit from credit-supportive regulatory mechanisms, including an incentive ratemaking methodology for hydroelectric and a custom incentive regulation framework for nuclear.

Our assessment of OPG's business risk profile also incorporates its contracted nonregulated generation, which accounts for about 30% of its consolidated EBITDA. The contracted, nonregulated power business increases the company's volumetric, operational, and commodity risks. However, these risks are partially offset by the business' long-term contracts with creditworthy counterparties. Given OPG's nonregulated power exposure, we assess it at the lower end of the range for its business risk profile category compared with its peers. In addition, the company is exposed to construction and execution risks related to its Darlington SMR project.

Financial Risk

We use our medial-volatility table financial benchmarks to assess OPG's financial risk, which reflects its lower-risk, regulated electric generation operations and effective management of regulatory risk. These benchmarks are more relaxed than the benchmarks we use for typical

THIS WAS PREPARED EXCLUSIVELY FOR USER JONATHAN SOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

corporate issuers. Under our base-case scenario, we assume capital spending averaging C$5.5 billion per year through 2026 and distributions to non-controlling interests of about C$20 million per year. We also expect OPG's discretionary cash flow will remain negative due to its elevated capital spending, indicating a need for external funding. In addition, we forecast FFO to debt around 14.0%-16.0% through 2026. Over the same period, we anticipate its S&P Global Ratings-adjusted FFO cash interest coverage will be about 6.0x, which further bolsters our financial risk profile assessment.

Debt maturities

- 2024: C$606 million;
- 2025: C$589 million;
- 2026: C$674 million;
- 2027: C$530 million; and
- Thereafter: C$7.7 billion.

Ontario Power Generation Inc.--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	C$	C$	C$	C$	C$	C$
Revenues	5,474	6,022	7,240	6,877	7,349	7,434
EBITDA	2,019	2,460	3,412	2,944	3,161	3,155
Funds from operations (FFO)	1,530	1,860	2,779	2,400	2,595	2,319
Interest expense	278	347	418	383	381	388
Cash interest paid	287	300	392	371	359	395
Operating cash flow (OCF)	1,510	2,399	2,722	2,358	2,872	2,419
Capital expenditure	1,635	1,837	1,653	1,943	2,432	2,884
Free operating cash flow (FOCF)	(125)	562	1,069	415	440	(465)
Discretionary cash flow (DCF)	(426)	545	1,050	396	423	(484)
Cash and short-term investments	349	648	889	868	1,753	1,623
Gross available cash	349	648	889	868	1,753	1,623
Debt	11,437	13,175	15,814	13,582	10,000	11,684
Common equity	13,127	14,275	15,532	16,967	18,989	20,591
Adjusted ratios						
EBITDA margin (%)	36.9	40.9	47.1	42.8	43.0	42.4
Return on capital (%)	5.2	5.4	7.2	6.0	7.1	7.1
EBITDA interest coverage (x)	7.3	7.1	8.2	7.7	8.3	8.1
FFO cash interest coverage (x)	6.3	7.2	8.1	7.5	8.2	6.9
Debt/EBITDA (x)	5.7	5.4	4.6	4.6	3.2	3.7
FFO/debt (%)	13.4	14.1	17.6	17.7	25.9	19.8
OCF/debt (%)	13.2	18.2	17.2	17.4	28.7	20.7
FOCF/debt (%)	(1.1)	4.3	6.8	3.1	4.4	(4.0)
DCF/debt (%)	(3.7)	4.1	6.6	2.9	4.2	(4.1)

THIS WAS PREPARED EXCLUSIVELY FOR USER JONATHAN SOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Reconciliation Of Ontario Power Generation 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-31-2023									
Company reported amounts	10,542	20,409	7,434	3,155	2,084	269	3,155	2,538	19	3,003
Cash taxes paid	-	-	-	-	-	-	(441)	-	-	-
Cash interest paid	-	-	-	-	-	-	(276)	-	-	-
Lease liabilities	68	-	-	-	-	-	-	-	-	-
Postretirement benefit obligations/ deferred compensation	2,697	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(1,623)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	119	(119)	(119)	-	(119)
Nonoperating income (expense)	-	-	-	-	101	-	-	-	-	-
Noncontrolling/ minority interest	-	182	-	-	-	-	-	-	-	-
Total adjustments	1,142	182	-	-	101	119	(836)	(119)	-	(119)
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	11,684	20,591	7,434	3,155	2,185	388	2,319	2,419	19	2,884

Liquidity

We assess OPG'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 its net sources will remain positive even if its consolidated EBITDA declines 10%. We believe the company's predictable regulatory framework provides it with cash flow stability even in times of economic stress, which supports our use of slightly lower thresholds to assess its liquidity.

In addition, we believe OPG can absorb high-impact, low-probability events. This reflects its $2.8 billion various credit facilities and our expectation that it can reduce its high capital spending during stressful periods. Furthermore, our assessment reflects the company's generally prudent risk management, solid relationships with its banking group, and satisfactory standing in the credit markets.

Overall, we anticipate OPG can withstand adverse market circumstances over the next 12 months while maintaining sufficient liquidity to meet its obligations. The company's next major long debt maturity is in 2025, when about $590 million comes due, which we expect it will proactively address well in advance of the due date.

THIS WAS PREPARED EXCLUSIVELY FOR USER JONATHAN SOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Principal liquidity sources

- Cash and liquid investments of about C$1.08 billion;
- Average credit facility availability of C$2.8 billion; and
- Estimated cash FFO of about C$2.2 billion.

Principal liquidity uses

- Debt maturities of about C$418 million;
- Maintenance capital spending of C$5.1 billion; and
- Distributions to noncontrolling interest holders of about C$20 million.

Environmental, Social, And Governance

Environmental factors are a moderately negative consideration in our credit rating analysis of OPG because it has a consolidated exposure to nuclear and hydroelectric generation. The company's nuclear generation exposes it to waste and storage challenges while its hydroelectric generation exposes it to water resource use.

Social factors are a moderately negative consideration in our credit rating analysis based on the health and safety risks related to its nuclear generation. However, OPG undertakes several initiatives, including nuclear byproduct and waste management, that comply with the Canadian Nuclear Safety Commission's (CNSC) rigorous regulatory requirements and employs a comprehensive nuclear safety and emergency preparedness program designed to protect employees and the public, the environment, property, and assets, all while ensuring operational continuity. Furthermore, OPG contributes to the Nuclear Segregated Funds, based on life cycle cost estimates and resulting funding liabilities for nuclear facilities decommissioning and its waste management. These costs are recovered in rates from customers. In addition, to manage the water resources, OPG uses hydrological models, weather forecasts, satellite imagery, weather station data, and other tools to manage water levels, flows, and water storage. These initiatives somewhat offset the environmental and social risks.

Government Influence

Our ratings on OPG incorporate a high likelihood that its provincial owner, the Government of Ontario, will provide extraordinary support to the utility during periods of financial distress. OPG plays an important role for Ontario because it supplies about half of the province's electricity. In addition, the utility plays a vital role in Ontario's energy and environmental policies. Furthermore, the province has a record of providing support, both directly and indirectly, to the utility. For these reasons, we view the likelihood of extraordinary government support as high.

Issue Ratings--Subordination Risk Analysis

Capital structure

OPG's capital structure comprises roughly C$10.5 billion of debt.

Analytical conclusions

We rate the company's senior unsecured debt at the same level as our issuer credit rating because its priority debt is less than 50% of its total consolidated debt. We also rate OPG's commercial paper at 'A-1(Low)' on the Canadian National Scale.

THIS WAS PREPARED EXCLUSIVELY FOR USER JONATHAN SOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Rating Component Scores	
Foreign currency issuer credit rating	**BBB+/Stable/--**
Local currency issuer credit rating	**BBB+/Stable/--**
Business risk	**Strong**
Country risk	Very Low
Industry risk	Low
Competitive position	Strong
Financial risk	**Significant**
Cash flow/leverage	Significant
Anchor	**bbb**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Negative (-1 notch)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile	**bb+**

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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
- ARCHIVE | Criteria | Corporates | Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- ARCHIVE | Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- ARCHIVE | Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- ARCHIVE | Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- ARCHIVE | General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

THIS WAS PREPARED EXCLUSIVELY FOR USER JONATHAN SOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Ratings Detail (as of August 14, 2024)*	
Ontario Power Generation Inc.	
Issuer Credit Rating	BBB+/Stable/--
Commercial Paper	
Canada National Scale Commercial Paper	A-1(LOW)
Senior Unsecured	BBB+
Issuer Credit Ratings History	
17-Jul-2020	BBB+/Stable/--
30-Jul-2019	BBB+/Negative/--
07-Jul-2015	BBB+/Stable/--
Related Entities	
Hydro One Inc.	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
Local Currency	A-1
Canada National Scale Commercial Paper	A-1(MID)
Senior Unsecured	A
Hydro One Ltd.	
Issuer Credit Rating	A/Stable/--
Senior Unsecured	A-
Ontario (Province of)	
Issuer Credit Rating	A+/Positive/A-1
Commercial Paper	
Foreign Currency	A-1
Senior Unsecured	A+
UMH Energy Partnership	
Senior Secured	BBB+/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.

THIS WAS PREPARED EXCLUSIVELY FOR USER JONATHAN SOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

THIS WAS PREPARED EXCLUSIVELY FOR USER JONATHAN SOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

MORNINGSTAR | DBRS

PRESS RELEASE

MAY 01, 2024

Morningstar DBRS Confirms East-West Tie's Ratings at A (low) with Stable Trends

UTILITIES & INDEPENDENT POWER

DBRS Limited (Morningstar DBRS) confirmed East-West Tie Limited Partnership's (East-West Tie or the Company) Issuer Rating and Senior Secured Debt rating at A (low) with Stable trends.

KEY CREDIT RATING CONSIDERATIONS

East-West Tie's ratings are based on the Company's regulated electricity transmission operations in the Province of Ontario (rated AA (low) with a Positive trend by Morningstar DBRS), which contribute 100% of its earnings, offset by a weaker financial risk assessment. The Stable trends reflect the expected steady stream of earnings and cash flows.

Morningstar DBRS considers the regulatory framework under the Ontario Energy Board (OEB) to be supportive of the current ratings. East-West Tie is regulated under a Custom Incentive Rate-setting (IR) regime where it can recover all prudent costs and earn a reasonable return on equity (8.34% for 2022 to 2027). In November 2023, the Company filed an application with the OEB for 2024 rates, including the recovery of $160 million of additional costs that arose during construction because of the coronavirus pandemic, wildfires, and changes in construction techniques and routing. Morningstar DBRS had previously noted that any disallowances that lead to a write-off of these costs would have no impact on the key credit metrics as they have been fully funded through equity. Additionally, Morningstar DBRS expects East-West Tie to fund any additions to the rate base in line with the regulated capital structure of 60% debt, leading to minimal impact to the key credit metrics.

CREDIT RATING DRIVERS

A positive rating action may occur if the Company improves its cash flow-to-debt ratio to the "A" rating category for a sustained period (above 12.5%). Morningstar DBRS considers a negative rating action to be unlikely given the business risk assessment but could occur if East-West Tie's cash flow-to-debt ratio weakens below the 8% to 9% assumed for the current ratings.

EARNINGS OUTLOOK

East-West Tie's earnings increased in 2023 following the first full year of service for the transmission line. Overall, East-West Tie's revenue requirements during the Custom IR term will escalate annually by a revenue cap index based on an inflation factor less a stretch factor. As such, Morningstar DBRS expects the Company's earnings to be very predictable and stable over the medium term.

FINANCIAL OUTLOOK

Morningstar DBRS expects East-West Tie's cash flows to be stable as well, tracking the net income. Additionally, capital expenditures for the Company should be minimal over the near term as the transmission line is newly constructed. East-West Tie's key credit metrics for 2023 were stronger than expected as the $428 million of Senior Secured Amortizing Notes (the Notes) were only issued in May. Overall, Morningstar DBRS expects the Company's key credit metrics to be supportive of the A (low) ratings. East-West Tie is expected to maintain its debt-to-capital ratio at 60%, in line with the regulatory capital structure, through principal repayments on the Notes, which amortizes according to a 30-year mortgage-style schedule with a balloon payment (65% of the original issuance amount) at maturity, and by managing its distribution payouts. Over the medium term, Morningstar DBRS expects East-West Tie's

debt-to-capital and EBIT-interest coverage ratios to be in line with the "A" rating category, offset by a weaker cash flow-to-debt ratio of 8% to 9% because of lower annual depreciation leading to weaker operating cash flows.

CREDIT RATING RATIONALE

East-West Tie's credit ratings are supported by its low business risk and the supportive regulatory environment. This is partly offset by its refinancing risk, weaker cash flow-to-debt metric, limited access to equity markets, and reliance on a single transmission line for its revenues and cash flows.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS

Environmental (E) Factors

There were no Environmental factor(s) that had a relevant or significant effect on the credit analysis.

Social (S) Factors

There were no Social factor(s) that had a relevant or significant effect on the credit analysis.

Governance (G) Factors

There were no Governance factor(s) that had a relevant or significant effect on the credit analysis.

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (January 23, 2024; https://dbrs.morningstar.com/research/427030/).

BUSINESS RISK ASSESSMENT (BRA) AND FINANCIAL RISK ASSESSMENT (FRA)

A) Weighting of BRA Factors

In the analysis of East-West Tie, the BRA factors are considered in the order of importance contemplated in the methodology.

B) Weighting of FRA Factors

In the analysis of East-West Tie, the FRA factors are considered in the order of importance contemplated in the methodology.

C) Weighting of the BRA and the FRA

In the analysis of East-West Tie, the BRA carries greater weight than the FRA.

Notes:

All figures are in Canadian dollars unless otherwise noted.

Morningstar DBRS applied the following principal methodology:

Global Methodology for Rating Companies in the Regulated Utility and Independent Power Producer Industries (April 15, 2024; https://dbrs.morningstar.com/research/431184/).

Morningstar DBRS credit ratings may use one or more sections of the Morningstar DBRS Global Corporate Criteria (April 15, 2024; https://dbrs.morningstar.com/research/431186/), which covers, for example, topics such as holding companies and parent/subsidiary relationships, guarantees, recovery, and common adjustments to financial ratios.

The credit rating methodologies used in the analysis of this transaction can be found at: https://dbrs.morningstar.com/about/methodologies.

A description of how Morningstar DBRS analyzes corporate finance transactions and how the methodologies are collectively applied

can be found at: https://dbrs.morningstar.com/research/431153.

The related regulatory disclosures pursuant to the National Instrument 25-101 Designated Rating Organizations are hereby incorporated by reference and can be found by clicking on the link under Related Documents or by contacting us at info-DBRS@morningstar.com.

The credit rating was initiated at the request of the rated entity.

The rated entity or its related entities did participate in the credit rating process for this credit rating action.

Morningstar DBRS had access to the accounts, management and other relevant internal documents of the rated entity or its related entities in connection with this credit rating action.

This is a solicited credit rating.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. Morningstar DBRS trends and credit ratings are under regular surveillance.

Information regarding Morningstar DBRS credit ratings, including definitions, policies, and methodologies, is available on dbrs.morningstar.com or contact us at info-DBRS@morningstar.com.

DBRS Limited
DBRS Tower, 181 University Avenue, Suite 700
Toronto, ON M5H 3M7 Canada
Tel. +1 416 593-5577

Ratings

East-West Tie Limited Partnership

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
01-May-24	Issuer Rating	Confirmed	A (low)	Stb	CA
01-May-24	Senior Secured Debt	Confirmed	A (low)	Stb	CA

ALL MORNINGSTAR DBRS CREDIT RATINGS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS. ADDITIONAL INFORMATION REGARDING DBRS RATINGS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON DBRS.MORNINGSTAR.COM.

Contacts

Tom Li
Senior Vice President, Sector Lead - Corporate Ratings, Energy & Natural Resources
+(1) 416 597 7378
tom.li@morningstar.com

Tanmay Tyagi

Senior Analyst - Corporate Ratings, Energy & Natural Resources

+(1) 416 597 7478

tanmay.tyagi@morningstar.com

The Morningstar DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). Morningstar DBRS does not hold an Australian financial services license. Morningstar DBRS credit ratings, and other types of credit opinions and reports, are not intended for Australian residents or entities. Morningstar DBRS does not authorize their distribution to Australian resident individuals or entities, and accepts no responsibility or liability whatsoever for the actions of third parties in this respect. For more information on regulatory registrations, recognitions and approvals of the Morningstar DBRS group of companies, please see: https://dbrs.morningstar.com/research/highlights.pdf.

The Morningstar DBRS group of companies are wholly-owned subsidiaries of Morningstar, Inc. © 2024 Morningstar DBRS. All Rights Reserved.

The information upon which Morningstar DBRS credit ratings and other types of credit opinions and reports are based is obtained by Morningstar DBRS from sources Morningstar DBRS believes to be reliable. Morningstar DBRS does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. Morningstar DBRS credit ratings, other types of credit opinions, reports and any other information provided by Morningstar DBRS are provided "as is" and without representation or warranty of any kind and Morningstar DBRS assumes no obligation to update any such ratings, opinions, reports or other information. Morningstar DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall Morningstar DBRS or its directors, officers, employees, independent contractors, agents, affiliates and representatives (collectively, Morningstar DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of credit ratings, other types of credit opinions and reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of Morningstar DBRS or any Morningstar DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. IN ANY EVENT, TO THE EXTENT PERMITTED BY LAW, THE AGGREGATE LIABILITY OF MORNINGSTAR DBRS AND THE MORNINGSTAR DBRS REPRESENTATIVES FOR ANY REASON WHATSOEVER SHALL NOT EXCEED THE GREATER OF (A) THE TOTAL AMOUNT PAID BY THE USER FOR SERVICES PROVIDED BY MORNINGSTAR DBRS DURING THE TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO LIABILITY, AND (B) U.S. $100. Morningstar DBRS does not act as a fiduciary or an investment advisor. Morningstar DBRS does not provide investment, financial or other advice.

Credit ratings, other types of credit opinions and other analysis and research issued by Morningstar DBRS (a) are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities; (b) do not take into account your personal objectives, financial situations or needs; (c) should be weighed, if at all, solely as one factor in any investment or credit decision; (d) are not intended for use by retail investors; and (e) address only credit risk and do not address other investment risks, such as liquidity risk or market volatility risk. Accordingly, credit ratings, other types of credit opinions and other analysis and research issued by Morningstar DBRS are not a substitute for due care and the study and evaluation of each investment decision, security or credit that one may consider making, purchasing, holding, selling, or providing, as applicable.

A report with respect to a Morningstar DBRS credit rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities.

Morningstar DBRS may receive compensation for its credit ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities.

This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of Morningstar DBRS. ALL MORNINGSTAR DBRS CREDIT RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DEFINITIONS, LIMITATIONS, POLICIES AND METHODOLOGIES THAT ARE AVAILABLE ON https://dbrs.morningstar.com. Users may, through hypertext or other computer links, gain access to or from websites operated by persons other than Morningstar DBRS. Such hyperlinks or other computer links are provided for convenience only. Morningstar DBRS does not endorse the content, the operator or operations of third party websites. Morningstar DBRS is not responsible for the content or operation of such third party websites and Morningstar DBRS shall have no liability to you or any other person or entity for the use of third party websites.

MORNINGSTAR | DBRS

PRESS RELEASE

MARCH 27, 2023

DBRS Morningstar Assigns Provisional Ratings of A (low) with Stable Trends to East-West Tie Limited Partnership

UTILITIES & INDEPENDENT POWER

DBRS Limited (DBRS Morningstar) assigned a provisional Issuer Rating of A (low) to East-West Tie Limited Partnership (East-West Tie or the Company) and assigned a provisional rating of A (low) to East-West Tie's proposed $427 million Senior Secured Debt issuance. The trends on both ratings are Stable. The ratings on East-West Tie are based on the Company's regulated electricity transmission operations in the Province of Ontario (rated AA (low) with a Stable trend by DBRS Morningstar), which contribute 100% of its earnings, offset by a weaker financial risk assessment. The Stable trends reflect East-West Tie's steady stream of earnings and cash flows.

East-West Tie's assets consist of a 445-kilometre transmission line and related assets spanning between Thunder Bay and Wawa, Ontario. The transmission line was completed on March 31, 2022. In June 2021, the Ontario Energy Board approved the Company's 2022 to 2027 revenue requirement application. Under the Custom Incentive Rate-setting (IR) framework, East-West Tie's 2022 revenue was determined under a cost-of-service methodology, whereby the Company can recover all prudent expenditures and have the opportunity to earn a reasonable return on its investments (return on equity of 8.34%). East-West Tie's revenue requirements for subsequent years during the Custom IR term will escalate annually by a revenue cap index based on an inflation factor less a stretch factor. As such, DBRS Morningstar expects the Company's earnings and cash flows over the Custom IR term to be very predictable and stable.

DBRS Morningstar notes that East-West Tie intends to issue $427 million of Senior Secured Amortizing Notes (the Notes), with the proceeds to be used to pay transaction costs and distributed to the owners to reimburse a portion of the development and construction costs. The Notes will amortize according to a 30-year mortgage-style schedule with a balloon payment (65% of the original issuance amount) at maturity in order for the Company to maintain leverage in line with the regulatory capital structure of 60% debt. DBRS Morningstar also expects East-West Tie's cash flow-to-debt metric in 2023 to be modestly weaker as the Company will be recovering interest expense at a placeholder rate until it is trued-up in 2024 through a debt rate deferral account. Over the medium term, DBRS Morningstar expects East-West Tie's debt-to-capital and EBIT-interest coverage ratios to be in line with the "A" rating category, offset by a weaker cash flow-to-debt ratio of 8% to 9% because of lower annual depreciation leading to weaker operating cash flows. A positive rating action may occur if the Company improves its cash flow-to-debt ratio to the "A" rating category for a sustained period. A negative rating action could occur if East-West Tie's overall financial risk assessment is no longer commensurate with the assigned ratings.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

There were no Environmental/Social/Governance factors that had a significant or relevant effect on the credit analysis.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at https://www.dbrsmorningstar.com/research/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings (May 17, 2022).

Notes:
All figures are in Canadian dollars unless otherwise noted.

The principal methodology applicable to the ratings is Global Methodology for Rating Companies in the Regulated Electric, Natural Gas, and Water Utilities Industry (September 13, 2022; https://www.dbrsmorningstar.com/research/402616).

The rating methodologies used in the analysis of this transaction can be found at: https://www.dbrsmorningstar.com/about/methodologies.

A description of how DBRS Morningstar analyzes corporate finance transactions and how the methodologies are collectively applied can be found at: https://www.dbrsmorningstar.com/research/397223/interplay-of-global-corporate-finance-rating-methodologies-when-analyzing-corporate-finance-transactions.

The related regulatory disclosures pursuant to the National Instrument 25-101 Designated Rating Organizations are hereby incorporated by reference and can be found by clicking on the link under Related Documents or by contacting us at info@dbrsmorningstar.com.

The rated entity or its related entities did participate in the rating process for this rating action. DBRS Morningstar had access to the accounts and other relevant internal documents of the rated entity or its related entities in connection with this rating action.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. DBRS Morningstar trends and ratings are under regular surveillance.

Information regarding DBRS Morningstar ratings, including definitions, policies, and methodologies, is available on www.dbrsmorningstar.com or contact us at info@dbrsmorningstar.com.

DBRS Limited
DBRS Tower, 181 University Avenue, Suite 700
Toronto, ON M5H 3M7 Canada
Tel. +1 416 593-5577

Ratings

East-West Tie Limited Partnership

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
27-Mar-23	Issuer Rating	Provis.-New	A (low)	Stb	CA
27-Mar-23	Senior Secured Debt	Provis.-New	A (low)	Stb	CA

ALL MORNINGSTAR DBRS CREDIT RATINGS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS. ADDITIONAL INFORMATION REGARDING DBRS RATINGS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON DBRS.MORNINGSTAR.COM.

Contacts

Tom Li

Senior Vice President, Sector Lead - Corporate Ratings, Energy & Natural Resources

+(1) 416 597 7378

tom.li@morningstar.com

Tanmay Tyagi

Senior Analyst - Corporate Ratings, Energy & Natural Resources

+(1) 416 597 7478

tanmay.tyagi@morningstar.com

The Morningstar DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). Morningstar DBRS does not hold an Australian financial services license. Morningstar DBRS credit ratings, and other types of credit opinions and reports, are not intended for Australian residents or entities. Morningstar DBRS does not authorize their distribution to Australian resident individuals or entities, and accepts no responsibility or liability whatsoever for the actions of third parties in this respect. For more information on regulatory registrations, recognitions and approvals of the Morningstar DBRS group of companies, please see: https://dbrs.morningstar.com/research/highlights.pdf.

The Morningstar DBRS group of companies are wholly-owned subsidiaries of Morningstar, Inc. © 2024 Morningstar DBRS. All Rights Reserved.

The information upon which Morningstar DBRS credit ratings and other types of credit opinions and reports are based is obtained by Morningstar DBRS from sources Morningstar DBRS believes to be reliable. Morningstar DBRS does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. Morningstar DBRS credit ratings, other types of credit opinions, reports and any other information provided by Morningstar DBRS are provided "as is" and without representation or warranty of any kind and Morningstar DBRS assumes no obligation to update any such ratings, opinions, reports or other information. Morningstar DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall Morningstar DBRS or its directors, officers, employees, independent contractors, agents, affiliates and representatives (collectively, Morningstar DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of credit ratings, other types of credit opinions and reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of Morningstar DBRS or any Morningstar DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. IN ANY EVENT, TO THE EXTENT PERMITTED BY LAW, THE AGGREGATE LIABILITY OF MORNINGSTAR DBRS AND THE MORNINGSTAR DBRS REPRESENTATIVES FOR ANY REASON WHATSOEVER SHALL NOT EXCEED THE GREATER OF (A) THE TOTAL AMOUNT PAID BY THE USER FOR SERVICES PROVIDED BY MORNINGSTAR DBRS DURING THE TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO LIABILITY, AND (B) U.S. $100. Morningstar DBRS does not act as a fiduciary or an investment advisor. Morningstar DBRS does not provide investment, financial or other advice.

Credit ratings, other types of credit opinions and other analysis and research issued by Morningstar DBRS (a) are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities; (b) do not take into account your personal objectives, financial situations or needs; (c) should be weighed, if at all, solely as one factor in any investment or credit decision; (d) are not intended for use by retail investors; and (e) address only credit risk and do not address other investment risks, such as liquidity risk or market volatility risk. Accordingly, credit ratings, other types of credit opinions and other analysis and research issued by Morningstar DBRS are not a substitute for due care and the study and evaluation of each investment decision, security or credit that one may consider making, purchasing, holding, selling, or providing, as applicable.

A report with respect to a Morningstar DBRS credit rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities.

Morningstar DBRS may receive compensation for its credit ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities.

This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of Morningstar DBRS. ALL MORNINGSTAR DBRS CREDIT RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DEFINITIONS, LIMITATIONS, POLICIES AND METHODOLOGIES THAT ARE AVAILABLE ON https://dbrs.morningstar.com. Users may, through hypertext or other computer links, gain access to or from websites operated by persons other than Morningstar DBRS. Such hyperlinks or other computer links are provided for convenience only. Morningstar DBRS does not endorse the content, the operator or operations of third party websites. Morningstar DBRS is not responsible for the content or operation of such third party websites and Morningstar DBRS shall have no liability to you or any other person or entity for the use of third party websites.

MORNINGSTAR | DBRS

PRESS RELEASE

MAY 01, 2023

DBRS Morningstar Finalizes Provisional Ratings of A (low) with Stable Trends on East-West Tie Limited Partnership

UTILITIES & INDEPENDENT POWER

DBRS Limited (DBRS Morningstar) finalized its provisional Issuer Rating and Senior Secured Debt rating of A (low) on East-West Tie Limited Partnership (East-West Tie). DBRS Morningstar also finalized its provisional rating of A (low) on East-West Tie's $428 million Senior Secured Notes issuance. All trends are Stable. The finalized ratings follow the issuance of the Senior Secured Notes on terms consistent with those contemplated by DBRS Morningstar when it assigned provisional ratings on March 27, 2023.

Please refer to the press release "DBRS Morningstar Assigns Provisional Ratings of A (low) with Stable Trends to East-West Tie Limited Partnership," published on March 27, 2023, for more details.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS
There were no Environmental/Social/Governance factors that had a significant or relevant effect on the credit analysis.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at https://www.dbrsmorningstar.com/research/396929 (May 17, 2022).

Notes:
All figures are in Canadian dollars unless otherwise noted.

DBRS Morningstar applied the following principal methodology:
-- Global Methodology for Rating Companies in the Regulated Electric, Natural Gas, and Water Utilities Industry (September 13, 2022; https://www.dbrsmorningstar.com/research/402616).

The credit rating methodologies used in the analysis of this transaction can be found at: https://www.dbrsmorningstar.com/about/methodologies.

A description of how DBRS Morningstar analyzes corporate finance transactions and how the methodologies are collectively applied can be found at: https://www.dbrsmorningstar.com/research/397223/interplay-of-global-corporate-finance-rating-methodologies-when-analyzing-corporate-finance-transactions.

The related regulatory disclosures pursuant to the National Instrument 25-101 Designated Rating Organizations are hereby incorporated by reference and can be found by clicking on the link under Related Documents or by contacting us at info@dbrsmorningstar.com.

The rating was initiated at the request of the rated entity.

The rated entity or its related entities did participate in the rating process for this rating action.

DBRS Morningstar had access to the accounts, management and other relevant internal documents of the rated entity or its related entities in connection with this rating action.

This is a solicited credit rating.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. DBRS Morningstar trends and ratings are under regular surveillance.

Information regarding DBRS Morningstar ratings, including definitions, policies, and methodologies, is available on www.dbrsmorningstar.com or contact us at info@dbrsmorningstar.com.

DBRS Limited
DBRS Tower, 181 University Avenue, Suite 700
Toronto, ON M5H 3M7 Canada
Tel. +1 416 593-5577

Ratings

East-West Tie Limited Partnership

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
01-May-23	Issuer Rating	Provis.-Final	A (low)	Stb	CA
01-May-23	Senior Secured Debt	Provis.-Final	A (low)	Stb	CA

ALL MORNINGSTAR DBRS CREDIT RATINGS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS. ADDITIONAL INFORMATION REGARDING DBRS RATINGS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON DBRS.MORNINGSTAR.COM.

Contacts

Tom Li
Senior Vice President, Sector Lead - Corporate Ratings, Energy & Natural Resources
+(1) 416 597 7378
tom.li@morningstar.com

Tanmay Tyagi
Senior Analyst - Corporate Ratings, Energy & Natural Resources
+(1) 416 597 7478
tanmay.tyagi@morningstar.com

The Morningstar DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). Morningstar DBRS does not hold an Australian financial services license. Morningstar DBRS credit ratings, and other types of credit opinions and reports, are not intended for Australian residents or entities. Morningstar DBRS does not authorize their distribution to Australian resident individuals or entities, and accepts no responsibility or liability whatsoever for the actions of third parties in this respect. For more information on regulatory registrations, recognitions and approvals of the Morningstar DBRS group of companies, please see: https://dbrs.morningstar.com/research/highlights.pdf.

The Morningstar DBRS group of companies are wholly-owned subsidiaries of Morningstar, Inc. © 2024 Morningstar DBRS. All Rights Reserved.

The information upon which Morningstar DBRS credit ratings and other types of credit opinions and reports are based is obtained by Morningstar DBRS from sources Morningstar DBRS believes to be reliable. Morningstar DBRS does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. Morningstar DBRS credit ratings, other types of credit opinions, reports and any other information provided by Morningstar DBRS are provided "as is" and without representation or warranty of any kind and Morningstar DBRS assumes no obligation to update any such ratings, opinions, reports or other information. Morningstar DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall Morningstar DBRS or its directors, officers, employees, independent contractors, agents, affiliates and representatives (collectively, Morningstar DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of credit ratings, other types of credit opinions and reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of Morningstar DBRS or any Morningstar DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. IN ANY EVENT, TO THE EXTENT PERMITTED BY LAW, THE AGGREGATE LIABILITY OF MORNINGSTAR DBRS AND THE MORNINGSTAR DBRS REPRESENTATIVES FOR ANY REASON WHATSOEVER SHALL NOT EXCEED THE GREATER OF (A) THE TOTAL AMOUNT PAID BY THE USER FOR SERVICES PROVIDED BY MORNINGSTAR DBRS DURING THE TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO LIABILITY, AND (B) U.S. $100. Morningstar DBRS does not act as a fiduciary or an investment advisor. Morningstar DBRS does not provide investment, financial or other advice.

Credit ratings, other types of credit opinions and other analysis and research issued by Morningstar DBRS (a) are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities; (b) do not take into account your personal objectives, financial situations or needs; (c) should be weighed, if at all, solely as one factor in any investment or credit decision; (d) are not intended for use by retail investors; and (e) address only credit risk and do not address other investment risks, such as liquidity risk or market volatility risk. Accordingly, credit ratings, other types of credit opinions and other analysis and research issued by Morningstar DBRS are not a substitute for due care and the study and evaluation of each investment decision, security or credit that one may consider making, purchasing, holding, selling, or providing, as applicable.

A report with respect to a Morningstar DBRS credit rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities.

Morningstar DBRS may receive compensation for its credit ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities.

This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of Morningstar DBRS. ALL MORNINGSTAR DBRS CREDIT RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DEFINITIONS, LIMITATIONS, POLICIES AND METHODOLOGIES THAT ARE AVAILABLE ON https://dbrs.morningstar.com. Users may, through hypertext or other computer links, gain access to or from websites operated by persons other than Morningstar DBRS. Such hyperlinks or other computer links are provided for convenience only. Morningstar DBRS does not endorse the content, the operator or operations of third party websites. Morningstar DBRS is not responsible for the content or operation of such third party websites and Morningstar DBRS shall have no liability to you or any other person or entity for the use of third party websites.

Rating Report

Hydro One Inc.

Ram Vadali, CFA, CPA
+1 416 597 7526
rvadali@dbrs.com

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

Guru Durairaj
+1 416 597 7357
gdurairaj@dbrs.com

DBRS

Insight beyond the rating.

Ratings

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

Rating Update

On April 10, 2019, DBRS Limited (DBRS) confirmed the Issuer Rating and the Senior Unsecured Debentures rating of Hydro One Inc. (HOI or the Company) at A (high) and the Commercial Paper rating at R-1 (low). All trends are Stable. The confirmations reflect HOI's relatively low risk business profile supported by a transparent regulatory framework, a strong franchise area for its electricity transmission and distribution services and reasonable financial profile sustained by predictable earnings and cash flow. The Stable trends assume that the regulatory regime will remain supportive, allowing HOI to earn a fair rate of return while recovering costs on a timely basis.

HOI is the largest electricity transmission and distribution company in the Province of Ontario (the Province; rated AA (low) with a Stable trend by DBRS) and is wholly owned by Hydro One Limited (HOL; approximately 47.4% owned by the Province). The Company's transmission business owns and operates approximately 98% of the transmission network in Ontario while the distribution business serves nearly 26% of the Province's customers. HOI's rate base has been growing and reached $19.7 billion at YE2018.

DBRS rates HOI without assuming any credit support from its owner and continues to be HOL's only major asset. HOL and Avista Corporation, a regulated utility operating in the U.S. Pacific Northwest, terminated their 2017 merger agreement in January 2019, following denial of the merger by the public utility commissions of Washington and Idaho, citing political interference from the Province. DBRS notes that this termination does not affect the credit profile of HOI and expects the Company to be internally focused on its footprint in Ontario. However, should political interference adversely affect the Ontario Energy Board's (OEB) independent regulatory rate-making framework or HOI's operating and financial decisions, ratings could be pressured.

HOI's distribution business operates under a performance-based Custom Incentive Rate-Setting (CIR) framework approved by the OEB for 2018-2022. HOI's transmission business operates under an inflation-adjusted cost of service (COS) model for 2019 and filed a three-year CIR rate application with the OEB in March 2019.

DBRS notes that HOI's credit metrics are pressured because of the incremental debt used to fund free cash flow deficits resulting from high capital expenditures (capex) and dividends. HOI's $10 billion capex program for 2019-2023 is largely to sustain aging power systems. Approximately 70% of HOI's 2018 capex was spent on sustaining capex. HOI's dividend payout ratio is expected to remain high in order to meet HOL's dividend objective to pay out approximately 70% to 80% of its consolidated net income. HOI's credit metrics face further pressure from the annual reduction in cash flow due to the OEB's decision that tax savings from the deferred tax asset resulting from the Company's transition to a public company should be shared with rate payers . While an upgrade is unlikely, DBRS could downgrade HOI's ratings should the Company's cash flow-to-debt ratio weaken below 13% and/or its DBRS adjusted debt-to-capital ratio exceed 60% on a sustained basis.

Financial Information

	For the year ended December 31				
	2018	2017	2016	2015	2014
Cash flow/Total debt	13.0%	13.2%	13.5%	13.2%	15.4%
Total debt in capital structure	56.7%	53.3%	53.0%	51.1%	53.0%
EBIT gross interest coverage (times)	2.87	2.65	2.77	2.74	2.83

Issuer Description

HOI is a fully owned subsidiary of HOL and is the largest electricity transmission and distribution company in Ontario. The Company owns and operates over 30,000 circuit kilometres (km) of high-voltage transmission lines and approximately 123,000 circuit km of primary low-voltage distribution lines and serves nearly 1.4 million customers.

Rating Considerations

Strengths

1. Reasonable regulatory environment

HOI's earnings are contributed by its low-risk regulated transmission and distribution businesses that operate under a reasonable regulatory framework. The regulatory regime under the OEB permits HOI a reasonable opportunity to recover operating and capital costs and earn the approved rates of return. The Company's deemed capital structure (debt-to-equity of 60%:40%) has remained unchanged for several years. DBRS views the utility regulatory framework in Ontario as transparent and supportive for regulated transmission and distribution operators.

2. Extensive franchise area

HOI owns the largest transmission and distribution businesses in Ontario. The Company operates approximately 98% of the Province's transmission infrastructure based on revenues approved by the OEB, is connected to 42 local distribution companies (including HOI's own distribution business) and 84 large directly connected industrial customers. The Company's transmission system is also interconnected to systems in Manitoba, Michigan, Minnesota, New York and Québec through interties. Load growth is expected to be modest and in line with economic growth in the Province. The distribution business spans approximately 75% of the Province, serving nearly 1.4 million customers, or approximately 26% of the Province's customers.

3. Reasonable financial profile

HOI continues to maintain a reasonably healthy balance sheet. Although the cash flow-to-debt metric has been pressured in recent years, overall key credit metrics have remained reasonable for the current rating category (debt-to-capital ratio at 56.7%, cash flow-to-debt at 13.0% and EBIT interest coverage at 2.87 times (x) for 2018).

Challenges

1. High level of planned capex

The Company has a large capital program that is expected to continue over the next several years and could pressure credit metrics. Capex was approximately $1.6 billion for 2018 (approximately $985 million for transmission and approximately $577 million for distribution), with a plan for approximately $10.0 billion in the next five years. A major part of HOI's capital program is for essential replacement of aging infrastructure to maintain reliability of aging transmission and distribution assets.

2. High dividend payouts

HOI's dividend payout ratio (dividends relative to net earnings) is high in order to support HOL's dividend policy (payout approximately 70% to 80% of consolidated net income). DBRS expects the Company's dividend payout ratio to remain high in order to meet HOL's dividend objectives, and consequently, HOI will need to access significant external funding to finance the potentially sizable free cash flow deficits because of the dividends and capex commitments expected over the medium term.

3. Earnings sensitive to volume and costs

HOI's earnings can be affected by weather patterns, seasonality and economic conditions. The OEB approves the Company's transmission and distribution rates based on forecasted electricity load and consumption levels. Cooler summers and warmer winters could reduce demand for electricity below forecasted levels and negatively affect revenues. Furthermore, current revenue requirements are approved based on cost assumptions that could materially differ from actual costs. There is no assurance that the OEB would allow rate increases to offset financial impacts from unanticipated changes in electricity demand or in costs. However, this risk is expected to be partially mitigated as the OEB has implemented a fixed monthly distribution charge for residential customers and HOI is currently phasing in a fixed monthly rate for all its residential customers in the next four years. However, some seasonality will remain as a major part of the Company's earnings are generated from transmission revenues.

Earnings and Outlook

	For the year ended December 31				
(CAD millions where applicable)	2018	2017	2016	2015	2014
Net Revenue	3,211	3,072	3,075	3,079	3,129
OM&A Costs	(1,145)	(1,104)	(1,149)	(1,220)	(1,225)
EBITDA	2,066	1,968	1,926	1,859	1,904
EBIT	1,326	1,248	1,247	1,192	1,263
Gross interest expense	(461)	(468)	(448)	(433)	(444)
Earning before taxes	908	837	855	814	874
Income taxes	(48)	(120)	(131)	(113)	(86)
Minority interest	(6)	(6)	(6)	(10)	2
Net income before non-recurring items	854	711	718	691	790
Non-recurring items 1	(885)	0	12	1	(41)
Reported net income	(31)	711	730	692	749
Return on equity	10.9%	9.1%	9.7%	9.0%	10.3%

1 Non-recurring items include write-off of deferred tax asset in 2018 and customer service recovery project costs in 2014.

	2018	2017	2016	2015	2014
Transmission rate base (CAD billions) 2	11.87	11.25	10.78	10.17	9.93
Distribution rate base (CAD billions)	7.85	7.39	7.06	6.59	5.03
Allowed ROE - Transmission (Hydro One Network)	9.00%	8.78%	9.19%	9.30%	9.36%
Allowed ROE - Transmission (B2M LP)	9.00%	8.78%	9.19%	9.30%	N/A
Allowed ROE - Transmission (Hydro One Ste. Marie LP)	9.19%	9.19%	9.19%	N/A	N/A
Allowed ROE - Distribution	9.00%	8.78%	9.19%	9.30%	9.66%
Deemed Equity (Transmission & Distribution)	40%	40%	40%	40%	40%

2 Includes Hydro One Networks, B2M LP and Hydro One Ste. Marie LP.

2018 Summary

- HOI's earnings are relatively stable and are supported by a reasonable regulatory environment, extensive franchise area and a diverse customer base that is growing at a steady rate.
- The Company's net income was higher in 2018, due to higher energy consumption from favourable weather, higher ROE and OEB-approved transmission rates that were partly offset by modestly higher operating costs.
- HOI amended its financial statements subsequent to year-end and took a $885 million write-off of deferred tax assets following the OEB recently reiterating its earlier decision that the tax savings from the deferred tax asset resulting from the Company's transition to a public company should be shared with ratepayers (62% shareholders; 38% to ratepayers).

2019 Outlook

- Net earnings for 2019 are likely to be modestly higher, relative to 2018, as increased revenues from rate base growth in both transmission and distribution segments are expected to be partially offset by the approximately $60 million revenue reduction from OEB's decision on the tax savings.

Financial Profile

	For the year ended December 31				
(CAD millions where applicable)	**2018**	**2017**	**2016**	**2015**	**2014**
Net income before non-recurring items	854	711	718	691	790
Depreciation & amortization	740	720	679	667	641
Deferred income taxes and other	25	88	119	(3)	(51)
Cash flow from operations	**1,619**	**1,519**	**1,516**	**1,355**	**1,380**
Dividends	(559)	(550)	(611)	(888)	(287)
Capital expenditures	(1,524)	(1,527)	(1,634)	(1,569)	(1,504)
Free cash flow (bef. working cap. changes)	(464)	(558)	(729)	(1,102)	(411)
Changes in non-cash work. Capital	(50)	63	168	187	(55)
Changes in regulatory assets	35	112	(16)	(3)	(69)
Deferred income tax asset 1	0	0	0	(2,798)	0
Net Free Cash Flow	(479)	(383)	(577)	(3,716)	(535)
Acquisitions	0	0	(224)	(143)	(66)
Long-term investments 2	0	0	0	0	250
Amount to be financed	(479)	(383)	(801)	(3,859)	(351)
Net equity change	0	0	0	2,600	72
Net debt change 3	970	344	776	1,254	(177)
Other	1	(9)	(16)	(6)	(9)
Change in cash	492	(48)	(41)	(11)	(465)
Total debt	12,447	11,482	11,149	10,198	8,927
Cash and equivalents	492	0	48	89	100
Cash flow-to-total debt	13.0%	13.2%	13.5%	13.2%	15.4%
Total debt in capital structure	56.7%	53.3%	53.0%	51.1%	53.0%
EBIT gross interest coverage (times)	2.87	2.65	2.77	2.74	2.83
Debt-to-rate base	63%	61.6%	62.5%	60.8%	59.7%
Dividend payout ratio 4	65.5%	77.4%	85.1%	128.6%	36.3%

1 2015 deferred income tax asset recorded on revaluation of assets upon switching from PILs regime to the federal tax regime.
2 Proceeds of $250 million Province of Ontario FRNs redeemed in 2014.
3 Includes preferred shares of $486 million in 2017 that DBRS has treated as debt as the shares were redeemed in Jan 2019.
4 2015 dividends includes dividends paid to the Province for recapitalization pre-IPO.

2018 Summary

- HOI's key credit metrics remained reasonable for the current rating category.
- HOI continued to generated free cash flow deficits, resulting from high capex and dividends to HOL that were funded with debt.
- The excess cash balance at the end of 2018 was used towards the redemption of the outstanding preferred shares held by the HOL in January 2019.

2019 Outlook

- DBRS expects free cash flow deficits to persist in the medium term as the Company has planned capex averaging approximately $2.0 billion annually during the 2019-2023 term (approximately 63% for transmission and 37% for distribution) largely to sustain HOI's aging power systems and also to build critical infrastructure to meet growth in the customer base. As a result, key credit metrics are expected to be pressured in the medium term.
- Cash flow from operations is expected to grow modestly over the medium to long term from rate base growth of approximately 5% annually.
- DBRS expects the Company to support HOL's dividend policy (annual dividends of approximately 70% to 80% of consolidated net income) to the extent that such dividend payouts maintain HOI's regulatory capital structure. Consequently, DBRS expects dividends to remain high.
- HOI's credit metrics face pressure from the annual reduction of cash flow (approximately $60 million annually) resulting from the tax savings passed on to ratepayers.

Debt and Liquidity

(CAD millions - As at December 31, 2018)	Amount	Draw/LOCs	Available	Maturity
Cash & Cash Equivalents	-		-	
Revolving standby credit facility	2,300	1,252	1,048	June 2022
Total	**2,300**	**1,252**	**1,048**	

- The Company's liquidity profile remains reasonable and adequate for its normal operating requirements.
- HOI has a revolving credit facility of $2.3 billion maturing in June 2022. The Company recently increased the limit on its commercial paper (CP) program to $2.3 billion from $1.5 billion. The CP program is backstopped by the revolving credit facility. As of December 31, 2018, approximately $1,252 million of CP was outstanding.

Long-term Debt Maturities

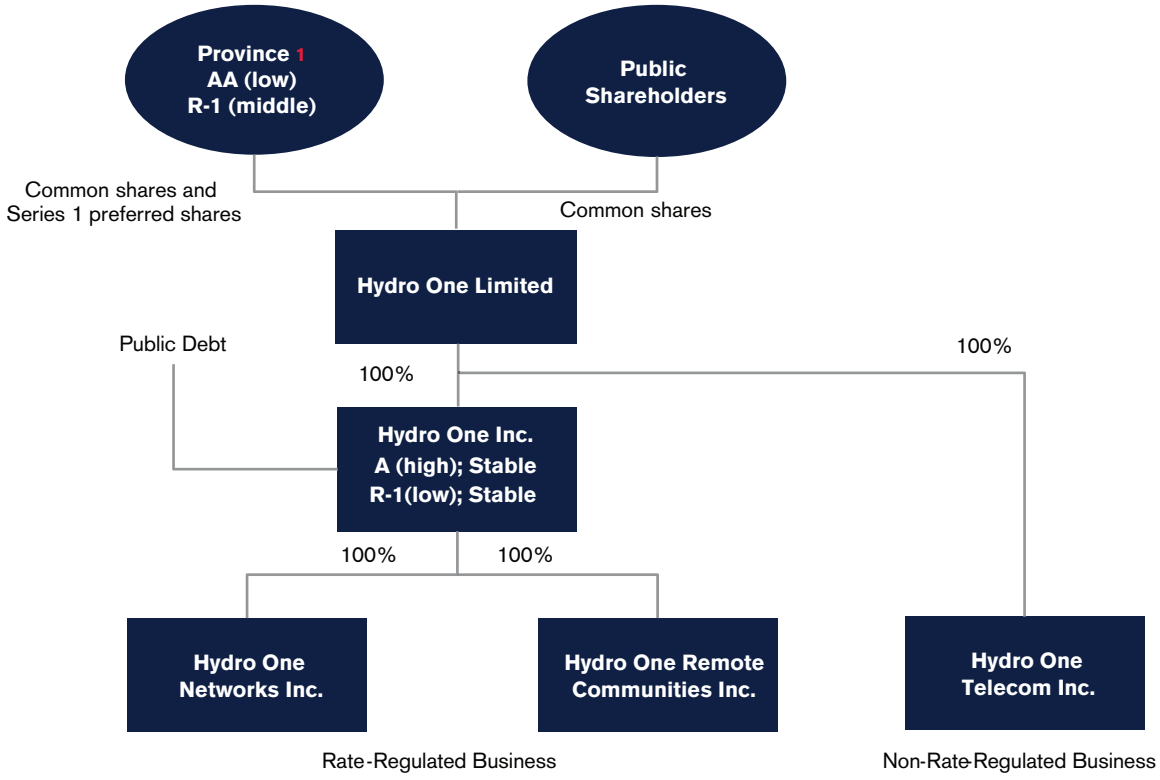
(CAD millions - As at December 31, 2018)	2019	2020	2021	2022	2023	Thereafter	Total
Principal Repayments	731	653	803	603	131	7,795	10,716
% of Total	7%	6%	7%	6%	1%	73%	100%

- HOI's refinancing risk remains manageable with maturities well spread-out.
- HOI has adequate access to debt markets and access to the equity market through its parent, HOL. In April 2019, the Company issued $1.5 billion of additional medium-term notes to repay short-term debt and for general corporate purposes.
- HOI has credit covenants limiting the permissible debt to 75% of its total capitalization and limiting the ability to sell assets and impose negative pledge provisions, subject to customary exceptions. As of December 31, 2018, the Company was in compliance with all of the covenants and limitations.

Major Projects and Acquisitions

- Major transmission development projects include: (1) the $240 million Clarington Transmission Station Project to install additional autotransformer capacity in the east Greater Toronto Area. A major part of the project was completed and placed in-service in 2018; (2) a major part of the $56 million Supply to Essex County Transmission Reinforcement Project, a new transmission line in the Windsor-Essex region, was completed and placed in-service in 2018; (3) the $35 million Northwest Ontario Bulk Transmission Line Project (scope limited to development phase only, as specified by the Independent Electricity System Operator), a new transmission line in the west Thunder Bay area, expected to be in service by 2024; (4) the $157 million East-West Tie Station Expansion Project, expected to be in service in 2022; and (5) the $130 million Niagara Reinforcement Project, a new transmission line to enable generators in the Niagara area to connect to load centres of the greater Toronto and Hamilton areas, expected to be in-service in 2019.
- The Company reached an agreement to acquire the business and distribution assets of Peterborough Distribution Inc., an electricity distribution company located in the County of Peterborough, from the Corporation of the City of Peterborough for approximately $105 million, subject to closing adjustments. The acquisition has been approved by the Competition Bureau and an OEB decision is pending.
- In August 2016, HOI reached an agreement to acquire Orillia Power Distribution Corporation, an electricity distribution company located in Simcoe County, Ontario, for approximately $41 million, including the assumption of $15 million in outstanding indebtedness and regulatory liabilities, subject to other closing adjustments. The OEB denied the proposed acquisition in April 2018 and upheld the decision again in August 2018. HOI filed a new Mergers, Acquisitions, Amalgamations and Divestitures application in September 2018 that is awaiting a decision by the OEB.

Simplified Ownership Structure



Notes:
1 As of December 31, 2018, the Province owned approximately 47.4% of Hydro One Limited's outstanding common shares and 100% of the outstanding Series 1 preferred shares.

- In November 2015, HOL and the Province completed an initial public offering on the Toronto Stock Exchange of approximately 89.3 million common shares of HOL. In April 2016, the Province completed a secondary offering of 83.3 million common shares of HOL. In May 2017, the Province completed a further secondary offering of 120 million common shares of HOL.
- HOI is 100% owned by HOL, which is in turn 47.4% owned by the Province, with the remaining held by public shareholders.
- HOI owns two regulated utilities, Hydro One Networks Inc. and Hydro One Remote Communities Inc.
- Hydro One Networks Inc. carries on rate-regulated transmission and distribution businesses.
- Hydro One Remote Communities Inc. generates and supplies electricity to remote communities in northern Ontario.

Regulation

Regulatory Overview

- HOI has a good track record of prudently managing its regulatory risk. The Company's transmission and distribution businesses are licensed and regulated by the OEB. DBRS has assessed the regulatory environment to be reasonable. (Refer to the Assessment of HOI's Regulatory Environment on page 8).
- The OEB uses a deemed debt-to-common equity structure of 60% to 40% for both the transmission and distribution business segments.
- HOI's distribution operations transitioned to CIR in 2018 and transmission operations, currently under COS inflation-adjusted rates for 2019, will be transitioning to CIR in 2020.
- In a performance-based rate (PBR) making model, the OEB-approved electricity rates permit HOI to recover prudently-incurred costs and earn an allowed rate of return on its 40% deemed equity capital. PBR assumes that a utility becomes more efficient over time and ensures that increases to operating costs included in electricity rates are set below the level of inflation. Rates are adjusted formulaically in years subsequent to the initial rebasing of costs. HOI can retain some or all the savings and earn more than its allowed return on equity (ROE) if it is able to achieve cost savings in excess of those approved by the OEB.
- Going forward, HOI is expected to file a single five-year rate application (2023-2027) for both the distribution and transmission businesses as required by the OEB.

Transmission

- In October 2018, Hydro One Networks Inc. submitted a one-year COS inflation-based (CPI assumed at 2% over 2018) 2019 transmission revenue requirement application to the OEB. In December 2018, the OEB approved the 2019 transmission revenue requirement of approximately $1,521 million and specified the 2019 uniform transmission rates, effective as of January 1, 2019.
- In March 2019, Hydro One Networks Inc. filed its transmission rate application for 2020-2022 revenue requirements with the OEB, requesting $1,673 million of revenue requirement for 2020. This application is based on a CIR approach for a three-year period. HOI's revenue requirement for the first year of the three-year period (2020) is to be determined using a COS, forward test year approach. To establish the annual revenue requirements for 2021 and 2022, the Company is proposing a Custom Revenue Cap IR in which the revenue requirement for the subsequent year increases by the Revenue Cap Index (RCI). HOI has requested a RCI for 2021 of 5.04%, comprised of inflation of 1.4%, productivity of 0% and capital factor of 3.64%. Earnings sharing mechanism (ESM) allows customers to share 50% of earnings that exceed the regulatory ROE by more than 100 basis points (bps) in any year of the CIR term.
- In December 2015, the OEB approved B2M Limited Partnership's revenue requirement for 2015-2019, subject to annual updates. In May 2018, the OEB approved the 2018 transmission application revenue requirement of $36 million, effective January 1, 2018. In November 2018, the OEB approved uniform transmission rates and 2019 revenue requirements of approximately $33 million, effective January 1, 2019.
- In July 2018, Hydro One Sault Ste. Marie Limited Partnership filed its 2019 application to allow for inflationary increases to its previously approved revenue requirement. The decision is expected in the second quarter of 2019.

Distribution

- In March 2017, Hydro One Networks Inc. filed a distribution application for 2018–2022 rates based on the CIR approach. The application sought approval of a revenue requirement of $1,505 million for 2018, reflecting an increase of 3.5% over 2017, and rate base of $7,672 million. The revenue requirement for 2018 was determined using a COS forward test year approach. To establish the annual revenue requirements from 2019 to 2022, HOI proposed a revenue cap index that allows for an annual increase in distribution rates based on an inflation, a productivity and a custom capital factor to recover incremental revenue associated with capex. The Company has also proposed for equity thickness to remain unchanged at 40% and the ROE of 9.00%.
- In March 2019, the OEB issued the decision on HOI's 2018-2022 distribution rate application that included reductions to capital and operating costs. The OEB approved HOI's proposed RCI approach as well as its proposed inflation factor (2%), productivity factor of zero and stretch factor of 0.45%. The OEB also approved the approach to the capital factor proposed by HOI (2019:2.32%) but imposed an additional 0.15% stretch factor to be subtracted from the calculated capital factor, in addition to the 0.45% stretch factor.
- In March 2019, the Company filed a motion to review and vary the OEB's decision on 2018-2022 distribution revenue requirement application with respect to reductions to pension contributions and intends to appeal to the Ontario Divisional Court on the deferred tax asset decision.
- ESM provides for 50% of the savings that result in an actual regulatory ROE in excess of 100 bps over the OEB-approved ROE to be shared with customers.

Assessment of Regulatory Framework

Criteria	Score	Analysis
1. Deemed Equity	Excellent Good **Satisfactory** Below Average Poor	The OEB allows HOI's transmission and distribution business to have a deemed equity of 40%, which has been consistent historically.
2. Allowed ROE	Excellent **Good** Satisfactory Below Average Poor	The OEB has set ROE for the transmission and distribution businesses at 9.00% for 2018.
3. Energy Cost Recovery	**Excellent** Good Satisfactory Below Average Poor	There is no power price risk, as HOI is not responsible for purchasing power from generation facilities or the wholesale market. Power costs are passed on to ratepayers and HOI collects the payments from its customers on a monthly basis.
4. Capital and Operating Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Major capital costs are pre-approved by the OEB and added to the rate base after project completion. In addition, the OEB can approve rate riders to allow for the recovery or disposition of specific regulatory accounts over specified time frames.
5. COS versus IRM	Excellent **Good** Satisfactory Below Average Poor	HOI's distribution business operates under a CIR rate-setting methodology for 2018-2022. Transmission rates are based on a COS inflation adjusted rate order for 2019 and will be transitioning to a three-year CIR for 2020-2022.
6. Political Interference	Excellent Good Satisfactory **Below Average** Poor	There has been modest degree of government influence in regulatory decisions. However, there has been no adverse legislation in the sector.
7. Stranded Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	HOI has a limited history of stranded costs. All prudently incurred or budgeted capex are approved by the OEB.
8. Rate Freeze	Excellent Good **Satisfactory** Below Average Poor	From 2002 to 2005, because of rising rates during Ontario's experimental utility deregulation phase, a distribution rate freeze was imposed. There have been no subsequent province-wide rate freezes.

Hydro One Inc.

Balance Sheet

(CAD millions)	December 31				December 31		
Assets	**2018**	**2017**	**2016**	**Liabilities & Equity**	**2018**	**2017**	**2016**
Cash & equivalents	492	0	48	S.T. borrowings	1,252	929	469
Accounts receivable	625	635	833	Accounts payable	749	736	828
Inventories	20	18	19	Current portion L.T.D.	731	752	602
Prepaid expenses & other	403	525	302	Other current liab.	316	499	358
Total Current Assets	**1,540**	**1,178**	**1,202**	**Total Current Liab.**	**3,048**	**2,916**	**2,257**
Net fixed assets	20,605	19,871	19,068	Long-term debt	9,978	9,315	10,078
Future income tax assets	964	954	1,213	Deferred income taxes	55	70	60
Goodwill & intangibles	734	694	676	Pension and other liabilities	2,102	2,665	2,714
Regulatory assets	1,721	3,049	3,145	Regulatory liabilities	326	128	209
Investments & others	5	5	6	L.T. Payables & Other L.T. liab.	62	69	51
				Minority interest	70	72	72
				Preferred Shares	486	486	0
				Common equity	4,312	4,856	5,391
				Retained earnings	5,137	5,183	4,487
				Accumulated OCI	(7)	(9)	(9)
Total Assets	**25,569**	**25,751**	**25,310**	**Total Liab & SE**	**25,569**	**25,751**	**25,310**

Balance Sheet & Liquidity & Capital Ratios	For the year ended December 31				
	2018	**2017**	**2016**	**2015**	**2014**
Current ratio	0.51	0.40	0.53	0.38	0.85
Cash flow/Total debt	13.0%	13.2%	13.5%	13.2%	15.4%
Total debt in capital structure	56.7%	53.3%	53.0%	51.1%	53.0%
(Cash flow-dividends)/Capex (times)	0.70	0.63	0.55	0.30	0.73
Dividend payout ratio 1	65.5%	77.4%	85.1%	128.6%	36.3%
Coverage Ratios (times)					
EBIT gross interest coverage	2.87	2.65	2.77	2.74	2.83
EBITDA gross interest coverage	4.48	4.21	4.30	4.29	4.29
Fixed-charges coverage	2.79	2.65	2.77	2.74	2.83
Profitability Ratios					
EBITDA margin	64.3%	64.1%	62.6%	60.4%	60.9%
EBIT margin	41.3%	40.6%	40.6%	38.7%	40.4%
Profit margin	26.6%	23.1%	23.4%	22.4%	25.2%
Return on equity	10.9%	9.1%	9.7%	9.0%	10.3%
Return on capital	5.0%	4.8%	5.1%	5.1%	5.5%

1 2015 dividends includes dividends paid to Province for recapitalization.

Rating History

	Current	2018	2017	2016	2015	2014	2013	2012	2011
Issuer Rating	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)
Senior Unsecured Debentures	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)

Previous Actions

- DBRS Assigns Rating of A (high) with a Stable Trend to Hydro One Inc.'s $1.5 Billion Medium Term Notes Issue, April 5, 2019.
- DBRS Notes Hydro One Inc.'s Commercial Paper Limit Increase, March 25, 2019.
- DBRS Assigns Rating of A (high) with a Stable Trend to Hydro One Inc.'s $1.4 Billion Medium Term Notes Issue, June 26, 2018.
- DBRS Confirms Ratings of Hydro One Inc. Stable Trends, April 9, 2018.

Previous Report

- Hydro One Inc.: Rating Report, April 12, 2018.

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.

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.

The DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(CRA, NRSRO affiliate, DRO affiliate). For more information on regulatory registrations, recognitions and approvals, please see: http://www.dbrs.com/research/highlights.pdf.

© 2019, DBRS. All rights reserved. The information upon which DBRS ratings and other types of credit opinions and reports are based is obtained by DBRS from sources DBRS believes to be reliable. DBRS does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS ratings, other types of credit opinions, reports and any other information provided by DBRS are provided "as is" and without representation or warranty of any kind. DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS or any DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. Ratings, other types of credit opinions, other analysis and research issued or published by DBRS are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment advice or recommendations to purchase, sell or hold any securities. A report with respect to a DBRS rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS may receive compensation for its ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. DBRS is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS. ALL DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT http://www.dbrs.com/about/disclaimer. ADDITIONAL INFORMATION REGARDING DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON http://www.dbrs.com.

MORNINGSTAR | DBRS

Rating Report
Hydro One Inc.

DBRS Morningstar
April 16, 2020

Contents

1 Rating
1 Rating Update
2 Financial Information
2 Issuer Description
2 Rating Considerations
4 Ownership Structure
5 Earnings and Outlook
6 Financial Profile
7 Debt and Liquidity
8 Major Projects and Acquisitions
8 Regulation
13 Rating History
13 Previous Actions
13 Previous Report

Tom Li
+1 416 597-7378
tom.li@dbrsmorningstar.com

Ram Vadali, CFA, CPA
+1 416 597-7526
ram.vadali@dbrsmorningstar.com

Guru Durairaj
+ 1 416 597-7357
guru.durairaj@dbrsmorningstar.com

Rating

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

Rating Update

On April 9, 2020, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating and Senior Unsecured Debentures rating of Hydro One Inc. (HOI or the Company) at A (high) and the Commercial Paper (CP) rating at R-1 (low), all with Stable trends. The confirmations are based on HOI's stable regulated distribution and transmission operations under the Ontario Energy Board (OEB), which provides a steady stream of earnings and cash flow for the Company. The Stable trends reflect HOI's key credit metrics which are expected to remain supportive of the current ratings.

HOI's business risk assessment continues to be based on the transparent and supportive regulatory regime in Ontario. The Company is allowed to recover prudently incurred costs in a timely manner and earn an adequate return on equity (ROE). HOI's distribution segment operates under a Custom Incentive Rate-setting (IR) plan for 2018 to 2022. The Company's transmission segment will be transitioning to a Custom IR regime for 2020 to 2022; a decision from the OEB is expected in Q2 2020. Under Custom IR, HOI's capital expenditures (capex) program for the next three years will be pre-approved by the OEB. DBRS Morningstar notes that this is positive for the Company as it will provide certainty of funding for the high amount of capex planned ($1.9 billion for 2020) and allow HOI to start to recover and earn a return on its investments between rebasing years, thus reducing regulatory lag.

DBRS Morningstar expects the ongoing Coronavirus Disease (COVID-19) pandemic will likely result in modestly lower earnings and operating cash flow for HOI in 2020. Although a majority of the distribution segment's revenues are from residential customers and so should remain stable, lower collections from commercial and industrial customers will negatively affect cash flow. Additionally, lower average monthly peak demand during this period will also likely lead to a decrease in earnings for the transmission segment. Overall, DBRS Morningstar still expects HOI's key credit metrics to remain relatively stable and in line with the current rating range. The Company's cash flow-to-debt metric has been pressured for the rating category as a result of its increasing debt to finance the large capex program and the dividend requirements. The weakness in this metric has been offset by the stronger EBIT-interest coverage and debt-to-capital ratios, although leverage has also increased over the past five

years. Given HOI's key credit metrics and the regulatory framework, DBRS Morningstar considers a positive rating action to be unlikely. However, a downgrade could happen if the cash flow-to-debt ratio weakens to a level no longer commensurate with the current rating category (below 12.5%) and the debt-to-capital ratio exceeds 60% on a sustained basis.

Financial Information

	For the year ended December 31				
	2019	**2018**	**2017**	**2016**	**2015**
Cash flow/Total debt (%)[1]	13.7	13.0	13.2	13.5	13.2
Total debt in capital structure (%)[1, 2]	56.6	56.7	53.3	53.0	51.1
EBIT gross interest coverage (times)[1]	2.96	2.87	2.65	2.77	2.74

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

Issuer Description

HOI is a fully owned subsidiary of Hydro One Limited (HOL) and is the largest electricity transmission and distribution company in Ontario. The Company owns and operates over 30,000 circuit kilometres (km) of high-voltage transmission lines and approximately 123,000 circuit km of low-voltage distribution lines, serving nearly 1.4 million customers.

Rating Considerations

Strengths

1. Reasonable regulatory environment

HOI's earnings are contributed by its low-risk regulated transmission and distribution businesses that operate under a reasonable regulatory framework. The regulatory regime under the OEB permits the Company a reasonable opportunity to recover operating and capital costs and earn the approved rates of return. HOI's deemed capital structure (debt-to-equity of 60%:40%) has remained unchanged for several years. DBRS Morningstar views the utility regulatory framework in Ontario as transparent and supportive for regulated transmission and distribution operators.

2. Extensive franchise area

HOI owns the largest transmission and distribution businesses in Ontario. The Company operates approximately 98% of the province's transmission infrastructure, based on revenues approved by the OEB, and is connected to 38 local distribution companies (including HOI's own distribution business) and 83 large directly connected industrial customers. The Company's transmission system is also interconnected to systems in Manitoba, Michigan, Minnesota, New York, and Québec through interties. Load growth is expected to be modest and in line with economic growth in the province. The distribution business spans approximately 75% of Ontario, serving nearly 1.4 million customers, or approximately 26% of the province's customers.

3. Reasonable financial profile

HOI continues to maintain a reasonably healthy balance sheet. Although the cash flow-to-debt metric has been pressured in recent years, overall key credit metrics have remained reasonable for the current rating category (debt-to-capital ratio at 56.6%, cash flow-to-debt at 13.7%, and EBIT interest coverage at 2.96 times (x) for 2019).

Challenges

1. High level of planned capex

The Company has a large capital program that is expected to continue over the next several years and could pressure credit metrics. Capex was approximately $1.7 billion for 2019 (approximately $1,035 million for transmission and approximately $624 million for distribution), with a plan for approximately $10.0 billion in the next five years. A major part of HOI's capital program is for essential replacement of aging infrastructure to maintain reliability of aging transmission and distribution assets.

2. High dividend payouts

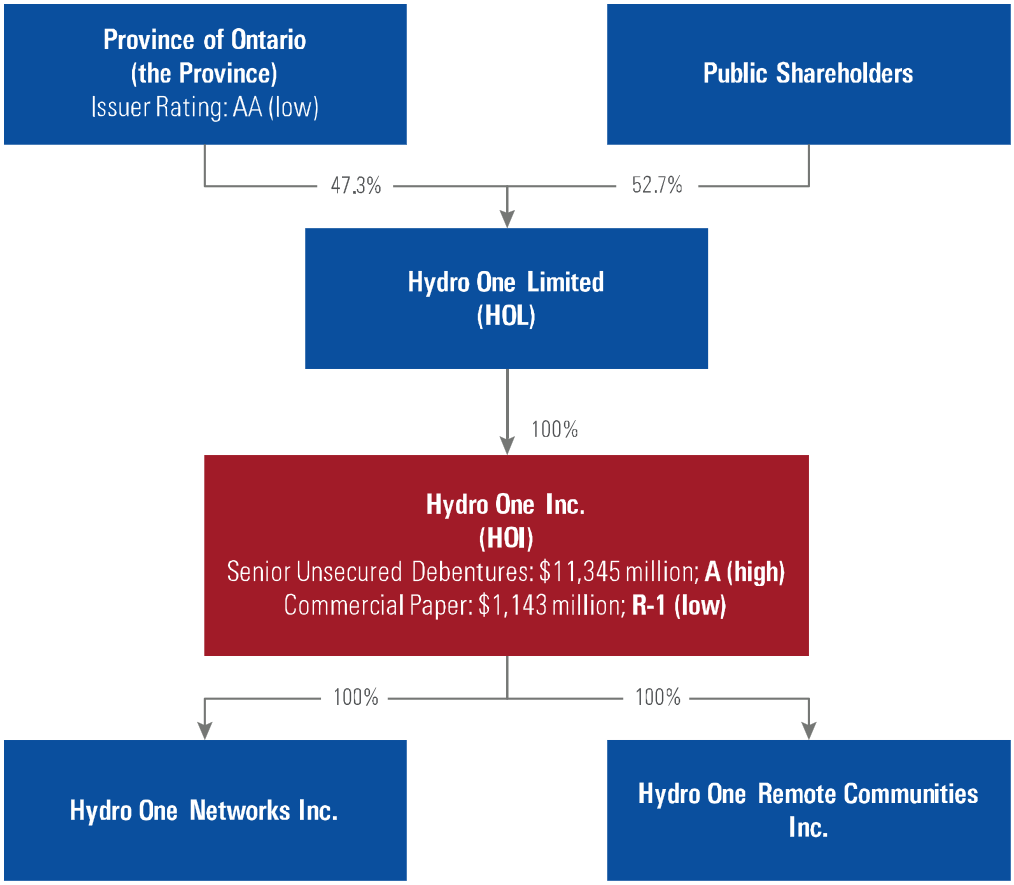
HOI's dividend payout ratio (dividends relative to net earnings) is high in order to support HOL's dividend policy (payout approximately 70% to 80% of consolidated net income). DBRS Morningstar expects the Company's dividend payout ratio to remain high in order to meet HOL's dividend objectives; consequently, HOI will need to access significant external funding to finance the potentially sizable free cash flow deficits because of the dividends and capex commitments expected over the medium term.

3. Earnings sensitive to volume and costs

HOI's earnings can be affected by weather patterns, seasonality, and economic conditions. The OEB approves the Company's transmission and distribution rates based on forecasted electricity load and consumption levels. Cooler summers and warmer winters could reduce demand for electricity below forecasted levels and negatively affect revenues. Furthermore, current revenue requirements are approved based on cost assumptions that could materially differ from actual costs. There is no assurance that the OEB would allow rate increases to offset the financial impacts of unanticipated changes in electricity demand or in costs. However, this risk is expected to be partially mitigated as the OEB has implemented a fixed monthly distribution charge for residential customers and HOI is currently phasing in a fixed monthly rate for all its residential customers over the next four years. However, some seasonality will remain because a major part of the Company's earnings are generated from transmission revenues.

Ownership Structure

Simplified Organizational Structure



*As of December 31, 2019.
Source: HOI.

- In November 2015, HOL and the Province completed an initial public offering on the Toronto Stock Exchange of approximately 89.3 million common shares of HOL. In April 2016, the Province completed a secondary offering of 83.3 million common shares of HOL. In May 2017, the Province completed a further secondary offering of 120 million common shares of HOL.
- HOI is 100% owned by HOL, which is in turn 47.3% owned by the Province with the remainder held by public shareholders.
- HOI owns two regulated utilities, Hydro One Networks Inc. and Hydro One Remote Communities Inc.
- Hydro One Networks Inc. carries on the rate-regulated transmission and distribution businesses.
- Hydro One Remote Communities Inc. generates and supplies electricity to remote communities in northern Ontario.

Earnings and Outlook

	For the year ended December 31				
(CAD millions where applicable)	**2019**	**2018**	**2017**	**2016**	**2015**
Net revenues	3,331	3,211	3,072	3,075	3,079
EBITDA	2,239	2,066	1,968	1,926	1,859
EBIT	1,469	1,326	1,248	1,247	1,192
Gross interest expense	497	461	468	448	433
Net income before nonrecurring items	952	854	711	718	691
Reported net income	952	(31)	711	730	692
Return on equity (%)	9.7	8.3	7.9	9.7	9.0
Segmented Reported EBIT					
Transmission	823	829	770	787	747
Distribution	653	520	502	496	486
Other	(7)	(23)	(24)	(20)	(41)
Total EBIT	**1,469**	**1,326**	**1,248**	**1,263**	**1,192**
Transmission rate base[1]	12,609	11,870	11,251	10,775	10,174
Approved return on equity - Transmission (%)[2]	9.00	9.00	8.78	9.19	9.30
Actual return on equity - Transmission (%)[2]	N/A	11.08	9.03	10.02	10.93
Distribution rate base	8,101	7,852	7,389	7,056	6,739
Approved return on equity - Distribution (%)	9.00	9.00	8.78	9.19	9.30
Actual return on equity - Distribution (%)	N/A	8.07	7.94	8.41	8.77

1 Includes Hydro One Networks, Bruce to Milton Limited Partnership (B2M LP), and Hydro One Sault Ste. Marie Limited Partnership (HOSSM).
2 Hydro One Networks only.

2019 Summary

- HOI's earnings are relatively stable, supported by a reasonable regulatory environment, extensive franchise area, and a diverse customer base that is growing at a steady rate.
- The Company's earnings increased in 2019 because of stronger results from the distribution segment.
    - EBIT from the distribution segment increased following the OEB's decision on HOI's 2018 to 2022 rates application.
    - EBIT from the transmission segment decreased modestly because of lower average monthly peak demand in the province related to less favourable weather.
    - Operating, maintenance, and administrative expenses also decreased modestly for the year.
    - This was partly offset by higher depreciation expense from the growing rate base and increased interest expense from the higher debt load.

2020 Outlook

- DBRS Morningstar expects HOI's earnings to see a modest decrease in 2020.
    - Earnings from the distribution segment should benefit from a 2.26% rate increase effective January 1, 2020.

- A decision from the OEB on the Company's 2020 to 2022 transmission Custom IR Application is expected in Q2 2020. Earnings should benefit from rebasing, partly offset by a lower ROE of 8.52%.

- The ongoing coronavirus situation will likely result in modestly lower earnings for HOI in 2020.
  - The majority of the distribution segment's revenue is from residential customers, which should remain stable. However, collections from commercial and industrial customers will likely be negatively affected, leading to modestly lower earnings.
  - Additionally, average monthly peak demand will likely be lower for this period, leading to lower earnings from the transmission segment.

Financial Profile

	For the year ended December 31				
(CAD millions where applicable)	**2019**	**2018**	**2017**	**2016**	**2015**
Net income before nonrecurring items	952	854	711	718	691
Depreciation & amortization	770	740	720	679	667
Deferred income taxes and other	18	25	88	119	(3)
Cash flow from operations	**1,740**	**1,619**	**1,519**	**1,516**	**1,355**
Dividends[1]	(751)	(559)	(550)	(611)	(888)
Capital expenditures	(1,622)	(1,524)	(1,527)	(1,634)	(1,569)
Free cash flow (bef. working cap. changes)	**(633)**	**(464)**	**(558)**	**(729)**	**(1,102)**
Changes in non-cash work. Capital	27	(50)	63	168	187
Changes in regulatory assets[2]	(48)	35	112	(16)	(2,801)
Net free cash flow	**(654)**	**(479)**	**(383)**	**(577)**	**(3,716)**
Acquisitions & long-term investments	0	0	0	(224)	(143)
Net equity change	0	0	0	0	2,600
Net debt change[3]	175	970	344	776	1,254
Other	(6)	1	(9)	(16)	(6)
Change in cash	**(485)**	**492**	**(48)**	**(41)**	**(11)**
Total debt	12,692	12,447	11,482	11,149	10,198
Cash flow/Total debt (%)[4]	13.7	13.0	13.2	13.5	13.2
Total debt in capital structure (%)[4, 5]	56.6	56.7	53.3	53.0	51.1
EBIT gross interest coverage (times)[4]	2.96	2.87	2.65	2.77	2.74
Dividend payout ratio (%)[1]	78.9	65.5	77.4	85.1	128.6

1 2015 dividends includes dividends paid to the Province for recapitalization pre-IPO.
2 2015 deferred income tax asset recorded on revaluation of assets upon switching from payments in lieu of tax to the federal tax regime.
3 Includes preferred shares of $486 million in 2017 that DBRS Morningstar has treated as debt because the shares were redeemed in 2019.
4 Adjusted for operating leases.
5 Adjusted for accumulated other comprehensive income.

2019 Summary

- HOI's key credit metrics were stable in 2019.
  - The Company's debt-to-capital and EBIT-interest coverage ratios were strong for the current rating, offset by a weaker cash flow-to-debt ratio.

- Cash flow from operations increased, tracking the higher net income.
- Capex increased for both the transmission and distribution segments because of increased transmission line and station refurbishments and replacements, and higher residential customer connections.
- Dividends were to maintain the regulatory capital structure at 60% debt.
- HOI funded its free cash flow deficit through a combination of cash on hand and debt issuances.

2020 Outlook

- DBRS Morningstar expects HOI's key credit metrics to weaken modestly in 2020.
    - While the debt-to-capital and EBIT-interest coverage ratios are expected to remain in line with the current ratings, the cash flow-to-debt ratio may weaken to the bottom of the "A" range.
- Cash flow from operations is expected to remain steady, in line with earnings.
- The Company has forecast capex of $1.9 billion for the year, with the majority for sustainment projects.
    - HOI has forecast capex to average around $2.0 billion annually for the next five years.
- DBRS Morningstar expects the Company to support HOL's dividend policy (annual dividends of approximately 70% to 80% of consolidated net income) to the extent that such dividend payouts maintain HOI's regulatory capital structure. Consequently, DBRS Morningstar expects dividends to remain high.

Debt and Liquidity

Liquidity

(CAD millions - as at December 31, 2019)	Amount	Draw/LOCs	Available	Maturity
Cash & cash equivalents	7		**7**	
Revolving standby credit facility	2,300	1,143	**1,157**	June 2024
Total	**2,307**	**1,143**	**1,164**	

- The Company's liquidity profile remains reasonable and adequate for its normal operating requirements.
- HOI has a revolving credit facility of $2.3 billion maturing in June 2024. The CP program is backstopped by the revolving credit facility. As of December 31, 2019, approximately $1.1 billion of CP was outstanding.

Long-term Debt Maturities

(CAD millions - as at December 31, 2019)	2020	2021	2022	2023	2024	Thereafter	Total
Principal repayments	653	803	604	131	700	8,595	**11,486**
% of total	6	7	5	1	6	75	**100**

- HOI's refinancing risk remains manageable with maturities well spread out.
- HOI has adequate access to debt markets and access to the equity market through its parent, HOL.
    - In 2019, the Company issued $1.5 billion under its Medium Term Note program, the proceeds of which were used to repay long- and short-term debt.
    - In February 2020, HOI also issued $1.1 billion under its Medium Term Note program, the proceeds of which are being used to repay long- and short-term debt.

- HOI has credit covenants limiting the permissible debt to 75% of its total capitalization and limiting the ability to sell assets and impose negative pledge provisions, subject to customary exceptions. As of December 31, 2019, the Company was in compliance with all of the covenants and limitations.

Major Projects and Acquisitions

Project	Estimated Cost (CAD millions)	Spent as of Dec. 31, 2019 (CAD millions)	In-Service Target Date
Richview Transmission Station Circuit Breaker Replacement	115	109	2021
Bruce A Transmission Station	147	133	2021
East-West Tie Station Expansion	157	62	2022
Beck #2 Transmission Station Circuit Breaker Replacement	135	77	2023
Lennox Transmission Station Circuit Breaker Replacement	116	78	2024
Middleport Transmission Station Circuit Breaker Replacement	116	36	2025
Leamington Area Transmission Reinforcement	325	2	2026

- Most of HOI's capex is for sustainment purposes, including the circuit breaker replacements and the Bruce A Transmission Station.
- Development projects include the East-West Tie Station Expansion, which involves expanding a transformer station in order to connect the new East-West Tie transmission line to the station, and the Leamington Area Transmission Reinforcement, which involves a new transmission station and 13 km transmission line.
- In September 2018, HOI filed a Mergers, Acquisitions, Amalgamations, and Divestitures (MAAD) application with the OEB to acquire Orillia Power Distribution Corporation (Orillia Power) for $41 million, including the assumption of $15 million of debt.
    - The OEB denied the Company's original 2016 MAAD application to acquire Orillia Power as it did not satisfy the no-harm test.
    - A decision from the OEB is expected in Q2 2020.
- In October 2018, HOI filed a MAAD application with the OEB to acquire Peterborough Distribution Inc. for $105 million. A decision is expected in Q2 2020.

Regulation

Regulation Overview

- HOI is regulated by the OEB and operates under a supportive regulatory environment. The Company has a good track record of prudently managing its regulatory risk.
- HOI's distribution operations transitioned to Custom IR in 2018 while transmission operations will be transitioning to Custom IR for 2020.
- The Custom IR framework is a hybrid between cost-of-service (COS) and an incentive rate mechanism (IRM). The rate setting for the term is based on the Company's forecasts and the OEB's incentive rate analysis using productivity benchmarking. Custom IR is suited to utilities with large, broad, multiyear investment needs that require certainty of funding several years in advance.
- Both the transmission and distribution segments operate with a deemed capital structure of 60% debt (56% long-term and 4% short-term) and 40% equity.

- Going forward, HOI is expected to file a single five-year rate application (2023—2027) for both the distribution and transmission businesses, as required by the OEB.
- In a 2017 decision, the OEB concluded that the deferred tax asset that resulted from the transition from the payments in lieu of tax program to the federal and provincial tax regimes should be shared with ratepayers. Although the Company appealed this decision, the OEB upheld the original decision in 2019. As a result, HOI reported a $867 million impairment in 2018 and expects a $50 million to $60 million annual decrease in cash flow.
    - The Company appealed the decision to the Ontario Divisional Court and a decision is pending.

Transmission

	For the year ended December 31				
(CAD millions where applicable)	**2019**	**2018**	**2017**	**2016**	**2015**
Transmission rate base[1]	12,609	11,870	11,251	10,775	10,174
Deemed equity (%)	40.00	40.00	40.00	40.00	40.00
Allowed ROE - Transmission (Hydro One Networks) (%)	9.00	9.00	8.78	9.19	9.30
Allowed ROE - Transmission (B2M LP) (%)	8.98	9.00	8.78	9.19	9.30
Allowed ROE - Transmission (HOSSM) (%)	9.19	9.19	9.19	9.19	N/A
Actual ROE - Transmission (Hydro One Networks) (%)	N/A	11.08	9.03	10.02	10.93

1 Includes Hydro One Networks, B2M LP, and HOSSM.

- In December 2018, the OEB approved the Company's 2019 transmission revenue requirement application.
    - The application was a one-year inflation-based application.
    - The OEB approved the 2019 transmission revenue requirement of approximately $1,521 million and specified the 2019 uniform transmission rates, effective as of January 1, 2019.
- In March 2019, HOI filed its 2020 to 2022 Transmission Custom IR Application.
    - The application is for a three-year term, with revenue requirement in the first year based on COS. For 2021 and 2022, the Company proposed a Revenue Cap Index (RCI) based on inflation, productivity, and capital factors.
    - HOI has requested revenue requirement of $1,673 million for 2020.
    - The Company also requested an RCI of 5.04% for 2021, based on inflation of 1.4%, productivity of 0%, and a capital factor of 3.64%.
    - The application also includes an earnings sharing mechanism (ESM) that allows customers to share 50% of earnings that exceed the regulatory ROE by more than 100 basis points (bps) in any year of the Custom IR term.
    - A decision is expected in Q2 2020.
- In January 2020, the OEB approved the Bruce to Milton (B2M) Limited Partnership's 2020 to 2024 transmission revenue requirement.
    - The OEB approved 2020 revenue requirement of $33.2 million.
    - For 2021 to 2024, revenue will increase annually by an RCI based on inflation less a Settlement Capital Adjustment Factor of 0.6%.

- The application also includes an ESM that allows customers to share 50% of earnings that exceed the regulatory ROE by more than 100 bps in any year.

- Hydro One Sault Ste. Marie Limited Partnership (HOSSM) currently operates under a 10-year deferred rebasing period until 2026. Rates are adjusted annually by an RCI based on inflation less a productivity and stretch factor.
  - In December 2019, the OEB approved for HOSSM's rates to increase by an RCI of 1.5% (inflation of 1.8% less a stretch factor of 0.3%).

Distribution

	For the year ended December 31				
(CAD millions where applicable)	**2019**	**2018**	**2017**	**2016**	**2015**
Distribution rate base	8,101	7,852	7,389	7,056	6,739
Deemed equity (%)	40.00	40.00	40.00	40.00	40.00
Allowed ROE - Distribution (%)	9.00	9.00	8.78	9.19	9.30
Actual ROE - Distribution (%)	N/A	8.07	7.94	8.41	8.77

- In March 2019, the OEB approved HOI's Custom IR application for 2018 to 2022 distribution rates.
  - Revenues for 2018 were based on COS while subsequent years will increase by an RCI based on inflation, productivity, stretch, and capital factors.
  - The OEB also approved an ESM that provides for 50% of the savings that result in an actual regulatory ROE in excess of 100 bps over the OEB-approved ROE to be shared with customers.
  - For 2018, the OEB approved a revenue requirement of $1,459 million effective May 1, 2018.
  - For 2019, rates increased by an RCI of 3.72% based on inflation of 2.0%, a productivity factor of 0%, a stretch factor of 0.45%, and a capital factor of 2.17% (2.32% less an additional stretch factor of 0.15%).

Assessment of Regulatory Framework

Criteria	Score	Analysis
1. Deemed Equity	Excellent Good **Satisfactory** Below Average Poor	The OEB allows HOI's transmission and distribution business to have a deemed equity of 40%, which has been consistent historically.
2. Allowed ROE	Excellent Good **Satisfactory** Below Average Poor	ROE for the distribution businesses is set at 9.00% for 2018 to 2022. ROE for the transmission business will be set at 8.52% for 2020 to 2022.
3. Energy Cost Recovery	**Excellent** Good Satisfactory Below Average Poor	There is no power price risk as HOI is not responsible for purchasing power from generation facilities or the wholesale market. Power costs are passed on to ratepayers and HOI collects the payments from its customers on a monthly basis.
4. Capital and Operating Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Major capital costs are pre-approved by the OEB and added to the rate base after project completion. In addition, the OEB can approve rate riders to allow for the recovery or disposition of specific regulatory accounts over specified time frames.
5. COS versus IRM	Excellent **Good** Satisfactory Below Average Poor	HOI's distribution business operates under a Custom IR rate-setting methodology for 2018 to 2022. Transmission rates will be transitioning to a three-year Custom IR for 2020 to 2022.
6. Political Interference	Excellent Good Satisfactory **Below Average** 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 (HOI is 47% owned by the Province). Furthermore, stakeholders, such as the Independent Electricity System Operator, are also government owned. As a result, the government has direct and indirect influence on Ontario's electricity industry.
7. Stranded Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	HOI has a limited history of stranded costs. All prudently incurred or budgeted capex are approved by the OEB.
8. Rate Freeze	Excellent Good **Satisfactory** Below Average Poor	From 2002 to 2005, because of rising rates during Ontario's experimental utility deregulation phase, a distribution rate freeze was imposed. There have been no subsequent province-wide rate freezes.

Balance Sheet

(CAD millions)	Dec. 31	Dec. 31	Dec. 31		Dec. 31	Dec. 31	Dec. 31
Assets	**2019**	**2018**	**2017**	**Liabilities & Equity**	**2019**	**2018**	**2017**
Cash & equivalents	7	492	0	S.T. borrowings	1,151	1,252	929
Accounts receivable	699	625	635	Accounts payable	817	749	736
Inventories	21	20	18	Current portion L.T.D.	653	731	752
Prepaid expenses & other	593	403	525	Other current liab.	450	316	499
Total Current Assets	**1,320**	**1,540**	**1,178**	**Total Current Liab.**	**3,071**	**3,048**	**2,916**
Net fixed assets	21,418	20,605	19,871	Long-term debt	10,888	9,978	9,315
Future income tax assets	643	964	954	Deferred income taxes	61	55	70
Goodwill & intangibles	780	734	694	Regulatory liabilities	167	326	128
Regulatory assets	2,676	1,721	3,049	Provisions and other L.T. liab.	3,007	2,164	2,734
Investments & others	80	5	5	Minority interest	79	70	72
				Preferred shares	0	486	486
				Common equity	9,644	9,442	10,030
Total Assets	**26,917**	**25,569**	**25,751**	**Total Liab & SE**	**26,917**	**25,569**	**25,751**

Ratios

	For the year ended December 31				
Balance Sheet & Liquidity & Capital Ratios	**2019**	**2018**	**2017**	**2016**	**2015**
Current ratio	0.43	0.51	0.40	0.53	0.38
Cash flow/Total debt (%)	13.7	13.0	13.2	13.5	13.2
Cash flow/Total debt (%)[1]	13.7	13.0	13.2	13.5	13.2
Total debt in capital structure (%)	56.6	56.7	53.3	53.0	51.1
Total debt in capital structure (%)[1, 2]	56.6	56.7	53.3	53.0	51.1
Cash flow/Total debt (%)[1]	13.7	13.0	13.2	13.5	13.2
(Cash flow-dividends)/Capex (times)	0.61	0.70	0.63	0.55	0.30
Dividend payout ratio (%)[3]	78.9	65.5	77.4	85.1	128.6
Coverage Ratios (times)					
EBIT gross interest coverage	2.96	2.87	2.65	2.77	2.74
EBIT gross interest coverage[1]	2.96	2.87	2.65	2.77	2.74
EBITDA gross interest coverage	4.51	4.48	4.21	4.30	4.29
Fixed-charge coverage	2.96	2.87	2.65	2.77	2.74
Profitability Ratios					
EBITDA margin (%)	67.2	64.3	64.1	62.6	60.4
EBIT margin (%)	44.1	41.3	40.6	40.6	38.7
Profit margin (%)	28.6	26.6	23.1	23.4	22.4
Return on equity (%)	9.7	8.3	7.9	9.7	9.0
Return on capital (%)	4.9	4.5	4.5	5.1	5.1

1 Adjusted for operating leases.
2 Adjusted for accumulated other comprehensive income.
3 2015 dividends includes dividends paid to Province for recapitalization.

Rating History

	Current	2019	2018	2017	2016	2015
Issuer Rating	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)
Senior Unsecured Debentures	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Previous Actions

- DBRS Morningstar Assigns Ratings of A (high) with Stable Trends to Hydro One Inc.'s $1.1 Billion Medium-Term Notes Issues, March 2, 2020.

Previous Report

- Hydro One Inc.: Rating Report, April 15, 2019.

Notes:
All figures are in Canadian dollars unless otherwise noted.

About DBRS Morningstar

DBRS Morningstar is a global credit ratings business with approximately 700 employees in eight offices globally.

On July 2, 2019, Morningstar, Inc. completed its acquisition of DBRS. Combining DBRS' strong market presence in Canada, Europe, and the U.S. with Morningstar Credit Ratings' U.S. footprint has expanded global asset class coverage and provided investors with an enhanced platform featuring thought leadership, analysis, and research. DBRS and Morningstar Credit Ratings are committed to empowering investor success, serving the market through leading-edge technology and raising the bar for the industry.

Together as DBRS Morningstar, we are the world's fourth largest credit ratings agency and a market leader in Canada, the U.S., and Europe in multiple asset classes. We rate more than 2,600 issuers and 54,000 securities worldwide and are driven to bring more clarity, diversity, and responsiveness to the ratings process. Our approach and size provide the agility to respond to customers' needs, while being large enough to provide the necessary expertise and resources.

The DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(CRA, NRSRO affiliate, DRO affiliate). Morningstar Credit Ratings, LLC is a NRSRO affiliate of DBRS, Inc.

For more information on regulatory registrations, recognitions and approvals of the DBRS group of companies and Morningstar Credit Ratings, LLC, please see: http://www.dbrs.com/research/highlights.pdf.

The DBRS group and Morningstar Credit Ratings, LLC are wholly-owned subsidiaries of Morningstar, Inc.

© 2020 Morningstar. All rights reserved. The information upon which DBRS ratings and other types of credit opinions and reports are based is obtained by DBRS from sources DBRS believes to be reliable. DBRS does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS ratings, other types of credit opinions, reports and any other information provided by DBRS are provided "as is" and without representation or warranty of any kind. DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS or any DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. No DBRS entity is an investment advisor. DBRS does not provide investment, financial or other advice. Ratings, other types of credit opinions, other analysis and research issued or published by DBRS are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities. A report with respect to a DBRS rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS may receive compensation for its ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. DBRS is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS. ALL DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT http://www.dbrs.com/about/disclaimer. ADDITIONAL INFORMATION REGARDING DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON http://www.dbrs.com.

MORNINGSTAR | DBRS

Rating Report
Hydro One Inc.

DBRS Morningstar
May 3, 2022

Contents

1 Ratings
1 Rating Update
2 Financial Information
2 Issuer Description
2 Rating Considerations
4 Ownership Structure
5 Earnings and Outlook
6 Financial Profile
7 Debt and Liquidity
8 Major Projects and Acquisitions
8 Regulation
14 ESG Checklist
15 Rating History
15 Commercial Paper Limit
15 Related Research
15 Previous Actions
15 Previous Report

Tom Li
+1 416 597-7378
tom.li@dbrsmorningstar.com

Ram Vadali, CFA, CPA
+1 416 597-7526
ram.vadali@dbrsmorningstar.com

Ratings

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

Rating Update

On April 14, 2022, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating and Senior Unsecured Debentures rating of Hydro One Inc. (HOI or the Company) at A (high) and the Commercial Paper (CP) rating at R-1 (low). All trends are Stable. The ratings of HOI are based on its regulated transmission and distribution operations under the Ontario Energy Board (OEB), which provides a steady stream of income and cash flow. The Stable trends reflect HOI's key credit metrics, which are reasonable for the current ratings.

In August 2021, HOI filed its first Joint Rate Application (JRAP) for approval of its 2023 to 2027 transmission revenue requirement and distribution rates. The application is largely a continuation of the previous approvals under the Custom Incentive Rate-making (IR) framework whereby the revenues requirements are determined under cost-of-service (COS) for the first year with subsequent annual increases calculated by a revenue cap index (RCI) based on inflation, productivity, stretch, and capital factors. DBRS Morningstar notes that, once approved, the JRAP will provide stability for HOI as well as certainty of funding for its large capital expenditures (capex) program ($7.6 billion for its transmission business and $5.6 billion for its distribution business over the five-year term). A decision is expected by the first quarter of 2023.

In 2021, HOI's key credit metrics remained supportive of the current ratings. The Company's cash flow-to-debt ratio improved following the dip in 2020 because of the timing of a debt issuance to refinance an upcoming maturity. HOI's financial risk profile is expected to remain reasonable in 2022, but DBRS Morningstar notes that key credit metrics, especially the cash flow-to-debt ratio, may become pressured over the medium term because of the significant capex program. DBRS Morningstar expects the Company to fund its capex and dividend requirements through a prudent mix of debt issuances and operating cash flows in order to maintain leverage in line with the regulatory capital structure and other key ratios within the "A" rating category. A negative rating action may occur if HOI's key credit metrics weaken to a level no longer commensurate with the current rating category for a sustained period, such as if the cash flow-to-debt ratio falls below 12.5% and the debt-to-capital ratio increases above 60%. A

positive rating action is considered unlikely over the medium term given the Company's current business and financial risk profiles and the substantial capex program.

Financial Information

	For the year ended December 31				
	2021	**2020**	**2019**	**2018**	**2017**
Cash flow/Total debt (%)[1]	13.8	12.7	13.7	13.0	13.2
Total debt in capital structure (%)[1, 2]	55.9	56.1	56.6	56.7	53.3
EBIT gross interest coverage (times)[1]	3.25	3.05	2.96	2.87	2.65

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

Issuer Description

HOI is a fully owned subsidiary of Hydro One Limited (HOL; rated "A" with a Stable trend by DBRS Morningstar) and is the largest electricity transmission and distribution company in Ontario. The Company owns and operates more than 30,000 circuit kilometres (km) of high-voltage transmission lines and approximately 125,000 circuit km of low-voltage distribution lines, serving around 1.5 million customers.

Rating Considerations

Strengths

1. Reasonable regulatory environment

HOI's earnings are contributed by its low-risk regulated transmission and distribution businesses that operate under a reasonable regulatory framework. The regulatory regime under the OEB permits the Company a reasonable opportunity to recover operating and capital costs and earn the approved rates of return. HOI's deemed capital structure (debt-to-equity of 60%:40%) has remained unchanged for several years. DBRS Morningstar views the utility regulatory framework in Ontario as transparent and supportive for regulated transmission and distribution operators.

2. Extensive franchise area

HOI owns the largest transmission and distribution businesses in Ontario. The Company operates approximately 98% of the province's transmission infrastructure, based on revenues approved by the OEB, and is connected to 37 local distribution companies (including HOI's own distribution business) and 85 large directly connected industrial customers. The Company's transmission system is also interconnected to systems in Manitoba, Michigan, Minnesota, New York, and Québec through interties. Load growth is expected to be modest and in line with economic growth in the province. The distribution business serves around 1.5 million customers, or approximately 28% of the province's customers.

3. Reasonable financial profile

HOI continues to maintain a reasonably healthy balance sheet, with all key credit metrics reasonable for the current rating category (debt-to-capital ratio at 55.9%, cash flow-to-debt at 13.8%, and EBIT interest coverage at 3.25 times (x) for 2021).

Challenges

1. High level of planned capex

The Company has a large capital program that is expected to continue over the next several years and could pressure credit metrics. Capex was approximately $2.1 billion for 2021 (approximately $1,320 million for transmission and approximately $784 million for distribution), with a plan for approximately $12.4 billion in the next five years. A major part of HOI's capital program is for essential replacement of aging infrastructure to maintain the reliability of aging transmission and distribution assets.

2. High dividend payouts

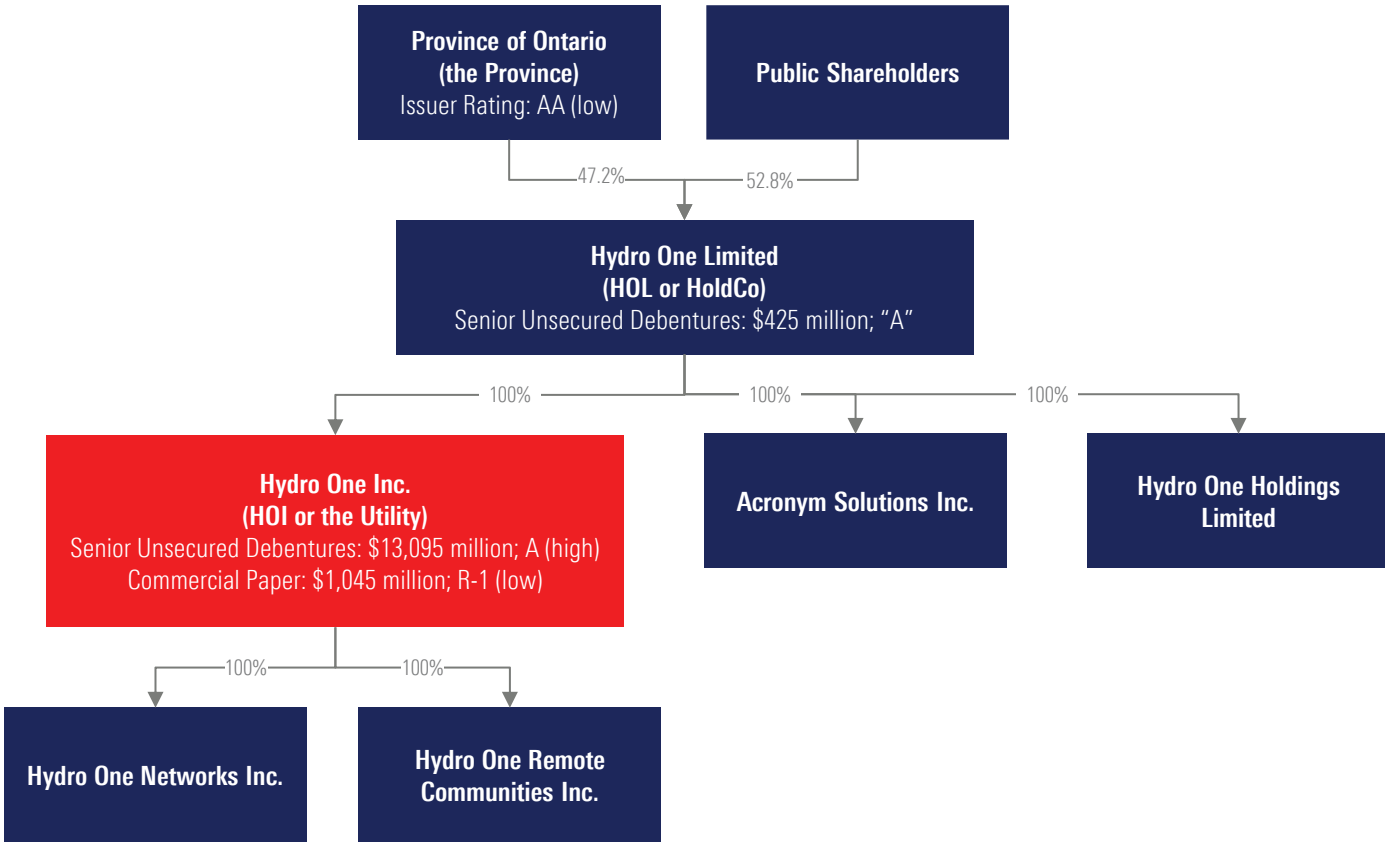
HOI's dividend payout ratio (dividends relative to net earnings) is high in order to support HOL's dividend policy (payout approximately 70% to 80% of consolidated net income). DBRS Morningstar expects the Company's dividend payout ratio to remain high in order to meet HOL's dividend objectives; consequently, HOI will need to access significant external funding to finance the potentially sizable free cash flow deficits because of the dividends and capex commitments expected over the medium term.

3. Earnings sensitive to volume and costs

HOI's earnings can be affected by weather patterns, seasonality, and economic conditions. The OEB approves the Company's transmission and distribution rates based on forecast electricity load and consumption levels. Cooler summers and warmer winters could reduce demand for electricity below forecast levels and negatively affect revenues. Furthermore, current revenue requirements are approved based on cost assumptions that could materially differ from actual costs. There is no assurance that the OEB would allow rate increases to offset the financial impacts of unanticipated changes in electricity demand or in costs. However, this risk is expected to be partially mitigated as the OEB has implemented a fixed monthly distribution charge for residential customers, and HOI is currently phasing in a fixed monthly rate for most of its residential customers by 2024. However, some seasonality will remain because a major part of the Company's earnings are generated from transmission revenues.

Ownership Structure

Simplified Organizational Structure



As at December 31, 2021.
Source: HOL.

- In November 2015, HOL and the Province completed an initial public offering on the Toronto Stock Exchange of approximately 89.3 million common shares of HOL.
    - In April 2016, the Province completed a secondary offering of 83.3 million common shares of HOL.
    - In May 2017, the Province completed a further secondary offering of 120 million common shares of HOL.
- HOI is 100% owned by HOL, which is in turn 47.2% owned by the Province, with the remainder held by public shareholders.
- HOI's major subsidiaries include two regulated utilities, Hydro One Networks Inc. (HONI) and Hydro One Remote Communities Inc. (Remotes).
    - HONI carries out the rate-regulated transmission and distribution businesses.
    - Remotes generates and supplies electricity to remote communities in northern Ontario. This segment is 100% debt financed and operates as a breakeven company with no return on equity (ROE).

- HOI also owns Hydro One Sault Ste. Marie Limited Partnership (HOSSM), Bruce to Milton Limited Partnership (B2M LP), and Niagara Reinforcement Limited Partnership (NRLP).
    - HOSSM owns transmission infrastructure in the East Lake Superior area.
    - HOI has a 66% interest in B2M LP, which operates a transmission line that runs from the Bruce Nuclear Generation Complex to HOI's Milton Switching Station.
    - HOI has a 55% interest in NRLP, which operates a transmission line in the Niagara area.
- Acronym Solutions Inc. carries out a nonregulated telecommunications business.
- Hydro One Holdings Limited was established to hold Avista Corporation (Avista). In January 2019, HOL and Avista called off the acquisition.

Earnings and Outlook

	For the year ended December 31				
(CAD millions where applicable)	**2021**	**2020**	**2019**	**2018**	**2017**
Net revenues	3,606	3,396	3,331	3,211	3,072
EBITDA	2,433	2,311	2,239	2,066	1,968
EBIT	1,627	1,536	1,469	1,326	1,248
Gross interest expense	500	503	497	461	468
Net income before nonrecurring items	992	971	952	854	711
Reported net income	972	1,792	952	(31)	711
Return on equity (%)	9.0	9.4	9.7	8.3	7.9
Segmented Reported EBIT					
Transmission	927	878	823	829	770
Distribution	688	613	653	520	502
Other	(3)	(5)	(7)	(23)	(24)
Total EBIT	**1,612**	**1,486**	**1,469**	**1,326**	**1,248**
Transmission rate base[1]	13,745	13,185	12,609	11,870	11,251
Approved return on equity—Transmission (%)[2]	8.52	8.52	9.00	9.00	8.78
Actual return on equity—Transmission (%)[2]	N/A	9.29	9.53	11.08	9.03
Distribution rate base	8,854	8,505	8,101	7,852	7,389
Approved return on equity—Distribution (%)	9.00	9.00	9.00	9.00	8.78
Actual return on equity—Distribution (%)	N/A	10.56	10.90	8.07	7.94

1 Includes HONI, B2M LP, and HOSSM.
2 HONI only.

2021 Summary

- HOI's earnings are relatively stable, supported by a reasonable regulatory environment, extensive franchise area, and a diverse customer base that is growing at a steady rate.
- The Company's earnings in 2021 increased, supported by higher approved regulated distribution and transmission rates.
    - This was partly offset by higher operating expenses, depreciation expense from the growing rate base, and income taxes.

- Actual net income included $15 million of sanitation costs related to the Coronavirus Disease (COVID-19) pandemic.

2022 Outlook

- DBRS Morningstar expects HOI's earnings to remain relatively steady in 2022.
    - Revenues for transmission and distribution operations should benefit from annual increases as part of the Custom IR plans. This will be largely offset by inflationary increases for operating costs and higher depreciation from the growing rate base.
- Earnings for 2023 will largely be determined by the outcome of the current JRAP process.

Financial Profile

	For the year ended December 31				
(CAD millions where applicable)	**2021**	**2020**	**2019**	**2018**	**2017**
Net income before nonrecurring items	992	971	952	854	711
Depreciation & amortization	806	775	770	740	720
Deferred income taxes and other	171	24	18	25	88
Cash flow from operations	**1,969**	**1,770**	**1,740**	**1,619**	**1,519**
Dividends[1]	(620)	(608)	(751)	(559)	(550)
Capital expenditures	(2,036)	(1,835)	(1,622)	(1,524)	(1,527)
Free cash flow (bef. working cap. changes)	**(687)**	**(673)**	**(633)**	**(464)**	**(558)**
Changes in noncash working capital	69	159	27	(50)	63
Changes in regulatory assets	70	68	(48)	35	112
Net free cash flow	**(548)**	**(446)**	**(654)**	**(479)**	**(383)**
Acquisitions & long-term investments	0	(126)	0	0	0
Net equity change	0	0	(486)	0	0
Net debt change[1]	341	1,284	661	970	344
Other	(6)	(7)	(6)	1	(9)
Change in cash	**(213)**	**705**	**(485)**	**492**	**(48)**
Total debt	14,297	13,984	12,692	12,447	11,482
Cash flow/Total debt (%)[2]	13.8	12.7	13.7	13.0	13.2
Total debt in capital structure (%)[2, 3]	55.9	56.1	56.6	56.7	53.3
EBIT gross interest coverage (times)[2]	3.25	3.05	2.96	2.87	2.65
Dividend payout ratio (%)	62.5	62.6	78.9	65.5	77.4

1 Includes preferred shares of $486 million in 2017 that DBRS Morningstar has treated as debt because the shares were redeemed in 2019.
2 Adjusted for operating leases.
3 Adjusted for accumulated other comprehensive income.

2021 Summary

- HOI's key credit metrics improved modestly in 2021.
    - The Company's cash flow-to-debt ratio increased because of stronger cash flows for the year and from the timing of debt issuances in 2020.
    - Overall, HOI's key credit metrics remained supportive of the current ratings.

- Cash flow from operations from the higher earnings as well as benefitting from the OEB decision on the deferred tax asset, which resulted in an increase of approximately $65 million for the recovery of previously shared deferred tax amounts.
- Capex increased as HOI continued investing in maintaining and reinforcing the grid, as well as a new Ontario grid control centre in Orillia.
- Dividends were to maintain the regulatory capital structure broadly in line with the regulatory construct.
- The Company used cash on hand as well as net proceeds from a $900 million issuance of long-term debt to repay and prepay maturing long- and short-term debt, and to fund the capex program.

2022 Outlook

- DBRS Morningstar expects HOI's key credits to remain reasonable for the A (high) rating.
- Cash flow from operations is expected to remain steady, in line with earnings.
    - The OEB decision on the deferred tax asset is expected to lead to an increase in cash flows of $135 million in 2022 and $65 million in 2023 for the recovery of previously shared deferred tax amounts.
    - The OEB decision also required adjusting the transmission revenue requirement and distribution rates effective 2022 to eliminate any further tax savings flowing to customers, resulting in a $50 million increase to cash flows for 2022; this amount will decline over time.
- HOI has forecast capex of $1.8 billion for the year, with the majority for sustainment projects.
- DBRS Morningstar expects the Company to support HOL's dividend policy (annual dividends of approximately 70% to 80% of consolidated net income) to the extent that such dividend payouts maintain HOI's regulatory capital structure. Consequently, DBRS Morningstar expects dividends to remain high.

Debt and Liquidity

Liquidity

(CAD millions— as at December 31, 2021)	Amount	Draw	Available	Maturity
Cash and cash equivalents	499		**499**	
Revolving standby credit facility	2,300	1,045	**1,255**	June 2026
Total	**2,799**	**1,045**	**1,754**	

- The Company's liquidity profile remains reasonable and adequate for its normal operating requirements.
- HOI has a revolving credit facility of $2.3 billion maturing in June 2026. The CP program is backstopped by the revolving credit facility. As of December 31, 2021, approximately $1,045 million of CP was outstanding.

Long-Term Debt Maturities

(CAD millions—as at December 31, 2021)	2022	2023	2024	2025	2026	Thereafter	Total
Principal repayments	603	731	700	750	500	9,945	**13,229**
% of total	5	6	5	6	4	75	**100**

- HOI's refinancing risk remains manageable with maturities well spread out.

- HOI has adequate access to debt markets and access to the equity market through its parent, HOL.
    - In 2021, the Company issued $900 million under its Medium Term Note program, the proceeds of which were used to repay and prepay maturing long- and short-term debt, and to fund the capex program.
- HOI has credit covenants limiting the permissible debt to 75% of its total capitalization and limiting the ability to sell assets and impose negative pledge provisions, subject to customary exceptions. As of December 31, 2021, the Company was in compliance with all of the covenants and limitations.

Major Projects and Acquisitions

Project	Estimated Cost (CAD millions)	Spent as of Dec. 31, 2021 (CAD millions)	In-Service Target Date
East-West Tie Station Expansion	181	167	2023
Beck #2 Transmission Station Circuit Breaker Replacement	135	102	2023
Cherrywood Transmission Station Circuit Breaker Replacement	115	81	2023
Bruce B Switching Station Circuit Breaker Replacement	185	135	2024
Middleport Transmission Station Circuit Breaker Replacement	113	94	2025
Lennox Transmission Station Circuit Breaker Replacement	152	103	2026
Leamington Area Transmission Reinforcement	525	182	2026
Esplanade x Terauley Underground Cable Replacement	117	7	2026

- Most of HOI's capex is for sustainment purposes (59% for 2021).
- Development projects include the East-West Tie Station Expansion, which involves expanding a transformer station in order to connect the new East-West Tie transmission line to the station, and the Leamington Area Transmission Reinforcement, which involves new transmission stations and connections, and a new double-circuit transmission line between Chatham and Lakeshore.

Regulation

Regulation Overview

- HOI is regulated by the OEB and operates under a supportive regulatory environment. The Company has a good track record of prudently managing its regulatory risk.
- Both of HONI's transmission and distribution businesses operate under Custom IR.
    - The Custom IR framework is a hybrid between COS and an incentive rate mechanism (IRM). The rate setting for the term is based on the Company's forecasts and the OEB's incentive rate analysis using productivity benchmarking.
    - Custom IR is suited to utilities with large, broad, multiyear investment needs that require certainty of funding several years in advance.
- Both the transmission and distribution segments operate with a deemed capital structure of 60% debt (56% long term and 4% short term) and 40% equity.
- In July 2020, the Ontario Divisional Court set aside the OEB's decision that the deferred tax asset that resulted from the transition from the payments in lieu of tax program to the federal and provincial tax regimes should be shared with ratepayers. The Ontario Divisional Court agreed with the Company that the deferred tax asset should have been allocated entirely to shareholders.
    - Following the decision, HOI reversed the $867-million impairment it had recorded in 2018.

- In April 2021, the OEB approved the recovery of tax savings misallocated to ratepayers and included in rates for the 2017 to 2021 period, plus carrying charges, over a two-year period beginning July 1, 2021. The OEB also acknowledged that no future tax savings from the sale of HOL shares should be allocated to ratepayers.
- The recovery led to an increase in the Company's cash flows of $65 million in 2021, and is expected to lead to an increase of $135 million and $65 million in 2022 and 2023.
- The elimination of future tax savings flowing to customers is also expected to increase HOI's cash flows by $50 million in 2022, but will decline over time.

- In August 2021, HOI filed its first JRAP for 2023 to 2027 revenue requirements for its transmission and rates for its distribution businesses. In April 2022, the Company filed an update to the application.
  - The revenue requirement and rate base for the transmission and distribution businesses will continue to remain separate and be recovered through separate rates.
  - The application is based on a Custom IR approach, where the revenue requirements for 2023 are based on COS while subsequent years will increase by a RCI based on inflation, productivity, stretch, and capital factors.
  - The Company has proposed a combined productivity and stretch factor of 0% for transmission and 0.3% for distribution, with an additional 0.15% stretch factor on capital.
  - For the five-year term, the application includes capex of $7.6 billion for transmission and $5.6 billion for distribution.
  - HOI has also proposed an earnings sharing mechanism (ESM) whereby any earnings 100 basis points (bps) above the allowed ROE will be shared 50-50 with customers.
  - Based on the April 2022 filing updated for inflation, HOI has proposed the following:

	For the year ended December 31				
(CAD millions where applicable)	**2023**	**2024**	**2025**	**2026**	**2027**
HONI transmission rate base	14,612	15,517	16,586	17,603	18,534
HONI distribution rate base	9,395	10,031	10,764	11,478	12,105
HONI transmission revenue requirement	1,849	1,968	2,063	2,183	2,267
HONI distribution revenue requirement	1,669	1,753	1,832	1,935	2,025

Transmission

	For the year ended December 31				
(CAD millions where applicable)	**2021**	**2020**	**2019**	**2018**	**2017**
Transmission rate base[1]	13,745	13,185	12,609	11,870	11,251
Deemed equity (%)	40.00	40.00	40.00	40.00	40.00
Allowed ROE - Transmission (HONI) (%)	8.52	8.52	9.00	9.00	8.78
Allowed ROE - Transmission (B2M LP) (%)	8.52	8.52	8.98	9.00	8.78
Allowed ROE - Transmission (HOSSM) (%)	9.19	9.19	9.19	9.19	9.19
Allowed ROE - Transmission (NRLP) (%)	8.52	8.52	N/A	N/A	N/A
Actual ROE - Transmission (HONI) (%)	N/A	9.29	9.53	11.08	9.03

1 Includes HONI, B2M LP, and HOSSM.

- In April 2020, the OEB approved HONI's 2020–22 transmission Custom IR application.
    - Revenues for 2020 were based on COS while subsequent years will increase by an RCI based on inflation, productivity, stretch, and capital factors.
    - The productivity factor was set at 0% while the stretch factor was set at 0.30%. An additional 0.15% stretch factor will be applied to the capital factor.
    - The OEB also approved an ESM that provides for 50% of the savings that result in an actual regulatory ROE in excess of 100 bps over the OEB-approved ROE to be shared with customers.
    - The OEB also approved a capex budget of $3.5 billion over the three-year term.
    - In December 2020, the OEB approved HONI's 2021 transmission revenue requirement of $1,660 million based on an RCI of 4.58%, with inflation of 2.00%, a productivity and stretch factor of 0.30%, and a capital factor of 3.03% less a 0.15% incremental capital stretch factor.
    - In December 2021, the OEB approved HONI's 2022 transmission revenue requirement of $1,884 million based on an RCI of 4.9%, with inflation of 2.5%, a productivity and stretch factor of 0.30%, and a capital factor of 2.85% less a 0.15% incremental capital stretch factor.
- In January 2020, the OEB approved B2M LP's 2020 to 2024 transmission revenue requirement.
    - For 2021 to 2024, revenue will increase annually by an RCI based on inflation less a Settlement Capital Adjustment Factor (SCAF) of 0.6%.
    - The application also includes an ESM that allows customers to share 50% of earnings that exceed the regulatory ROE by more than 100 bps in any year.
    - In November 2020, the OEB approved B2M LP's 2021 revenue requirement of $33.0 million based on an RCI of 1.4% (inflation of 2.0% less a SCAF of 0.6%).
    - In December 2021, the OEB approved B2M LP's 2022 revenue requirement of $33.7 million based on an RCI of 1.9% (inflation of 2.5% less a SCAF of 0.6%).
- HOSSM currently operates under a 10-year deferred rebasing period until 2026. Rates are adjusted annually by an RCI based on inflation less a productivity and stretch factor.
    - In December 2020, the OEB approved HOSSM's 2021 revenue requirement of $41.5 million based on an RCI of 1.7% (inflation of 2.0% less a stretch factor of 0.3%).
    - In December 2021, the OEB approved HOSSM's 2022 revenue requirement of $42.4 million based on an RCI of 2.2% (inflation of 2.5% less a stretch factor of 0.3%).
- In April 2020, the OEB approved NRLP's 2020 to 2024 transmission revenue requirement.
    - For 2021 to 2024, revenue will increase annually by an RCI based on 50% of inflation less a SCAF of 0.6%.
    - The application also includes an ESM that allows customers to share 50% of earnings that exceed the regulatory ROE by more than 100 bps in any year.
    - In December 2020, the OEB approved NRLP's 2021 revenue requirement of $8.2 million based on an RCI of 0.4% (50% of inflation at 1.0% less a SCAF factor of 0.6%).
    - In December 2021, the OEB approved NRLP's 2022 revenue requirement of $8.3 million based on an RCI of 0.65% (50% of inflation at 2.5% less a SCAF factor of 0.6%).

Distribution

	For the year ended December 31				
(CAD millions where applicable)	**2021**	**2020**	**2019**	**2018**	**2017**
Distribution rate base	8,854	8,505	8,101	7,852	7,389
Deemed equity (%)	40.00	40.00	40.00	40.00	40.00
Allowed ROE—Distribution (%)	9.00	9.00	9.00	9.00	8.78
Actual ROE - Distribution (%)	N/A	10.56	10.90	8.07	7.94

- In March 2019, the OEB approved HONI's Custom IR application for 2018 to 2022 distribution rates.
    - Revenues for 2018 were based on COS while subsequent years will increase by an RCI based on inflation, productivity, stretch, and capital factors.
    - The OEB also approved an ESM that provides for 50% of the savings that result in an actual regulatory ROE in excess of 100 bps over the OEB-approved ROE to be shared with customers.
    - For 2021, the OEB approved the revenue requirement of $1,596 million based on an RCI of 3.70% with inflation of 2.2%, a productivity factor of 0%, a stretch factor of 0.45%, and a capital factor of 1.95% (2.10% less an additional stretch factor of 0.15%).
    - For 2022, the OEB approved the revenue requirement of $1,692 million based on an RCI of 4.70% with inflation of 3.3%, a productivity factor of 0%, a stretch factor of 0.45%, and a capital factor of 1.85% (2.00% less an additional stretch factor of 0.15%).

Assessment of Regulatory Framework

Criteria	Score	Analysis
1. Deemed Equity	Excellent Good **Satisfactory** Below Average Poor	The OEB allows HOI's transmission and distribution businesses to have a deemed equity of 40%, which has been consistent historically.
2. Allowed ROE	Excellent Good **Satisfactory** Below Average Poor	ROE for the distribution businesses was set at 9.00% for 2018 to 2022. ROE for the transmission business was set at 8.52% for 2020 to 2022.
3. Energy Cost Recovery	**Excellent** Good Satisfactory Below Average Poor	There is no power price risk as HOI is not responsible for purchasing power from generation facilities or the wholesale market. Power costs are passed on to ratepayers and HOI collects the payments from its customers on a monthly basis.
4. Capital and Operating Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Major capital costs are preapproved by the OEB and added to the rate base after project completion. In addition, the OEB can approve rate riders to allow for the recovery or disposition of specific regulatory accounts over specified time frames.
5. COS versus IRM	Excellent **Good** Satisfactory Below Average Poor	HONI's distribution business operates under Custom IR for 2018–22. The transmission business operates under Custom IR for 2020–22.
6. Political Interference	Excellent Good Satisfactory **Below Average** 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 (HOL is 47.2% owned by the province). Furthermore, stakeholders, such as the Independent Electricity System Operator, are also government owned. As a result, the government has direct and indirect influence on Ontario's electricity industry.
7. Stranded Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	HOI has a limited history of stranded costs. All prudently incurred or budgeted capex are approved by the OEB.
8. Rate Freeze	Excellent Good **Satisfactory** Below Average Poor	From 2002 to 2005, because of rising rates during Ontario's experimental utility deregulation phase, a distribution rate freeze was imposed. There have been no subsequent provincewide rate freezes.

ESG Checklist

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		**Overall:**	**N**	**N**
	Emissions, Effluents, and Waste	Do we consider that the costs or risks for the issuer or its clients result, or could result, in changes to an issuerÆs financial, operational, and/or reputational standing?	**N**	**N**
	Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs and/or will such costs increase over time affecting the long term credit profile?	**N**	**N**
	Resource and Energy Management	Does the scarcity of sourcing key resources hinder the production or operations of the issuer, resulting in lower productivity and therefore 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**
	Climate and Weather Risks	In the near term, will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact? In the long term, will the issuer's or client's business activities and infrastructure be materially affected financially by a 2C rise in temperature?	**N**	**N**
Social		**Overall:**	**N**	**N**
	Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services could pose 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 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**
		Human Capital and Human Rights	**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	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could it result, in financial penalties or client attrition to the issuer?	**N**	**N**
	Occupational Health and Safety	Would the failure to address workplace hazards have a negative 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	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**
Governance		**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**
		Are there any political risks that could impact the issuer's financial position or its reputation?	**N**	**N**
		Bribery, Corruption, and Political Risks	**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**
		Corporate / Transaction Governance	**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**
		Are government officials exposed to public scrutiny and held to high ethical standards of conduct?	**N**	**N**
		Institutional Strength, Governance, and Transparency (Governments Only)	**N**	**N**
		Consolidated ESG Criteria Output:	**N**	**N**

Balance Sheet

(CAD millions)	Dec. 31	Dec. 31	Dec. 31		Dec. 31	Dec. 31	Dec. 31
Assets	**2021**	**2020**	**2019**	**Liabilities & Equity**	**2021**	**2020**	**2019**
Cash and equivalents	499	712	7	Short-term borrowings	1,045	800	1,143
Accounts receivable	697	719	699	Accounts payable	855	789	787
Inventories	22	23	21	Current portion long-term debt	615	817	661
Other current assets	678	580	593	Other current liabilities	430	554	480
Total Current Assets	**1,896**	**2,034**	**1,320**	**Total Current Liabilities**	**2,945**	**2,960**	**3,071**
Net fixed assets	23,801	22,619	21,489	Long-term debt	12,637	12,367	10,888
Future income tax assets	10	16	643	Deferred income taxes	367	56	61
Goodwill and intangibles	940	885	780	Regulatory liabilities	362	231	167
Regulatory assets	3,561	4,571	2,676	Provisions and other liabilities	2,650	3,621	3,007
Investments and others	13	8	9	Minority interest	88	94	79
				Common equity	11,172	10,804	9,644
Total Assets	**30,221**	**30,133**	**26,917**	**Total Liabilities and Equity**	**30,221**	**30,133**	**26,917**

Ratios

	For the year ended December 31				
Balance Sheet, Liquidity and Capital Ratios	**2021**	**2020**	**2019**	**2018**	**2017**
Current ratio	0.64	0.69	0.43	0.51	0.40
Cash flow/Total debt (%)	13.8	12.7	13.7	13.0	13.2
Cash flow/Total debt (%)[1]	13.8	12.7	13.7	13.0	13.2
Total debt in capital structure (%)	55.9	56.1	56.6	56.7	53.3
Total debt in capital structure (%)[1, 2]	55.9	56.1	56.6	56.7	53.3
Cash flow/Total debt (%)[1]	13.8	12.7	13.7	13.0	13.2
(Cash flow-dividends)/Capex (x)	0.66	0.63	0.61	0.70	0.63
Dividend payout ratio (%)	62.5	62.6	78.9	65.5	77.4
Coverage Ratios (times)					
EBIT gross interest coverage	3.25	3.05	2.96	2.87	2.65
EBIT gross interest coverage[1]	3.25	3.05	2.96	2.87	2.65
EBITDA gross interest coverage	4.87	4.59	4.51	4.48	4.21
Fixed-charge coverage	3.25	3.05	2.96	2.87	2.65
Profitability Ratios					
EBITDA margin (%)	67.5	68.1	67.2	64.3	64.1
EBIT margin (%)	45.1	45.2	44.1	41.3	40.6
Profit margin (%)	27.5	28.6	28.6	26.6	23.1
Return on equity (%)	9.0	9.4	9.7	8.3	7.9
Return on capital (%)	4.7	4.8	4.9	4.5	4.5

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

Rating History

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

Commercial Paper Limit

- $2.3 billion.

Related Research

- "DBRS Morningstar Confirms Ratings of Hydro One Limited at "A," Stable Trends," April 14, 2021.

Previous Actions

- "DBRS Morningstar Assigns Ratings of A (high) with Stable Trends to Hydro One Inc.'s $900 Million Medium-Term Notes Issues," September 17, 2021.
- "DBRS Morningstar Confirms Ratings of Hydro One Inc. at A (high)/R-1 (low), Stable Trends," April 14, 2021.

Previous Report

- Hydro One Inc.: Rating Report, April 21, 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.

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 3,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why DBRS Morningstar is the next generation of credit ratings.

Learn more at dbrsmorningstar.com.

MORNINGSTAR | DBRS

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: https://www.dbrsmorningstar.com/research/225752/highlights.pdf.

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

© 2022 DBRS Morningstar. The information upon which DBRS Morningstar credit ratings and other types of credit opinions and reports are based is obtained by DBRS Morningstar from sources DBRS Morningstar believes to be reliable. DBRS Morningstar does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS Morningstar credit ratings, other types of credit opinions, reports and any other information provided by DBRS Morningstar are provided "as is" and without representation or warranty of any kind and DBRS Morningstar assumes no obligation to update any such ratings, opinions, reports or other information. DBRS Morningstar hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS Morningstar or its directors, officers, employees, independent contractors, agents, affiliates and representatives (collectively, DBRS Morningstar Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of credit ratings, other types of credit opinions and reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS Morningstar or any DBRS Morningstar Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. IN ANY EVENT, TO THE EXTENT PERMITTED BY LAW, THE AGGREGATE LIABILITY OF DBRS MORNINGSTAR AND THE DBRS MORNINGSTAR REPRESENTATIVES FOR ANY REASON WHATSOEVER SHALL NOT EXCEED THE GREATER OF (A) THE TOTAL AMOUNT PAID BY THE USER FOR SERVICES PROVIDED BY DBRS MORNINGSTAR DURING THE TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO LIABILITY, AND (B) U.S. $100. DBRS Morningstar does not act as a fiduciary or an investment advisor. DBRS Morningstar does not provide investment, financial or other advice. Credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar (a) are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities; (b) do not take into account your personal objectives, financial situations or needs; (c) should be weighed, if at all, solely as one factor in any investment or credit decision; (d) are not intended for use by retail investors; and (e) address only credit risk and do not address other investment risks, such as liquidity risk or market volatility risk. Accordingly, credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar are not a substitute for due care and the study and evaluation of each investment decision, security or credit that one may consider making, purchasing, holding, selling, or providing, as applicable. A report with respect to a DBRS Morningstar credit rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS Morningstar may receive compensation for its credit ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS Morningstar. ALL DBRS MORNINGSTAR CREDIT RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DEFINITIONS, LIMITATIONS, POLICIES AND METHODOLOGIES THAT ARE AVAILABLE ON https://www.dbrsmorningstar.com. Users may, through hypertext or other computer links, gain access to or from websites operated by persons other than DBRS Morningstar. Such hyperlinks or other computer links are provided for convenience only. DBRS Morningstar does not endorse the content, the operator or operations of third party websites. DBRS Morningstar is not responsible for the content or operation of such third party websites and DBRS Morningstar shall have no liability to you or any other person or entity for the use of third party websites.

MORNINGSTAR | DBRS

Rating Report
Hydro One Inc.

DBRS Morningstar
November 9, 2022

Contents

1 Ratings
1 Rating Update
2 Financial Information
2 Issuer Description
2 Rating Considerations
4 Ownership Structure
5 Earnings and Outlook
6 Financial Profile
7 Debt and Liquidity
8 Major Projects and Acquisitions
9 Regulation
13 Environmental, Social, and Governance (ESG) Credit Risk Considerations
16 Rating History
16 Commercial Paper Limit
16 Related Research
16 Previous Actions
16 Previous Report

Tom Li
+1 416 597-7378
tom.li@dbrsmorningstar.com

Ram Vadali, CFA, CPA
+1 416 597-7526
ram.vadali@dbrsmorningstar.com

Ratings

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

Rating Update

On November 4, 2022, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating and Senior Unsecured Debentures rating of Hydro One Inc. (HOI or the Company) at A (high), and the Commercial Paper (CP) rating at R-1 (low). All trends are Stable. The confirmations reflect the regulated nature of HOI's transmission and distribution businesses, which provide a steady stream of earnings and cash flows. The Stable trends are based on the Company's key credit metrics, which are all in line with the "A" rating category.

In October 2022, HOI filed a settlement proposal with the Ontario Energy Board (OEB) for its Joint Rate Application (JRAP) for 2023 to 2027 transmission revenue requirements and distribution rates. The settlement proposal, which is largely based on a continuation of the current Custom Incentive Rate-making (IR) framework, will be updated in mid-November to reflect the OEB's 2023 cost of capital parameters and inflation factor. DBRS Morningstar notes, if approved, the settlement proposal will provide stability for HOI's operations during the IR term, and certainty of funding for the significant capital expenditures (capex) program of around $11.8 billion. The OEB is reviewing the settlement proposal and a decision on the JRAP is expected by the end of 2022.

HOI's financial risk assessment continues to be reasonable for the A (high) ratings. The Company's key credit metrics have been stable over the past few years and in line with the "A" rating category. If the JRAP settlement proposal is approved, HOI's key credit metrics should remain supportive of the current ratings, albeit with some pressure on the cash flow-to-debt ratio because of the planned capex program. DBRS Morningstar expects the Company to continue to manage its capex and dividend requirements through a prudent mix of debt issuances and operating cash flows in order to maintain leverage in line with the regulatory capital structure and other key ratios within the "A" rating category. A negative rating action may occur if HOI's key credit metrics weaken to a level no longer commensurate with the current rating category for a sustained period, such as if the cash flow-to-debt ratio falls below 12.5% and the debt-to-capital ratio increases above 60%. A positive rating action is considered unlikely over the

medium term given the Company's current business and financial risk profiles and the substantial capex program.

Financial Information

	12 mos. ended June 30	For the year ended December 31				
	2022	**2021**	**2020**	**2019**	**2018**	**2017**
Cash flow/total debt (%)[1]	15.2	13.8	12.7	13.7	13.0	13.2
Total debt in capital structure (%)[1, 2]	55.1	55.9	56.1	56.6	56.7	53.3
EBIT gross interest coverage (times)[1]	3.58	3.25	3.05	2.96	2.87	2.65

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

Issuer Description

HOI is a fully owned subsidiary of Hydro One Limited (HOL; rated "A" with a Stable trend by DBRS Morningstar) and is the largest electricity transmission and distribution company in Ontario. The Company owns and operates more than 30,000 circuit kilometres (km) of high-voltage transmission lines and approximately 125,000 circuit km of low-voltage distribution lines, serving around 1.5 million customers.

Rating Considerations

Strengths

1. Reasonable regulatory environment

HOI's earnings are contributed by its low-risk regulated transmission and distribution businesses that operate under a reasonable regulatory framework. The regulatory regime under the OEB permits the Company a reasonable opportunity to recover operating and capital costs and earn the approved rates of return. HOI's deemed capital structure (debt-to-equity of 60%:40%) has remained unchanged for several years. DBRS Morningstar views the utility regulatory framework in Ontario as transparent and supportive for regulated transmission and distribution operators.

2. Extensive franchise area

HOI owns the largest transmission and distribution businesses in Ontario. The Company operates approximately 98% of the Province of Ontario's (Ontario or the Province) transmission infrastructure, based on revenues approved by the OEB, and is connected to 37 local distribution companies (including HOI's own distribution business) and 85 large, directly connected industrial customers. The Company's transmission system is also interconnected to systems in Manitoba, Michigan, Minnesota, New York, and Québec through interties. Load growth is expected to be modest and in line with economic growth in the Province. The distribution business serves around 1.5 million customers, or approximately 28% of the Province's customers.

3. Reasonable financial profile

HOI continues to maintain a reasonably healthy balance sheet, with all key credit metrics reasonable for the current rating category (debt-to-capital ratio at 55.1%, cash flow-to-debt at 15.2%, and EBIT interest coverage at 3.85 times (x) for the 12 months ended June 30, 2022 (LTM 2022)).

Challenges

1. High level of planned capex

The Company has a large capital program that is expected to continue over the next several years and could pressure credit metrics. Capex was approximately $2.1 billion for 2021 (approximately $1,320 million for transmission and approximately $784 million for distribution), with a plan for approximately $11.8 billion in the next five years. A major part of HOI's capital program is for the essential replacement of aging infrastructure to maintain the reliability of aging transmission and distribution assets.

2. High dividend payouts

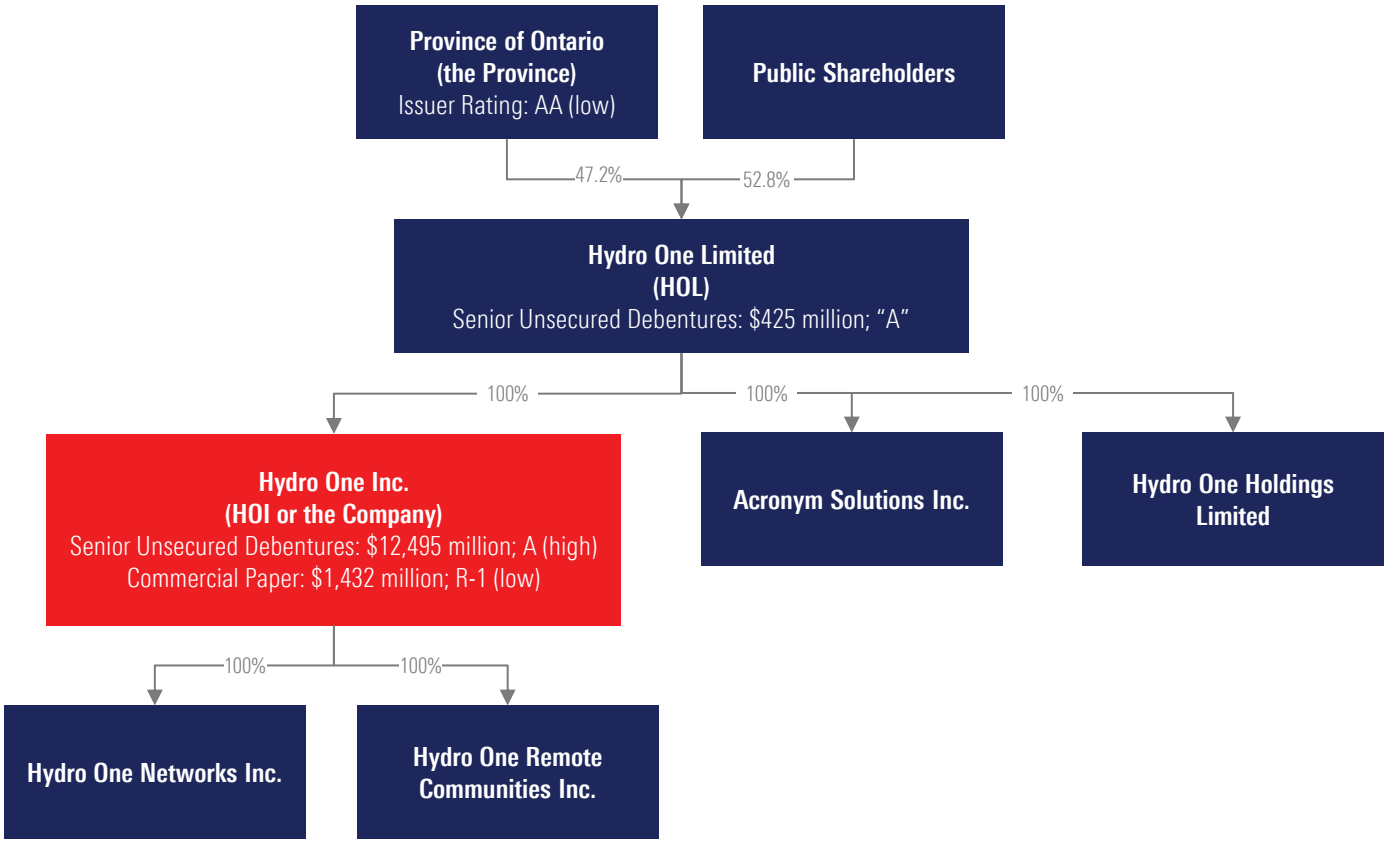
HOI's dividend payout ratio (dividends relative to net earnings) is high in order to support HOL's dividend policy (payout approximately 70% to 80% of consolidated net income). DBRS Morningstar expects the Company's dividend payout ratio to remain high in order to meet HOL's dividend objectives; consequently, HOI will need to access significant external funding to finance the potentially sizable free cash flow deficits because of the dividends and capex commitments expected over the medium term.

3. Earnings sensitive to volume and costs

HOI's earnings can be affected by weather patterns, seasonality, and economic conditions. The OEB approves the Company's transmission and distribution rates based on forecast electricity load and consumption levels. Cooler summers and warmer winters could reduce demand for electricity below forecast levels and negatively affect revenues. Furthermore, current revenue requirements are approved based on cost assumptions that could materially differ from actual costs. There is no assurance that the OEB would allow rate increases to offset the financial impacts of unanticipated changes in electricity demand or in costs. However, this risk is expected to be partially mitigated as the OEB has implemented a fixed monthly distribution charge for residential customers, and HOI is currently phasing in a fixed monthly rate for most of its residential customers by 2024. However, some seasonality will remain because a major part of the Company's earnings are generated from transmission revenues.

Ownership Structure

Simplified Organizational Structure



As at June 30, 2022.
Source: HOL.

- In November 2015, HOL and the Province completed an initial public offering on the Toronto Stock Exchange of approximately 89.3 million common shares of HOL.
    - In April 2016, the Province completed a secondary offering of 83.3 million common shares of HOL.
    - In May 2017, the Province completed a further secondary offering of 120 million common shares of HOL.
- HOI is 100% owned by HOL, which is in turn 47.2% owned by the Province, with the remainder held by public shareholders.
- HOI's major subsidiaries include two regulated utilities, Hydro One Networks Inc. (HONI) and Hydro One Remote Communities Inc. (Remotes).
    - HONI carries out the rate-regulated transmission and distribution businesses.
    - Remotes generates and supplies electricity to remote communities in Northern Ontario. This segment is 100% debt financed and operates as a breakeven company with no return on equity (ROE).

- HOI also owns Hydro One Sault Ste. Marie Limited Partnership (HOSSM), Bruce to Milton Limited Partnership (B2M LP), and Niagara Reinforcement Limited Partnership (NRLP).
    - HOSSM owns transmission infrastructure in the East Lake Superior area.
    - HOI has a 66% interest in B2M LP, which operates a transmission line that runs from the Bruce Nuclear Generation Station to HOI's Milton Switching Station.
    - HOI has a 55% interest in NRLP, which operates a transmission line in the Niagara area.
- Acronym Solutions Inc. carries out a nonregulated telecommunications business.
- Hydro One Holdings Limited was established to hold Avista Corporation (Avista). In January 2019, HOL and Avista called off the acquisition.

Earnings and Outlook

	12 mos. ended June 30	For the year ended December 31				
(CAD millions where applicable)	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**
Net revenues	3,825	3,606	3,396	3,331	3,211	3,072
EBITDA	2,631	2,433	2,311	2,239	2,066	1,968
EBIT	1,795	1,627	1,536	1,469	1,326	1,248
Gross interest expense	502	500	503	497	461	468
Net income before nonrecurring items	1,049	992	971	952	854	711
Reported net income	1,029	972	1,792	952	(31)	711
ROE (%)	9.3	9.0	9.4	9.7	8.3	7.9
Segmented Reported EBIT						
Transmission	1,002	927	878	823	829	770
Distribution	664	688	613	653	520	502
Other	(12)	(3)	(5)	(7)	(23)	(24)
Total EBIT	**1,654**	**1,612**	**1,486**	**1,469**	**1,326**	**1,248**
Transmission rate base[1]	N/A	13,745	13,185	12,609	11,870	11,251
Approved ROE—transmission (%)[2]	N/A	8.52	8.52	9.00	9.00	8.78
Actual ROE—transmission (%)[2]	N/A	N/A	9.29	9.53	11.08	9.03
Distribution rate base	N/A	8,854	8,505	8,101	7,852	7,389
Approved ROE—distribution (%)	N/A	9.00	9.00	9.00	9.00	8.79
Actual ROE—distribution (%)	N/A	10.99	10.48	10.85	8.06	7.92

1 Includes HONI, B2M LP, and HOSSM.
2 HONI only.

2021 Summary

- HOI's earnings are relatively stable, supported by a reasonable regulatory environment, extensive franchise area, and a diverse customer base that is growing at a steady rate.
- The Company's earnings in 2021 increased, supported by higher approved regulated distribution and transmission rates.
    - This was partly offset by higher operating expenses, depreciation expenses from the growing rate base, and income taxes.

- Actual net income included $15 million of sanitation costs related to the Coronavirus Disease (COVID-19) pandemic.

2022 Summary and Outlook

- Earnings increased in LTM 2022 because of the annual increase in distribution and transmission rates as part of the Custom IR plans.
    - Earnings also benefitted from the implementation of the deferred tax asset decision.
- DBRS Morningstar expects HOI's earnings to remain relatively steady in 2022.
- Earnings for 2023 will largely be determined by the outcome of the current JRAP process.
    - DBRS Morningstar notes the Company filed a settlement proposal with the OEB in October 2022. A decision from the OEB is expected by the end of the year.

Financial Profile

	12 mos. ended June 30	For the year ended December 31				
(CAD millions where applicable)	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**
Net income before nonrecurring items	1,049	992	971	952	854	711
Depreciation & amortization	836	806	775	770	740	720
Deferred income taxes and other	255	171	24	18	25	88
Cash flow from operations	**2,140**	**1,969**	**1,770**	**1,740**	**1,619**	**1,519**
Dividends[1]	(636)	(620)	(608)	(751)	(559)	(550)
Capex	(1,991)	(2,036)	(1,835)	(1,622)	(1,524)	(1,527)
Free cash flow (bef. working cap. changes)	**(487)**	**(687)**	**(673)**	**(633)**	**(464)**	**(558)**
Changes in noncash working capital	40	69	159	27	(50)	63
Changes in regulatory assets	39	70	68	(48)	35	112
Net free cash flow	**(408)**	**(548)**	**(446)**	**(654)**	**(479)**	**(383)**
Acquisitions & long-term investments	0	0	(126)	0	0	0
Net equity change	0	0	0	(486)	0	0
Net debt change[1]	430	341	1,284	661	970	344
Other	(23)	(6)	(7)	(6)	1	(9)
Change in cash	**407**	**(213)**	**705**	**(485)**	**492**	**(48)**
Total debt	14,111	14,297	13,984	12,692	12,447	11,482
Cash flow/total debt (%)[2]	15.2	13.8	12.7	13.7	13.0	13.2
Total debt in capital structure (%)[2, 3]	55.1	55.9	56.1	56.6	56.7	53.3
EBIT gross interest coverage (x)[2]	3.58	3.25	3.05	2.96	2.87	2.65
Dividend payout ratio (%)	60.6	62.5	62.6	78.9	65.5	77.4

1 Includes preferred shares of $486 million in 2017 that DBRS Morningstar has treated as debt because the shares were redeemed in 2019.
2 Adjusted for operating leases.
3 Adjusted for accumulated other comprehensive income.

2021 Summary

- HOI's key credit metrics improved modestly in 2021.

- The Company's cash flow-to-debt ratio increased because of stronger cash flows for the year and from the timing of debt issuances in 2020.
- Overall, HOI's key credit metrics remained supportive of the current ratings.

- Cash flow from operations increased from the higher earnings as well as benefitting from the OEB decision on the deferred tax asset, which resulted in an increase of approximately $65 million for the recovery of previously shared deferred tax amounts.
- Capex increased as HOI continued investing in maintaining and reinforcing the grid, as well as a new Ontario grid control centre in Orillia, Ontario.
- Dividends maintained the regulatory capital structure broadly in line with the regulatory construct.
- The Company used cash on hand as well as net proceeds from a $900 million issuance of long-term debt to repay and prepay maturing long- and short-term debt, and to fund the capex program.

2022 Summary and Outlook

- HOI's key credit metrics improved moderately in LTM 2022 because of the higher cash flows and lower debt load.
  - Cash flow from operations increased partly because of the OEB decision on the deferred tax asset, which is expected to lead to an increase in cash flows of $135 million in 2022 and $65 million in 2023 for the recovery of previously shared deferred tax amounts.
  - The OEB decision also required adjusting the transmission revenue requirement and distribution rates effective 2022 to eliminate any further tax savings flowing to customers, resulting in a $50 million increase to cash flows for 2022; this amount will decline over time.
- Overall, DBRS Morningstar expects HOI's credit metrics to remain in line with the "A" rating category.
- HOI has forecast capex of $1.8 billion for the year ($1.0 billion spent as of June 30, 2022), with the majority for sustainment projects.
- DBRS Morningstar expects the Company to support HOL's dividend policy (annual dividends of approximately 70% to 80% of consolidated net income) to the extent that such dividend payouts maintain HOI's regulatory capital structure. Consequently, DBRS Morningstar expects dividends to remain high.

Debt and Liquidity

Long-Term Debt Maturities

(CAD millions—as at December 31, 2021)	2022	2023	2024	2025	2026	Thereafter	Total
Principal repayments	603	731	700	750	500	9,945	**13,229**
% of total	5	6	5	6	4	75	**100**

- HOI's refinancing risk remains manageable with maturities well spread out.
- HOI has adequate access to debt markets and access to the equity market through its parent, HOL.
  - In 2021, the Company issued $900 million under its Medium-Term Notes program, the proceeds of which were used to repay and prepay maturing long- and short-term debt, and to fund the capex program.

- In October 2022, the Company issued $750 million under its Medium-Term Notes program, the proceeds of which were used to repay and prepay maturing long- and short-term debt, and to fund the capex program.

- HOI has credit covenants limiting the permissible debt to 75% of its total capitalization and limiting the ability to sell assets and impose negative pledge provisions, subject to customary exceptions. As of June 30, 2022, the Company was in compliance with all of the covenants and limitations.

Liquidity

(CAD millions—as at June 30, 2022)	Amount	Draw	Available	Maturity
Cash and cash equivalents	0		**0**	
Revolving standby credit facility	2,300	1,432	**868**	June 2027
Total	**2,300**	**1,432**	**868**	

- The Company's liquidity profile remains reasonable and adequate for its normal operating requirements.
- HOI has a revolving credit facility of $2.3 billion, maturing in June 2027. The CP program is backstopped by the revolving credit facility. As of June 30, 2022, approximately $1,432 million of CP was outstanding.

Major Projects and Acquisitions

Project	Estimated Cost (CAD millions)	Spent as of June 30, 2022 (CAD millions)	In-Service Target Date
Lakeshore Transmission Station	174	152	2022
East-West Tie Station Expansion	181	180	2023
Barrie Area Transmission Upgrade	125	52	2023
Beck #2 Transmission Station Circuit Breaker Replacement	135	108	2023
Cherrywood Transmission Station Circuit Breaker Replacement	115	86	2023
Bruce B Switching Station Circuit Breaker Replacement	185	154	2024
Chatham to Lakeshore Transmission Line	268	19	2025
Middleport Transmission Station Circuit Breaker Replacement	113	105	2025
Lennox Transmission Station Circuit Breaker Replacement	152	109	2026
Esplanade x Terauley Underground Cable Replacement	117	8	2026

- Most of HOI's capex is for sustainment purposes (65% expected for 2022).
- Development projects include the East-West Tie Station Expansion, which involves expanding a transformer station in order to connect the new East-West Tie transmission line to the station, the Lakeshore Transmission Station, and the Chatham to Lakeshore and St. Clair Transmission Lines.

Regulation

Regulation Overview

- HOI is regulated by the OEB and operates under a supportive regulatory environment. The Company has a good track record of prudently managing its regulatory risk.
- Both of HONI's transmission and distribution businesses operate under Custom IR.
    - The Custom IR framework is a hybrid between cost of service (COS) and an incentive rate mechanism (IRM). The rate setting for the term is based on the Company's forecasts and the OEB's incentive rate analysis using productivity benchmarking.
    - Custom IR is suited to utilities with large, broad, multiyear investment needs that require certainty of funding several years in advance.
- Both the transmission and distribution segments operate with a deemed capital structure of 60% debt (56% long term and 4% short term) and 40% equity.
- In July 2020, the Ontario Divisional Court set aside the OEB's decision that the deferred tax asset that resulted from the transition from the payments in lieu of the tax program to the federal and provincial tax regimes should be shared with ratepayers. The Ontario Divisional Court agreed with the Company that the deferred tax asset should have been allocated entirely to shareholders.
    - Following the decision, HOI reversed the $867 million impairment it had recorded in 2018.
    - In April 2021, the OEB approved the recovery of tax savings misallocated to ratepayers and included in rates for the 2017 to 2021 period, plus carrying charges, over a two-year period beginning July 1, 2021. The OEB also acknowledged that no future tax savings from the sale of HOL shares should be allocated to ratepayers.
    - The recovery led to an increase in the Company's cash flows of $65 million in 2021, and is expected to lead to an increase of $135 million and $65 million in 2022 and 2023.
    - The elimination of future tax savings flowing to customers is also expected to increase HOI's cash flows by $50 million in 2022, but will decline over time.
- In August 2021, HOI filed its first JRAP for 2023 to 2027 revenue requirements for its transmission and rates for its distribution businesses. In April 2022, the Company filed an update to the application.
    - The revenue requirement and rate base for the transmission and distribution businesses will continue to remain separate and be recovered through separate rates.
    - The application is based on a Custom IR approach, where the revenue requirements for 2023 are based on COS while subsequent years will increase by a revenue cap index (RCI) based on inflation, productivity, stretch, and capital factors.
    - In October 2022, a settlement proposal was filed with the OEB. Under the settlement proposal, the productivity factor will be set at 0.15% and a supplemental stretch on capital of 0.20% for the transmission business. For the distribution business, the productivity factor will be set at 0.45% and a supplemental stretch on capital of 0.20%.
    - There will also be an earnings sharing mechanism (ESM) whereby any earnings 100 basis points (bps) above the allowed ROE will be shared 50-50 with customers.
    - The settlement proposal includes transmission capex of $6.9 million and distribution capex of $4.9 billion over the five-year term.
    - DBRS Morningstar notes the revenue requirements will be updated in mid-November to reflect the OEB cost of capital parameters and inflation factors for 2023 (ROE of 9.36%).

	For the year ended December 31				
(CAD millions where applicable)	**2023**	**2024**	**2025**	**2026**	**2027**
HONI transmission rate base	14,534	15,342	16,271	17,149	17,940
HONI distribution rate base	9,460	9,979	10,573	11,153	11,656

Transmission

	For the year ended December 31				
(CAD millions where applicable)	**2021**	**2020**	**2019**	**2018**	**2017**
Transmission rate base[1]	13,745	13,185	12,609	11,870	11,251
Deemed equity (%)	40.00	40.00	40.00	40.00	40.00
Allowed ROE—transmission (HONI) (%)	8.52	8.52	9.00	9.00	8.78
Allowed ROE—transmission (B2M LP) (%)	8.52	8.52	8.98	9.00	8.78
Allowed ROE—transmission (HOSSM) (%)	9.19	9.19	9.19	9.19	9.19
Allowed ROE—transmission (NRLP) (%)	8.52	8.52	N/A	N/A	N/A
Actual ROE—transmission (HONI) (%)	N/A	9.29	9.53	11.08	9.03

1 Includes HONI, B2M LP, and HOSSM.

- In April 2020, the OEB approved HONI's 2020 to 2022 transmission Custom IR application.
    - Revenues for 2020 were based on COS while subsequent years will increase by an RCI based on inflation, productivity, stretch, and capital factors.
    - The productivity factor was set at 0% while the stretch factor was set at 0.30%. An additional 0.15% stretch factor will be applied to the capital factor.
    - The OEB also approved an ESM that provides for 50% of the savings that result in an actual regulatory ROE in excess of 100 bps over the OEB-approved ROE to be shared with customers.
    - The OEB also approved a capex budget of $3.5 billion over the three-year term.
    - In December 2021, the OEB approved HONI's 2022 transmission revenue requirement of $1,884 million based on an RCI of 4.9%, with inflation of 2.5%, a productivity and stretch factor of 0.30%, and a capital factor of 2.85%, less a 0.15% incremental capital stretch factor.
- In January 2020, the OEB approved B2M LP's 2020 to 2024 transmission revenue requirement.
    - For 2021 to 2024, revenue will increase annually by an RCI based on inflation less a Settlement Capital Adjustment Factor (SCAF) of 0.6%.
    - The application also includes an ESM that allows customers to share 50% of earnings that exceed the regulatory ROE by more than 100 bps in any year.
    - In December 2021, the OEB approved B2M LP's 2022 revenue requirement of $33.7 million based on an RCI of 1.9% (inflation of 2.5% less a SCAF of 0.6%).
- HOSSM currently operates under a 10-year deferred rebasing period until 2026. Rates are adjusted annually by an RCI based on inflation less a productivity and stretch factor.
    - In December 2021, the OEB approved HOSSM's 2022 revenue requirement of $42.4 million based on an RCI of 2.2% (inflation of 2.5% less a stretch factor of 0.3%).
- In April 2020, the OEB approved NRLP's 2020 to 2024 transmission revenue requirement.

- For 2021 to 2024, revenue will increase annually by an RCI based on 50% of inflation less a SCAF of 0.6%.
- The application also includes an ESM that allows customers to share 50% of earnings that exceed the regulatory ROE by more than 100 bps in any year.
- In December 2021, the OEB approved NRLP's 2022 revenue requirement of $8.3 million based on an RCI of 0.65% (50% of inflation at 2.5% less a SCAF factor of 0.6%).

Distribution

	For the year ended December 31				
(CAD millions where applicable)	**2021**	**2020**	**2019**	**2018**	**2017**
Distribution rate base	8,854	8,505	8,101	7,852	7,389
Deemed equity (%)	40.00	40.00	40.00	40.00	40.00
Allowed ROE—distribution (%)	9.00	9.00	9.00	9.00	8.79
Actual ROE—distribution (%)	10.99	10.48	10.85	8.06	7.92

- In March 2019, the OEB approved HONI's Custom IR application for 2018 to 2022 distribution rates.
  - Revenues for 2018 were based on COS while subsequent years will increase by an RCI based on inflation, productivity, stretch, and capital factors.
  - The OEB also approved an ESM that provides for 50% of the savings that result in an actual regulatory ROE in excess of 100 bps over the OEB-approved ROE to be shared with customers.
  - For 2022, the OEB approved the revenue requirement of $1,692 million based on an RCI of 4.70% with inflation of 3.3%, a productivity factor of 0%, a stretch factor of 0.45%, and a capital factor of 1.85% (2.00% less an additional stretch factor of 0.15%).

Assessment of Regulatory Framework

Criteria	Score	Analysis
1. Deemed Equity	Excellent Good **Satisfactory** Below Average Poor	The OEB allows HOI's transmission and distribution businesses to have a deemed equity of 40%, which has been consistent historically.
2. Allowed ROE	Excellent Good **Satisfactory** Below Average Poor	ROE for the distribution businesses was set at 9.00% for 2018 to 2022. ROE for the transmission business was set at 8.52% for 2020 to 2022. ROE for the distribution and transmission businesses are expected to be set at 9.36% for 2023 to 2027.
3. Energy Cost Recovery	**Excellent** Good Satisfactory Below Average Poor	There is no power price risk as HOI is not responsible for purchasing power from generation facilities or the wholesale market. Power costs are passed on to ratepayers and HOI collects the payments from its customers on a monthly basis.
4. Capital and Operating Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Major capital costs are preapproved by the OEB and added to the rate base after project completion. In addition, the OEB can approve rate riders to allow for the recovery or disposition of specific regulatory accounts over specified time frames.
5. COS versus IRM	Excellent **Good** Satisfactory Below Average Poor	HONI's distribution business operates under Custom IR for 2018 to 2022. The transmission business operates under Custom IR for 2020 to 2022.
6. Political Interference	Excellent Good Satisfactory **Below Average** 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 (HOL is 47.2% owned by the Province). Furthermore, stakeholders, such as the Independent Electricity System Operator, are also government owned. As a result, the government has direct and indirect influence on Ontario's electricity industry.
7. Stranded Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	HOI has a limited history of stranded costs. All prudently incurred or budgeted capex are approved by the OEB.
8. Rate Freeze	Excellent Good **Satisfactory** Below Average Poor	From 2002 to 2005, because of rising rates during Ontario's experimental utility deregulation phase, a distribution rate freeze was imposed. There have been no subsequent provincewide rate freezes.

Environmental, Social, and Governance (ESG) Credit Risk Considerations

Environmental

There were no environmental factors that had a relevant or significant effect on the credit analysis. For more details about which environmental factors could have an effect on the credit analysis, please refer to the following checklist. DBRS Morningstar notes regulated utilities may be exposed to severe weather events. DBRS Morningstar expects any costs associated with these events to be recovered through rates.

Social

There were no social factors that had a relevant or significant effect on the credit analysis. For more details about which social factors could have an effect on the credit, please refer to the following checklist.

Governance

There were no governance factors that had a relevant or significant effect on the credit analysis. For more details about which governance factors could have an effect on the credit analysis, please refer to the following checklist.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in *DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings* at https://www.dbrsmorningstar.com/research/396929.

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		**Overall:**	**N**	**N**
	Emissions, Effluents, and Waste	Do we consider that the costs or risks for the issuer or its clients result, or could result, in changes to an issuerÆs financial, operational, and/or reputational standing?	**N**	**N**
	Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs and/or will such costs increase over time affecting the long term credit profile?	**N**	**N**
	Resource and Energy Management	Does the scarcity of sourcing key resources hinder the production or operations of the issuer, resulting in lower productivity and therefore 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**
	Climate and Weather Risks	In the near term, will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact? In the long term, will the issuer's or client's business activities and infrastructure be materially affected financially by a 2C rise in temperature?	**N**	**N**
Social		**Overall:**	**N**	**N**
	Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services could pose 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 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**
		Human Capital and Human Rights	**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	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could it result, in financial penalties or client attrition to the issuer?	**N**	**N**
	Occupational Health and Safety	Would the failure to address workplace hazards have a negative 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	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**
Governance		**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**
		Are there any political risks that could impact the issuer's financial position or its reputation?	**N**	**N**
		Bribery, Corruption, and Political Risks	**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**
		Corporate / Transaction Governance	**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**
		Are government officials exposed to public scrutiny and held to high ethical standards of conduct?	**N**	**N**
		Institutional Strength, Governance, and Transparency (Governments Only)	**N**	**N**
		Consolidated ESG Criteria Output:	**N**	**N**

Balance Sheet

(CAD millions)	June 30	Dec. 31	Dec. 31		June 30	Dec. 31	Dec. 31
Assets	**2022**	**2021**	**2020**	**Liabilities & Equity**	**2022**	**2021**	**2020**
Cash and equivalents	0	499	712	Short-term borrowings	1,460	1,045	800
Accounts receivable	680	697	719	Accounts payable	901	855	789
Inventories	23	22	23	Current portion long-term debt	749	615	817
Other current assets	714	678	580	Other current liabilities	271	430	554
Total Current Assets	**1,417**	**1,896**	**2,034**	**Total Current Liabilities**	**3,381**	**2,945**	**2,960**
Net fixed assets	24,409	23,801	22,619	Long-term debt	11,902	12,637	12,367
Future income tax assets	5	10	16	Deferred income taxes	558	367	56
Goodwill and intangibles	960	940	885	Regulatory liabilities	378	362	231
Regulatory assets	3,614	3,561	4,571	Provisions and other liabilities	2,684	2,650	3,621
Investments and others	14	13	8	Minority interest	86	88	94
				Common equity	11,430	11,172	10,804
Total Assets	**30,419**	**30,221**	**30,133**	**Total Liabilities and Equity**	**30,419**	**30,221**	**30,133**

Ratios

	12 mos. ended June 30	For the year ended December 31				
Balance Sheet, Liquidity, and Capital Ratios	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**
Current ratio	0.42	0.64	0.69	0.43	0.51	0.40
Cash flow/total debt (%)	15.2	13.8	12.7	13.7	13.0	13.2
Cash flow/total debt (%)[1]	15.2	13.8	12.7	13.7	13.0	13.2
Total debt in capital structure (%)	55.1	55.9	56.1	56.6	56.7	53.3
Total debt in capital structure (%)[1, 2]	55.1	55.9	56.1	56.6	56.7	53.3
(Cash flow-dividends)/capex (x)	0.76	0.66	0.63	0.61	0.70	0.63
Dividend payout ratio (%)	60.6	62.5	62.6	78.9	65.5	77.4
Coverage Ratios (x)						
EBIT gross interest coverage	3.58	3.25	3.05	2.96	2.87	2.65
EBIT gross interest coverage[1]	3.58	3.25	3.05	2.96	2.87	2.65
EBITDA gross interest coverage	5.24	4.87	4.59	4.51	4.48	4.21
Fixed-charge coverage	3.58	3.25	3.05	2.96	2.87	2.65
Profitability Ratios						
EBITDA margin (%)	68.8	67.5	68.1	67.2	64.3	64.1
EBIT margin (%)	46.9	45.1	45.2	44.1	41.3	40.6
Profit margin (%)	27.4	27.5	28.6	28.6	26.6	23.1
ROE (%)	9.3	9.0	9.4	9.7	8.3	7.9
Return on capital (%)	5.2	4.7	4.8	4.9	4.5	4.5

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

Rating History

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

Commercial Paper Limit

- $2.3 billion.

Related Research

- "DBRS Morningstar Confirms Ratings of Hydro One Limited at 'A,' Stable Trends," April 14, 2022.

Previous Actions

- "DBRS Morningstar Assigns Rating of A (high) with Stable Trend to Hydro One Inc.'s $750 Million Medium-Term Notes Issues," October 27, 2022.
- "DBRS Morningstar Confirms Ratings of Hydro One Inc. at A (high)/R-1 (low), Stable Trends," April 14, 2022.

Previous Report

- Hydro One Inc.: Rating Report, May 3, 2022.

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.

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 3,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why DBRS Morningstar is the next generation of credit ratings.

Learn more at dbrsmorningstar.com.

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). DBRS Morningstar does not hold an Australian financial services license. DBRS Morningstar credit ratings, and other types of credit opinions and reports, are not intended for Australian residents or entities. DBRS Morningstar does not authorize their distribution to Australian resident individuals or entities, and accepts no responsibility or liability whatsoever for the actions of third parties in this respect. For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: https://www.dbrsmorningstar.com/research/225752/highlights.pdf.

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

© 2022 DBRS Morningstar. All Rights Reserved. The information upon which DBRS Morningstar credit ratings and other types of credit opinions and reports are based is obtained by DBRS Morningstar from sources DBRS Morningstar believes to be reliable. DBRS Morningstar does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS Morningstar credit ratings, other types of credit opinions, reports and any other information provided by DBRS Morningstar are provided "as is" and without representation or warranty of any kind and DBRS Morningstar assumes no obligation to update any such ratings, opinions, reports or other information. DBRS Morningstar hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS Morningstar or its directors, officers, employees, independent contractors, agents, affiliates and representatives (collectively, DBRS Morningstar Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of credit ratings, other types of credit opinions and reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS Morningstar or any DBRS Morningstar Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. IN ANY EVENT, TO THE EXTENT PERMITTED BY LAW, THE AGGREGATE LIABILITY OF DBRS MORNINGSTAR AND THE DBRS MORNINGSTAR REPRESENTATIVES FOR ANY REASON WHATSOEVER SHALL NOT EXCEED THE GREATER OF (A) THE TOTAL AMOUNT PAID BY THE USER FOR SERVICES PROVIDED BY DBRS MORNINGSTAR DURING THE TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO LIABILITY, AND (B) U.S. $100. DBRS Morningstar does not act as a fiduciary or an investment advisor. DBRS Morningstar does not provide investment, financial or other advice. Credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar (a) are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities; (b) do not take into account your personal objectives, financial situations or needs; (c) should be weighed, if at all, solely as one factor in any investment or credit decision; (d) are not intended for use by retail investors; and (e) address only credit risk and do not address other investment risks, such as liquidity risk or market volatility risk. Accordingly, credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar are not a substitute for due care and the study and evaluation of each investment decision, security or credit that one may consider making, purchasing, holding, selling, or providing, as applicable. A report with respect to a DBRS Morningstar credit rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS Morningstar may receive compensation for its credit ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS Morningstar. ALL DBRS MORNINGSTAR CREDIT RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DEFINITIONS, LIMITATIONS, POLICIES AND METHODOLOGIES THAT ARE AVAILABLE ON https://www.dbrsmorningstar.com. Users may, through hypertext or other computer links, gain access to or from websites operated by persons other than DBRS Morningstar. Such hyperlinks or other computer links are provided for convenience only. DBRS Morningstar does not endorse the content, the operator or operations of third party websites. DBRS Morningstar is not responsible for the content or operation of such third party websites and DBRS Morningstar shall have no liability to you or any other person or entity for the use of third party websites.

MORNINGSTAR | DBRS

Rating Report
Hydro One Inc.

DBRS Morningstar
November 20, 2023

Contents

1 Ratings
1 Rating Update
2 Financial Information
2 Issuer Description
2 Rating Considerations
4 Ownership Structure
5 Earnings and Outlook
6 Financial Profile
7 Debt and Liquidity
8 Major Projects and Acquisitions
8 Regulation
11 Assessment of Regulatory Framework
12 Environmental, Social, and Governance (ESG) Credit Risk Considerations
15 Rating History
15 Commercial Paper Limit
15 Related Research
15 Previous Actions
15 Previous Report

Tom Li
+1 416 597-7378
tom.li@dbrsmorningstar.com

Adam Provencher
+1 416 597-7476
adam.provencher@dbrsmorningstar.com

Ratings

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

Rating Update

On November 2, 2023, DBRS Limited (DBRS Morningstar) confirmed Hydro One Inc.'s (HOI or the Company) Issuer Rating and Senior Unsecured Debentures rating at A (high), and the Commercial Paper (CP) rating at R-1 (low). All trends are Stable. The credit ratings of HOI are based on its regulated electricity distribution and transmission operations in the Province of Ontario (the Province or Ontario; 47.1%; rated AA (low) with a Positive trend by DBRS Morningstar), which operates under a reasonable regulatory framework by the Ontario Energy Board (OEB). The Stable trends reflect the Company's financial risk assessment, with all key credit metrics in line with the "A" credit rating category.

In November 2022, the OEB approved HOI's first Joint Rate Application (JRAP) for 2023 to 2027 transmission revenue requirement and distribution rates. The approved settlement agreement, which was largely based on a continuation of the previous Custom Incentive Rate-making (IR) framework, provides the Company with certainty of funding for its substantial capital expenditures (capex) program over the next five years. DBRS Morningstar notes that the Province has since directed HOI to develop additional transmission projects, such as the $1.2 billion Waasigan Transmission Line. As such, annual capex over the next five years is expected to average over $2.7 billion, up from $2.1 billion in 2022.

While HOI's financial risk assessment remains reasonable, the Company's key credit metrics may see pressure over the next few years because of the large capex spend. DBRS Morningstar expects HOI to manage its capex and dividend requirements through a prudent mix of debt issuances and operating cash flows in order to maintain leverage in line with the regulatory capital structure and other key ratios within the "A" credit rating category. However, a negative credit rating action may occur should key metrics weaken to a level that no longer supports the current credit ratings (i.e. debt-to-capital above 60% and cash flow-to-debt below 12.5% for a sustained period).

Financial Information

	12 mos. ended June 30	For the year ended December 31				
	2023	**2022**	**2021**	**2020**	**2019**	**2018**
Cash flow/total debt (%)[1]	14.1	14.5	13.8	12.7	13.7	13.0
Total debt in capital structure (%)[1, 2]	55.6	55.8	55.9	56.1	56.6	56.7
EBIT gross interest coverage (times)[1]	3.13	3.41	3.24	3.05	2.96	2.87

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

Issuer Description

HOI is a fully owned subsidiary of Hydro One Limited (HOL; rated "A" with a Stable trend by DBRS Morningstar) and is the largest electricity transmission and distribution company in Ontario. The Company owns and operates around 30,000 circuit kilometres (km) of high-voltage transmission lines and approximately 125,000 circuit km of low-voltage distribution lines, serving around 1.5 million customers.

Rating Considerations

Strengths

1. Reasonable regulatory environment

HOI's earnings are contributed by its low-risk regulated transmission and distribution businesses that operate under a reasonable regulatory framework. The regulatory regime under the OEB permits the Company a reasonable opportunity to recover operating and capital costs and earn the approved rates of return. HOI's deemed capital structure (debt-to-equity of 60%:40%) has remained unchanged for several years. DBRS Morningstar views the utility regulatory framework in Ontario as transparent and supportive for regulated transmission and distribution operators.

2. Extensive franchise area

HOI owns the largest transmission and distribution businesses in Ontario. The Company operates approximately 95% of the Province's transmission infrastructure, based on revenues approved by the OEB, and is connected to 35 local distribution companies (including HOI's own distribution business) and 85 large, directly connected industrial customers. The Company's transmission system is also interconnected to systems in Manitoba, Michigan, Minnesota, New York, and Québec through interties. Load growth is expected to be modest and in line with economic growth in the Province. The distribution business serves around 1.5 million customers, or approximately 28% of the Province's customers.

3. Reasonable financial profile

HOI continues to maintain a reasonably healthy balance sheet, with all key credit metrics reasonable for the current rating category (debt-to-capital ratio at 55.6%, cash flow-to-debt at 14.1%, and EBIT interest coverage at 3.13 times (x) for the 12 months ended June 30, 2023 (LTM 2023)).

Challenges

1. High level of planned capex

The Company has a large capital program that is expected to continue over the next several years and could pressure credit metrics. Capex was approximately $2.1 billion for 2022 (approximately $1,209 million for transmission and approximately $889 million for distribution), with a plan for approximately $13.7 billion in the next five years. A major part of HOI's capital program is for the essential replacement of aging infrastructure to maintain the reliability of aging transmission and distribution assets.

2. High dividend payouts

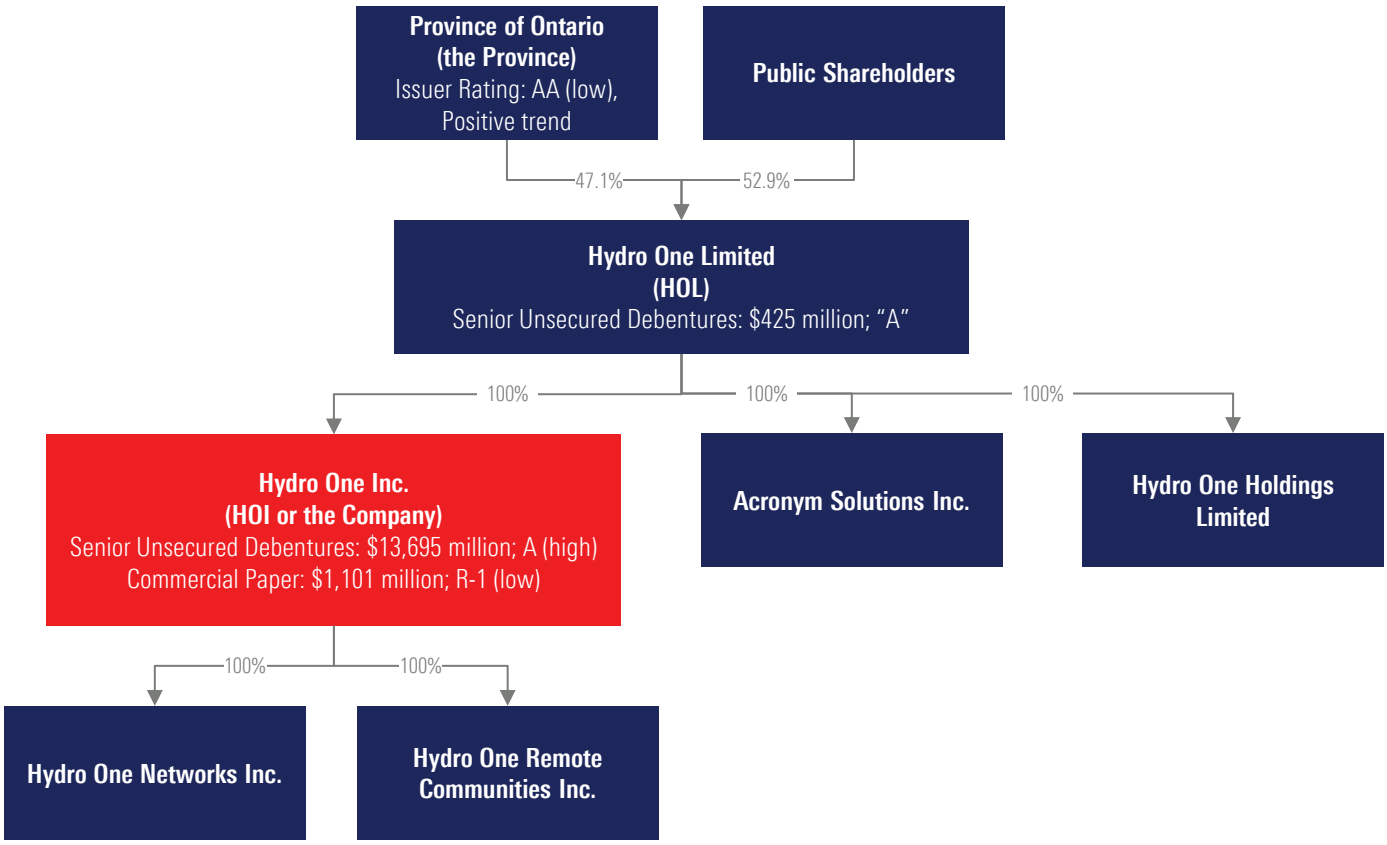
HOI's dividend payout ratio (dividends relative to net earnings) is high in order to support HOL's dividend policy (payout approximately 70% to 80% of consolidated net income). DBRS Morningstar expects the Company's dividend payout ratio to remain high in order to meet HOL's dividend objectives; consequently, HOI will provide significant funding to finance the sizable free cash flow deficits because of the dividends and capex commitments expected over the medium term.

3. Earnings sensitive to volume and costs

HOI's earnings can be affected by weather patterns, seasonality, and economic conditions. The OEB approves the Company's transmission and distribution rates based on forecast electricity load and consumption levels. Cooler summers and warmer winters could reduce demand for electricity below forecast levels and negatively affect revenues. Furthermore, current revenue requirements are approved based on cost assumptions that could materially differ from actual costs. There is no assurance that the OEB would allow rate increases to offset the financial impacts of unanticipated changes in electricity demand or in costs. However, this risk is expected to be partially mitigated as the OEB has implemented a fixed monthly distribution charge for residential customers, and HOI is currently phasing in a fixed monthly rate for most of its residential customers by 2024. However, some seasonality will remain because a major part of the Company's earnings is generated from transmission revenues.

Ownership Structure

Simplified Organizational Structure



As at June 30, 2023.
Source: HOL.

- HOI is 100% owned by HOL, which is in turn 47.1% owned by the Province, with the remainder held by public shareholders.
- HOI's major subsidiaries include two regulated utilities, Hydro One Networks Inc. (HONI) and Hydro One Remote Communities Inc. (Remotes).
    - HONI carries out the rate-regulated transmission and distribution businesses.
    - Remotes generates and supplies electricity to remote communities in Northern Ontario. This segment is 100% debt financed and operates as a breakeven company with no return on equity (ROE).
- HOI also owns Hydro One Sault Ste. Marie Limited Partnership (HOSSM), Bruce to Milton Limited Partnership (B2M LP), and Niagara Reinforcement Limited Partnership (NRLP).
    - HOSSM owns transmission infrastructure in the East Lake Superior area.
    - HOI has a 66% interest in B2M LP, which operates a transmission line that runs from the Bruce Nuclear Generation Station to HOI's Milton Switching Station.
    - HOI has a 55% interest in NRLP, which operates a transmission line in the Niagara area.
- Acronym Solutions Inc. carries out a nonregulated telecommunications business.

Earnings and Outlook

	12 mos. ended June 30	For the year ended December 31				
(CAD millions where applicable)	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**
Net revenues	4,117	4,016	3,606	3,396	3,331	3,211
EBITDA	2,677	2,655	2,433	2,311	2,239	2,066
EBIT	1,805	1,794	1,619	1,536	1,469	1,326
Gross interest expense	577	526	500	503	497	461
Net income before nonrecurring items	1,006	1,026	986	971	952	854
Reported net income	1,041	1,057	972	1,792	952	(31)
ROE (%)	8.6	8.9	8.9	9.4	9.7	8.3
Segmented Reported EBIT						
Transmission	1,136	1,107	927	878	823	829
Distribution	729	744	688	613	653	520
Other	(21)	(18)	(3)	(5)	(7)	(23)
Total EBIT	**1,844**	**1,833**	**1,612**	**1,486**	**1,469**	**1,326**
Transmission rate base[1]		14,450	13,745	13,185	12,609	11,870
Approved ROE—transmission (%)[2]		8.52	8.52	8.52	9.00	9.00
Actual ROE—transmission (%)[2]		N/A	N/A	9.29	9.53	11.08
Distribution rate base		9,155	8,854	8,505	8,101	7,852
Approved ROE—distribution (%)		9.00	9.00	9.00	9.00	9.00
Actual ROE—distribution (%)		10.10	10.99	10.48	10.85	8.06

1 Includes HONI, B2M LP, and HOSSM.
2 HONI only.

2022 Summary

- HOI's earnings are relatively stable, supported by a reasonable regulatory environment, extensive franchise area, and a diverse customer base that is growing at a steady rate.
- Earnings increased in 2022 largely because of OEB-approved rate increases for the year. This was partly offset by higher operating, maintenance, and administrative (OM&A) costs because of higher work program expenditures, and higher depreciation from the growing rate base.

2023 Summary and Outlook

- EBITDA and EBIT continued to increase for LTM 2023 following the OEB's approval of HOI's JRAP for 2023 to 2027 transmission revenue requirements and distribution rates.
- Net income before nonrecurring items decreased modestly because of higher OM&A and depreciation, and higher interest expense from the increased debt load and higher interest rates.
- Overall, DBRS Morningstar expects HOI's earnings to be relatively stable for 2023.

Financial Profile

	12 mos. ended June 30	For the year ended December 31				
(CAD millions where applicable)	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**
Net income before nonrecurring items	1,006	1,026	986	971	952	854
Depreciation & amortization	833	822	806	775	770	740
Deferred income taxes and other	255	299	177	24	18	25
Cash flow from operations	**2,094**	**2,147**	**1,969**	**1,770**	**1,740**	**1,619**
Dividends[1]	(671)	(652)	(620)	(608)	(751)	(559)
Capex	(2,092)	(2,050)	(2,036)	(1,835)	(1,622)	(1,524)
Free cash flow (bef. working cap. changes)	**(669)**	**(555)**	**(687)**	**(673)**	**(633)**	**(464)**
Changes in noncash working capital	39	(6)	69	159	27	(50)
Changes in regulatory assets	(2)	44	70	68	(48)	35
Net free cash flow	**(632)**	**(517)**	**(548)**	**(446)**	**(654)**	**(479)**
Acquisitions & long-term investments	0	0	0	(126)	0	0
Net equity change	0	0	0	0	(486)	0
Net debt change[1]	696	482	341	1,284	661	970
Other	(78)	(6)	(6)	(7)	(6)	1
Change in cash	**618**	**(41)**	**(213)**	**705**	**(485)**	**492**
Total debt	14,859	14,766	14,297	13,984	12,692	12,447
Cash flow/total debt (%)[2]	14.1	14.5	13.8	12.7	13.7	13.0
Total debt in capital structure (%)[2, 3]	55.6	55.8	55.9	56.1	56.6	56.7
EBIT gross interest coverage (x)[2]	3.13	3.41	3.24	3.05	2.96	2.87
Dividend payout ratio (%)	66.7	63.5	62.9	62.6	78.9	65.5

1 Includes preferred shares of $486 million in 2017 that DBRS Morningstar has treated as debt because the shares were redeemed in 2019.
2 Adjusted for operating leases.
3 Adjusted for accumulated other comprehensive income.

2022 Summary

- HOI's key credit metrics improved modestly in 2022.
    - The Company's cash flow-to-debt ratio increased because of stronger cash flows for the year, which were partially due to the benefit from the OEB decision on the deferred tax asset. This resulted in an increase of approximately $135 million for the recovery of previously shared deferred tax amounts.
    - The OEB decision also required adjusting the transmission revenue requirement and distribution rates for the year to eliminate any further tax savings flowing to customers, resulting in a $50 million increase to cash flows for 2022; this amount will decline over time.
    - Overall, HOI's key credit metrics remained supportive of the current ratings.
- Capex increased as HOI continued investing in maintaining and reinforcing the grid.
- Dividends maintained the regulatory capital structure broadly in line with the regulatory construct.
- The Company used cash on hand as well as net proceeds from $750 million of long-term debt issuances to repay maturing long- and short-term debt, and to fund the capex program.

2023 Summary and Outlook

- HOI's key credit metrics weakened moderately in LTM 2023.
    - Cash flow from operations decreased modestly, tracking the lower net income for the period.
- Overall, DBRS Morningstar expects HOI's credit metrics to remain in line with the "A" rating category.
- Cash flow is expected to be lower partly because the recovery of previously shared deferred tax amounts ended effective June 30, 2023.
- HOI has forecast capex of $2.6 billion for the year ($1.1 billion spent as of June 30, 2023), with the majority for sustainment projects.
- DBRS Morningstar expects the Company to support HOL's dividend policy (annual dividends of approximately 70% to 80% of consolidated net income) to the extent that such dividend payouts maintain HOI's regulatory capital structure. Consequently, DBRS Morningstar expects dividends to remain high.

Debt and Liquidity

Long-Term Debt Maturities

(CAD millions—as at December 31, 2022)	2023	2024	2025	2026	2027	Thereafter	Total
Principal repayments	731	700	750	500	0	10,695	**13,376**
% of total	5	5	6	4	0	80	**100**

- HOI's refinancing risk remains manageable with maturities well spread out.
- HOI has adequate access to debt markets and access to the equity market through its parent, HOL.
    - In October 2022, the Company issued $750 million under its Medium-Term Notes program, the proceeds of which were used to repay and prepay maturing long- and short-term debt, and to fund the capex program.
    - In 2023, the Company has issued $1,875 million under its Medium-Term Notes program and its Sustainable Financing Framework, the proceeds of which were used to finance and/or refinance Eligible Projects.
- HOI has credit covenants limiting the permissible debt to 75% of its total capitalization and limiting the ability to sell assets and impose negative pledge provisions, subject to customary exceptions. As of June 30, 2023, the Company was in compliance with all of the covenants and limitations.

Liquidity

(CAD millions—as at June 30, 2023)	Amount	Draw	Available	Maturity
Cash and cash equivalents	0	-	**0**	
Revolving standby credit facility	2,300	1,101	**1,199**	June 2028
Total	**2,300**	**1,101**	**1,199**	

- The Company's liquidity profile remains reasonable and adequate for its normal operating requirements.
- HOI has a revolving credit facility of $2.3 billion, maturing in June 2028. The CP program is backstopped by the revolving credit facility. As of June 30, 2023, approximately $1,101 million of CP was outstanding.

Major Projects and Acquisitions

Project	Estimated Cost (CAD millions)	Spent as of June 30, 2023 (CAD millions)	In-Service Target Date
Barrie Area Transmission Upgrade	125	76	2023
Beck #2 Transmission Station Circuit Breaker Replacement	135	118	2023
Cherrywood Transmission Station Circuit Breaker Replacement	115	95	2023
East-West Tie Station Expansion	191	185	2024
Bruce B Switching Station Circuit Breaker Replacement	185	169	2024
Chatham to Lakeshore Transmission Line	268	104	2025
Middleport Transmission Station Circuit Breaker Replacement	184	128	2025
Islington Transmission Station	109	3	2025
Lennox Transmission Station Circuit Breaker Replacement	152	122	2026
Esplanade x Terauley Underground Cable Replacement	117	26	2026
Waasigan Transmission Line	1,200	50	2027
Bruce A Transmission Station Switchyard Replacement	555	24	2027

- Most of HOI's capex is for capital sustainment purposes (62% expected for 2023).
- Development projects include the Barrie Area Transmission Upgrade, the East-West Tie Station Expansion, the Chatham to Lakeshore Transmission Line, and the Waasigan Transmission Line, which will be completed in two phases (phase one expected to be in-service by the end of 2025).

Regulation

Regulation Overview

- HOI is regulated by the OEB and operates under a supportive regulatory environment. The Company has a good track record of prudently managing its regulatory risk.
- Both of HONI's transmission and distribution businesses operate under Custom IR.
    - The Custom IR framework is a hybrid between cost of service (COS) and an incentive rate mechanism (IRM). The rate setting for the term is based on the Company's forecasts and the OEB's incentive rate analysis using productivity benchmarking.
    - Custom IR is suited to utilities with large, broad, multiyear investment needs that require certainty of funding several years in advance.
- In July 2020, the Ontario Divisional Court set aside the OEB's decision that the deferred tax asset that resulted from the transition from the payments in lieu of the tax program to the federal and provincial tax regimes should be shared with ratepayers. The Ontario Divisional Court agreed with the Company that the deferred tax asset should have been allocated entirely to shareholders.
    - Following the decision, HOI reversed the $867 million impairment it had recorded in 2018.
    - In April 2021, the OEB approved the recovery of tax savings misallocated to ratepayers and included in rates for the 2017 to 2021 period, plus carrying charges, over a two-year period beginning July 1, 2021. The OEB also acknowledged that no future tax savings from the sale of HOL shares should be allocated to ratepayers.
    - The recovery led to an increase in the Company's cash flows of $65 million in 2021, $135 million in 2022, and $65 million in 2023.

- The elimination of future tax savings flowing to customers is also expected to increase HOI's cash flows by $46 million in 2023, but will decline over time.

- In November 2022, the OEB approved HONI's first JRAP for 2023 to 2027 revenue requirements for its transmission and rates for its distribution businesses.
  - The revenue requirement and rate base for the transmission and distribution businesses will continue to remain separate and be recovered through separate rates.
  - The application was based on a Custom IR approach, where the revenue requirements for 2023 are based on COS while subsequent years will increase by a revenue cap index (RCI) based on inflation, productivity (0.15% for transmission and 0.45% for distribution), and custom capital factors (including stretch of 0.20% for both transmission and distribution).
  - Deemed capital structure of 60% debt (56% long term and 4% short term) and 40% equity, and ROE of 9.36%.
  - There is an earnings sharing mechanism (ESM) whereby any earnings 100 basis points (bps) above the allowed ROE will be shared 50-50 with customers.
  - The settlement proposal included transmission capex of $6.9 million and distribution capex of $4.9 billion over the five-year term.

	For the year ended December 31				
(CAD millions where applicable)	**2023**	**2024**	**2025**	**2026**	**2027**
HONI transmission rate base	14,534	15,342	16,271	17,148	17,940
HONI distribution rate base	9,460	9,979	10,573	11,153	11,656

Transmission

	For the year ended December 31				
(CAD millions where applicable)	**2022**	**2021**	**2020**	**2019**	**2018**
Transmission rate base[1]	14,450	13,745	13,185	12,609	11,870
Deemed equity (%)	40.00	40.00	40.00	40.00	40.00
Allowed ROE—transmission (HONI) (%)	8.52	8.52	8.52	9.00	9.00
Allowed ROE—transmission (B2M LP) (%)	8.52	8.52	8.52	8.98	9.00
Allowed ROE—transmission (HOSSM) (%)	9.19	9.19	9.19	9.19	9.19
Allowed ROE—transmission (NRLP) (%)	8.52	8.52	8.52	N/A	N/A
Actual ROE—transmission (HONI) (%)	N/A	N/A	9.29	9.53	11.08

1 Includes HONI, B2M LP, and HOSSM.

- In November 2022, the OEB approved HONI's first JRAP for 2023 to 2027 revenue requirements for its transmission and rates for its distribution businesses.
  - For 2023, the OEB approved the revenue requirement of $1,952 million.
  - In September 2023, the OEB approved HONI's 2024 transmission revenue requirement of $2,024 million based on an RCI of 6.52%, with inflation of 5.40%, a productivity and stretch factor of 0.15%, and a capital factor of 1.27%.
- In January 2020, the OEB approved B2M LP's 2020 to 2024 transmission revenue requirement.

  - For 2021 to 2024, revenue will increase annually by an RCI based on inflation less a Settlement Capital Adjustment Factor (SCAF) of 0.6%.
  - The application also includes an ESM that allows customers to share 50% of earnings that exceed the regulatory ROE by more than 100 bps in any year.
  - In September 2023, the OEB approved B2M LP's 2024 revenue requirement of $36.4 million based on an RCI of 4.80% (inflation of 5.4% less a SCAF of 0.6%).
- HOSSM currently operates under a 10-year deferred rebasing period until 2026. Rates are adjusted annually by an RCI based on inflation less a productivity and stretch factor.
  - In October 2023, the OEB approved HOSSM's 2024 revenue requirement of $43.1 million based on an RCI of 5.1% (inflation of 5.4% less a stretch factor of 0.3%).
- In April 2020, the OEB approved NRLP's 2020 to 2024 transmission revenue requirement.
  - For 2021 to 2024, revenue will increase annually by an RCI based on 50% of inflation less a SCAF of 0.6%.
  - The application also includes an ESM that allows customers to share 50% of earnings that exceed the regulatory ROE by more than 100 bps in any year.
  - In September 2023, the OEB approved NRLP's 2023 revenue requirement of $8.6 million based on an RCI of 2.1% (50% of inflation at 2.7% less a SCAF factor of 0.6%).

Distribution

	For the year ended December 31				
(CAD millions where applicable)	**2022**	**2021**	**2020**	**2019**	**2018**
Distribution rate base	9,155	8,854	8,505	8,101	7,852
Deemed equity (%)	40.00	40.00	40.00	40.00	40.00
Allowed ROE—distribution (%)	9.00	9.00	9.00	9.00	9.00
Actual ROE—distribution (%)	10.10	10.99	10.48	10.85	8.06

- In November 2022, the OEB approved HONI's first JRAP for 2023 to 2027 revenue requirements for its transmission and rates for its distribution businesses.
  - For 2023, the OEB approved the revenue requirement of $1,727 million.
  - For 2024, HONI has applied for distribution revenue requirement of $1,776 million based on an RCI of 5.36%, with inflation of 4.80%, a productivity and stretch factor of 0.45%, and a custom capital factor of 1.01%.

Assessment of Regulatory Framework

Criteria	Score	Analysis
1. Deemed Equity	Excellent Good **Satisfactory** Below Average Poor	The OEB allows HOI's transmission and distribution businesses to have a deemed equity of 40%, which has been consistent historically.
2. Allowed ROE	Excellent **Good** Satisfactory Below Average Poor	ROE for the transmission and distribution businesses are set at 9.36% for 2023 to 2027.
3. Energy Cost Recovery	**Excellent** Good Satisfactory Below Average Poor	There is no power price risk as HOI is not responsible for purchasing power from generation facilities or the wholesale market. Power costs are passed on to ratepayers, and HOI collects the payments from its customers on a monthly basis.
4. Capital and Operating Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Major capital costs are preapproved by the OEB and added to the rate base after project completion. In addition, the OEB can approve rate riders to allow for the recovery or disposition of specific regulatory accounts over specified time frames.
5. COS versus IRM	Excellent **Good** Satisfactory Below Average Poor	HONI's transmission and distribution businesses operate under Custom IR for 2023 to 2027.
6. Political Interference	Excellent Good Satisfactory **Below Average** 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 (HOL is 47.1% owned by the Province). Furthermore, stakeholders, such as the Independent Electricity System Operator, are also government owned. As a result, the government has direct and indirect influence on Ontario's electricity industry.
7. Stranded Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	HOI has a limited history of stranded costs. All prudently incurred or budgeted capex are approved by the OEB.
8. Rate Freeze	Excellent Good **Satisfactory** Below Average Poor	From 2002 to 2005, because of rising rates during Ontario's experimental utility deregulation phase, a distribution rate freeze was imposed. There have been no subsequent provincewide rate freezes.

Environmental, Social, and Governance (ESG) Credit Risk Considerations

Environmental

There were no environmental factors that had a relevant or significant effect on the credit analysis. For more details about which environmental factors could have an effect on the credit analysis, please refer to the following checklist. DBRS Morningstar notes regulated utilities may be exposed to severe weather events. DBRS Morningstar expects any costs associated with these events to be recovered through rates.

Social

There were no social factors that had a relevant or significant effect on the credit analysis. For more details about which social factors could have an effect on the credit analysis, please refer to the following checklist.

Governance

There were no governance factors that had a relevant or significant effect on the credit analysis. For more details about which governance factors could have an effect on the credit analysis, please refer to the following checklist.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in *DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings* at www.dbrsmorningstar.com/research/416784.

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		**Overall:**	**N**	**N**
	Emissions, Effluents, and Waste	Do we consider that the costs or risks for the issuer or its clients result, or could result, in changes to an issuerÆs financial, operational, and/or reputational standing?	**N**	**N**
	Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs and/or will such costs increase over time affecting the long term credit profile?	**N**	**N**
	Resource and Energy Management	Does the scarcity of sourcing key resources hinder the production or operations of the issuer, resulting in lower productivity and therefore 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**
	Climate and Weather Risks	In the near term, will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact? In the long term, will the issuer's or client's business activities and infrastructure be materially affected financially by a 2C rise in temperature?	**N**	**N**
Social		**Overall:**	**N**	**N**
	Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services could pose 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 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**
		Human Capital and Human Rights	**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	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could it result, in financial penalties or client attrition to the issuer?	**N**	**N**
	Occupational Health and Safety	Would the failure to address workplace hazards have a negative 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	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**
Governance		**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**
		Are there any political risks that could impact the issuer's financial position or its reputation?	**N**	**N**
		Bribery, Corruption, and Political Risks	**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**
		Corporate / Transaction Governance	**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**
		Are government officials exposed to public scrutiny and held to high ethical standards of conduct?	**N**	**N**
		Institutional Strength, Governance, and Transparency (Governments Only)	**N**	**N**
		Consolidated ESG Criteria Output:	**N**	**N**

Balance Sheet

(CAD millions)	June 30	Dec. 31	Dec. 31		June 30	Dec. 31	Dec. 31
Assets	**2023**	**2022**	**2021**	**Liabilities & Equity**	**2023**	**2022**	**2021**
Cash and equivalents	0	458	499	Short-term borrowings	1,159	1,374	1,045
Accounts receivable	747	765	697	Accounts payable	1,065	957	855
Inventories	40	24	22	Current portion long-term debt	709	744	615
Other current assets	652	705	678	Other current liabilities	321	533	430
Total Current Assets	**1,439**	**1,952**	**1,896**	**Total Current Liabilities**	**3,254**	**3,608**	**2,945**
Net fixed assets	25,784	25,023	23,801	Long-term debt	12,991	12,648	12,637
Future income tax assets	4	4	10	Deferred income taxes	890	713	367
Goodwill and intangibles	995	978	940	Regulatory liabilities	1,226	1,123	362
Regulatory assets	3,072	2,964	3,561	Provisions and other liabilities	1,534	1,516	2,650
Investments and others	480	369	13	Minority interest	84	86	88
				Common equity	11,795	11,596	11,172
Total Assets	**31,774**	**31,290**	**30,221**	**Total Liabilities and Equity**	**31,774**	**31,290**	**30,221**

Ratios

	12 mos. ended June 30	For the year ended December 31				
Balance Sheet, Liquidity, and Capital Ratios	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**
Current ratio	0.44	0.54	0.64	0.69	0.43	0.51
Cash flow/total debt (%)	14.1	14.5	13.8	12.7	13.7	13.0
Cash flow/total debt (%)[1]	14.1	14.5	13.8	12.7	13.7	13.0
Total debt in capital structure (%)	55.6	55.8	55.9	56.1	56.6	56.7
Total debt in capital structure (%)[1, 2]	55.6	55.8	55.9	56.1	56.6	56.7
(Cash flow-dividends)/capex (x)	14.1	14.5	13.8	12.7	13.7	13.0
Dividend payout ratio (%)	0.68	0.73	0.66	0.63	0.61	0.70
Coverage Ratios (x)	66.7	63.5	62.9	62.6	78.9	65.5
EBIT gross interest coverage						
EBIT gross interest coverage[1]	3.13	3.41	3.24	3.05	2.96	2.87
EBITDA gross interest coverage	3.13	3.41	3.24	3.05	2.96	2.87
Fixed-charge coverage	4.64	5.05	4.87	4.59	4.51	4.48
Profitability Ratios	3.13	3.41	3.24	3.05	2.96	2.87
EBITDA margin (%)						
EBIT margin (%)	65.0	66.1	67.5	68.1	67.2	64.3
Profit margin (%)	43.8	44.7	44.9	45.2	44.1	41.3
ROE (%)	24.4	25.6	27.3	28.6	28.6	26.6
Return on capital (%)	8.6	8.9	8.9	9.4	9.7	8.3

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

Rating History

	Current	2022	2021	2020	2019	2018
Issuer Rating	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)
Senior Unsecured Debentures	A (high)	A (high)	A (high)	A (high)	A (high)	A (high)
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Commercial Paper Limit

- $2.3 billion.

Related Research

- "DBRS Morningstar Confirms Ratings of Hydro One Limited at 'A,' Stable Trends," April 14, 2022.

Previous Actions

- "DBRS Morningstar Assigns Credit Rating of A (high) With a Stable Trend to Hydro One Inc.'s $400 Million Medium-Term Notes Issue," October 20, 2023.
- "DBRS Morningstar Assigns Rating of A (high) With a Stable Trend to Hydro One Inc.'s $425 Million Medium-Term Notes Issue," September 21, 2023.
- "DBRS Morningstar Assigns Ratings of A (high) with Stable Trends to Hydro One Inc.'s $1,050 Million Medium-Term Notes Issues," January 27, 2023.
- "DBRS Morningstar Confirms Ratings of Hydro One Inc. at A (high)/R-1 (low), Stable Trends," November 4, 2022.

Previous Report

- Hydro One Inc.: Rating Report, May 3, 2022.

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.

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 4,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why DBRS Morningstar is the next generation of credit ratings.

Learn more at dbrsmorningstar.com.

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). DBRS Morningstar does not hold an Australian financial services license. DBRS Morningstar credit ratings, and other types of credit opinions and reports, are not intended for Australian residents or entities. DBRS Morningstar does not authorize their distribution to Australian resident individuals or entities, and accepts no responsibility or liability whatsoever for the actions of third parties in this respect. For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: https://www.dbrsmorningstar.com/research/225752/highlights.pdf.

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

© 2023 DBRS Morningstar. All Rights Reserved. The information upon which DBRS Morningstar credit ratings and other types of credit opinions and reports are based is obtained by DBRS Morningstar from sources DBRS Morningstar believes to be reliable. DBRS Morningstar does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS Morningstar credit ratings, other types of credit opinions, reports and any other information provided by DBRS Morningstar are provided "as is" and without representation or warranty of any kind and DBRS Morningstar assumes no obligation to update any such ratings, opinions, reports or other information. DBRS Morningstar hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS Morningstar or its directors, officers, employees, independent contractors, agents, affiliates and representatives (collectively, DBRS Morningstar Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of credit ratings, other types of credit opinions and reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS Morningstar or any DBRS Morningstar Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. IN ANY EVENT, TO THE EXTENT PERMITTED BY LAW, THE AGGREGATE LIABILITY OF DBRS MORNINGSTAR AND THE DBRS MORNINGSTAR REPRESENTATIVES FOR ANY REASON WHATSOEVER SHALL NOT EXCEED THE GREATER OF (A) THE TOTAL AMOUNT PAID BY THE USER FOR SERVICES PROVIDED BY DBRS MORNINGSTAR DURING THE TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO LIABILITY, AND (B) U.S. $100. DBRS Morningstar does not act as a fiduciary or an investment advisor. DBRS Morningstar does not provide investment, financial or other advice. Credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar (a) are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities; (b) do not take into account your personal objectives, financial situations or needs; (c) should be weighed, if at all, solely as one factor in any investment or credit decision; (d) are not intended for use by retail investors; and (e) address only credit risk and do not address other investment risks, such as liquidity risk or market volatility risk. Accordingly, credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar are not a substitute for due care and the study and evaluation of each investment decision, security or credit that one may consider making, purchasing, holding, selling, or providing, as applicable. A report with respect to a DBRS Morningstar credit rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS Morningstar may receive compensation for its credit ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS Morningstar. ALL DBRS MORNINGSTAR CREDIT RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DEFINITIONS, LIMITATIONS, POLICIES AND METHODOLOGIES THAT ARE AVAILABLE ON https://www.dbrsmorningstar.com. Users may, through hypertext or other computer links, gain access to or from websites operated by persons other than DBRS Morningstar. Such hyperlinks or other computer links are provided for convenience only. DBRS Morningstar does not endorse the content, the operator or operations of third party websites. DBRS Morningstar is not responsible for the content or operation of such third party websites and DBRS Morningstar shall have no liability to you or any other person or entity for the use of third party websites.

MOODY'S INVESTORS SERVICE

CREDIT OPINION
20 December 2019

Update

Rate this Research

RATINGS

Hydro One Inc.

Domicile	Toronto, Ontario, Canada
Long Term Rating	A3
Type	Senior Unsecured - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Gavin Macfarlane +1.416.214.3864
VP-Sr Credit Officer
gavin.macfarlane@moodys.com

Yulia Rakityanskaya +1.416.214.3627
Associate Analyst
yulia.rakityanskaya@moodys.com

Jim Hempstead +1.212.553.4318
MD-Utilities
james.hempstead@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Hydro One Inc.

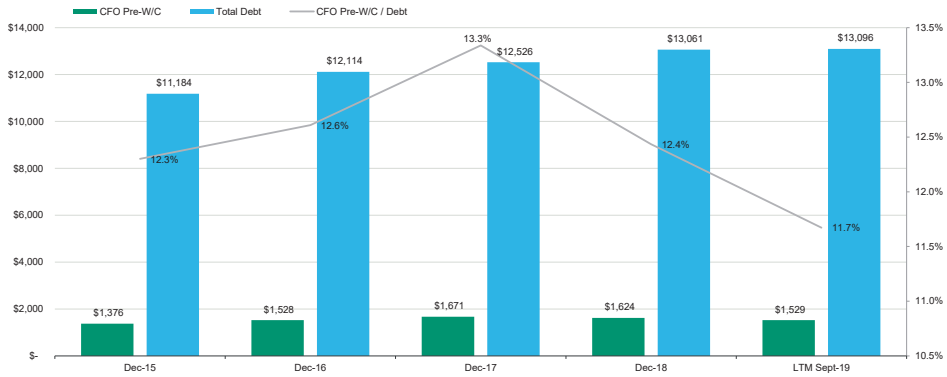
Update following upgrade to A3

Summary

Hydro One Inc.'s (HOI) credit profile reflects its baseline credit assessment (BCA) of baa1 with a one notch uplift attributable to the moderate probability of extraordinary support from the Province of Ontario (Aa3 stable), which indirectly owns 47.3% of HOI. HOI's BCA of baa1 is derived from our Regulated Electric and Gas Utilities rating methodology, and reflects the regulated nature of its operations and its low business risk profile. The utility's rate base consists of roughly 60% transmission and 40% distribution, and benefits from a credit supportive regulatory environment under the Ontario Energy Board (OEB).

We expect cash flow from operations to be predictable but financial metrics to remain weak. HOI's lower financial metrics are primarily the result of its existing allowed return on equity (currently 9%) and authorized equity layer in the capital structure (currently 40%) that are established by the OEB, as well as low depreciation rates that are a function of long-life T&D assets.

Exhibit 1
Historical CFO pre-W/C, Debt and CFO pre-W/C to Debt
(CAD million)



Source: Moody's Financial Metrics

Credit strengths

» Supportive regulatory environment

» Predictable cash flow and stable but weak financial metrics

» Moderate probability of extraordinary support from the Province

Credit challenges

» High leverage

» Incentive rate regulation marginally increases risk

Rating outlook

The stable outlook reflects the company's renewed focus on the credit supportive Ontario regulatory jurisdiction and Moody's expectation of weak but consistent financial metrics including CFO pre-W/C to debt in the 11-12% range.

Factors that could lead to an upgrade

» Key financial metrics improve, including CFO/debt forecasted to be sustained above 14%

» An improvement in regulatory outcomes

» A strengthening of the relationship with the Province

Factors that could lead to a downgrade

» Key financial metrics decline, including CFO/debt forecast to be sustained below 11%

» A deterioration in regulatory outcomes

» A lower probability of extraordinary support from the Province

Key indicators

Exhibit 2

Hydro One Inc.

	Dec-15	Dec-16	Dec-17	Dec-18	LTM Sept-19
CFO Pre-W/C + Interest / Interest	3.9x	4.3x	4.4x	4.2x	3.9x
CFO Pre-W/C / Debt	12.3%	12.6%	13.3%	12.4%	11.7%
CFO Pre-W/C – Dividends / Debt	4.4%	7.5%	8.9%	8.2%	5.7%
Debt / Capitalization	52.8%	55.0%	55.4%	57.9%	57.7%

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics

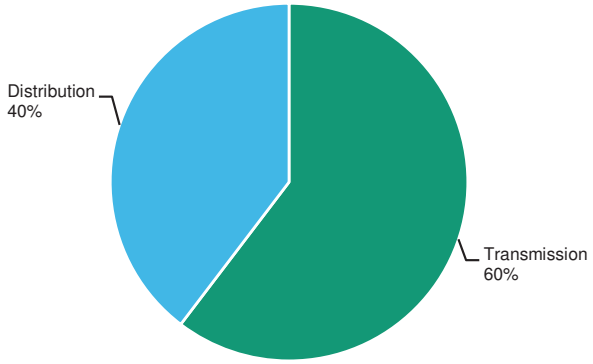
Profile

HOI is an electricity transmission and distribution company 47.3% indirectly owned by the Province of Ontario. Hydro One Limited (HOL unrated) is the publicly traded vehicle that owns 100% of HOI. HOI is regulated by the OEB under cost of service, inflation based and incentive rate frameworks. The transmission business owns and operates virtually all of Ontario's electricity transmission system representing 56% of HOI's total assets of CAD25.6 billion as of 30 September 2019. The distribution business serves about 1.4 million customers and owns a substantial portion of the province's electricity distribution system representing 37% of HOI's total assets. The remaining assets include the company's telecommunications business and other corporate activities that make a negligible contribution to revenue. HOI began operations in 1999, pursuant to the Electricity Act 1998, when the former Ontario Hydro was restructured into five entities: Ontario Power Generation Inc. (OPG), the Independent Electricity System Operator (IESO), Ontario Electricity Financial Corporation (OEFC), the Electricity Safety Authority and HOI. The Province does not guarantee HOI's debt obligations.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Exhibit 3

HOI's $19.7 billion 2018 rate base by segment



Source: HOI's MD&A for the year ended December 31, 2018

Detailed credit considerations

Supportive regulatory environment

The supportive regulatory environment is a key driver of HOI's credit quality. HOI has a monopoly position as a transmission and distribution (T&D) company with no commodity price risk that underpins its credit strength. We expect the regulatory environment to remain relatively transparent, predictable and broadly credit supportive. The legislative and judicial underpinnings are well developed and we expect them to remain unchanged. Rates for the transmission business for 2019 were established using inflation based principles, a temporary measure given that the company's custom incentive rate application with the OEB for 2020-2022 transmission rates is pending. Under inflation based principles, inflation rates are a key driver of rate setting and the OEB set the revenue index at 1.4% for 2019. Distribution rates are currently established based on an incentive rate mechanism. In March 2019, the company received a custom incentive rate decision for the distribution business for the period 2018-2022.

The company does not have any direct commodity risk exposure since commodity costs are a pass through for the distribution business. However it does have some exposure to volume risk that is typically driven by weather variability and the underlying performance of the economies in its service territories. The company has an inherently low business risk as a T&D business compared to the price, volume, operational or environmental risks typically associated with generation activities. HOI does not have any supply obligations.

Incentive rate regulation marginally increases risk compared to a cost of service regulatory model because of the potential for higher cash flow volatility over time, particularly towards the end of the 5 year period. Annual revenue growth is driven by an inflation factor, a productivity factor and a capital factor. This is a custom incentive rate framework because both the productivity factor and capital factor contain elements specific to the company.

Predictable cash flow and stable, albeit weak financial metrics

We expect the company to continue to generate stable cash flow, a key credit strength. Underpinning this stability, cash flow from operations is generally a function of HOI's rate base, its deemed capital structure of 40% equity that is established by the regulator, the allowed return on equity that is currently set at 9% and depreciation. We have assumed that the company continues to perform broadly in line with the levels established by the regulator and delivers financial metrics in the 11-12% range.

Exhibit 4

Summary of key regulatory elements

Segment	2018 Rate base, CAD million	Equity Thickness	Allowed ROE	Regulatory Update
Transmission	11,870	40%	9%	Transmission decision for period 2020-2022 expected in Q1 2020
Distribution	7,852	40%	9%	March 2019 decision for 2018-2022

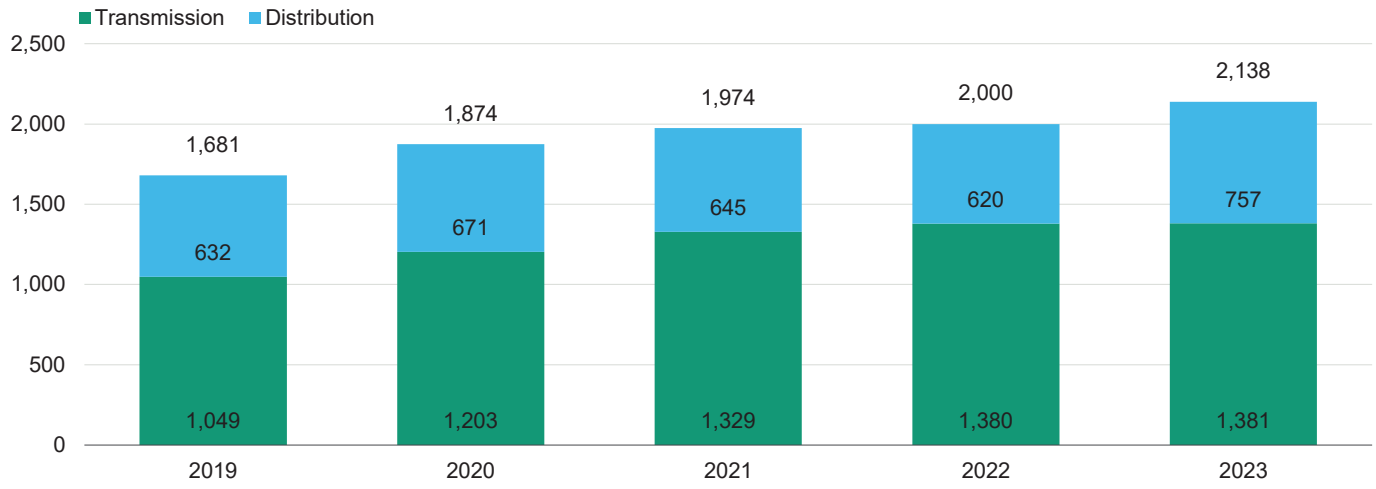
Source: Company filings

HOI continues to move forward with a large capital program of about CAD9.7 billion over the period 2019-2023. Historically, the company has benefited from a combination of frequent cost of service rate resets in the transmission business. On the distribution side, the capital program benefits from a capital factor rate adjustment that limits the downward pressure on financial metrics from the distribution capital program. The capital program consists of a series of smaller projects and the company is not exposed to material execution risk that is often associated with larger, more complex projects.

In March 2019, HOI received a decision on a sharing mechanism for HOI's large deferred tax asset, which will result in an annual reduction in operating cash flows in the CAD50-60 million range, or about 3% of cash flow, however we expect that company's financial metrics will remain at the level which is consistent with the company's current credit profile. The company is pursuing an appeal through the Ontario Divisional Court. In December 2019 the company received an adverse pension decision, although it is premature to determine the impact on financial metrics.

Exhibit 5

Projected capital expenses by segment (CAD million)



Source: Company filings

Relationship with the Province of Ontario

HOI recently completed a strategic review and determined that it will remain focused exclusively on its businesses in Ontario for at least the next 5 years. A key outcome of the strategic review is that Hydro One and its parent Hydro One Limited (unrated) will have a long-term focus on doing business in the Province of Ontario, which has led to the change in our rating approach to again consider Hydro One a Government Related Issuer (GRI). We had historically considered Hydro One to be a GRI, but removed the GRI designation after its parent Hydro One Limited announced a levered acquisition of a U.S. regulated utility in 2017 that ultimately did not occur. In accordance with Moody's GRI methodology, HOI's A3 rating reflects the following:

» Aa3/stable local currency rating of the Province of Ontario.

» Very high default dependence as a result of HOI and the Province deriving the vast majority of their revenues from within the government's territory and some shared political risks.

» Moderate probability of extraordinary support from the Province reflecting the strategic importance of HOI to the provincial economy as an essential service provider and the current 47.3% indirect ownership interest that the Province has in HOI.

We believe the Province will continue to have effective control over HOI. For example, the Province exercised its control when it forced out the board and CEO of HOI and HOL in July of 2018. Following HOL's partial privatization in 2015, the Province has reduced its stake to 47.3%, however it is required by legislation to maintain a 40% equity interest in HOL. In addition, limitations have been placed on other shareholders that restrict their equity interest in HOL to less than 10%. HOI is restricted from selling a large portion of its regulated transmission or distribution business and will continue to be regulated by the Ontario Energy Board (OEB). Mitigating its control somewhat, the government has implemented a pre-defined set of criteria to promote an independent, professional board with relevant expertise and a commercial orientation. These changes have been made in a stated attempt to improve the efficiency of HOI and they also reduce the government ties to the company.

ESG Considerations

As a transmission and distribution utility, HOI has low carbon transition risk. The company benefits from favorable billing practices that see customers charged a fixed rate for T&D costs and a separate volumetric charge for volumes consumed. The company is exposed to moderate social risks that primarily relate to healthy and safety. The company's strategic review completed in November 2019 lists its second strategic priority as efficiency and safety and its third priority includes building on existing relationships with indigenous communities and partners. The company has relatively complex governance owing to the government ownership and intervention while at the same time positioning itself as an arm's length investor.

Liquidity analysis

HOI maintains adequate liquidity and has demonstrated its ability to readily access the capital markets. Up to CAD2.3 billion can be issued under its commercial paper (CP) program which is backstopped by a bank syndicated committed revolver of CAD2.3 billion maturing in June 2024. At 30 September 2019, HOI had CAD519 million in CP borrowings and no revolver borrowings outstanding. HOL has its own CAD250 million committed credit facility that expires in June 2024. The company must notify lenders of any material adverse change, however the this does not enable lenders to restrict borrowing. HOI has financial covenants that limit debt to 75% of its total capitalization and we expect the company to remain in compliance with this covenant and maintain significant headroom.

HOI relies in part on debt to finance its ongoing capex. HOI had a cash and cash equivalents balance of CAD19 million as of 30 September 2019. The available credit facilities and estimated operating cash flows of around CAD1.6-1.8 billion in the next 12 months are sufficient to cover capex of around CAD1.8 billion and dividends of about CAD640 million. We expect that HOI will refinance CAD350 million of notes due in April 2020 and CAD300 million of notes due in June 2020.

Rating methodology and scorecard factors

Exhibit 6

Rating Factors

Hydro One Inc.

Regulated Electric and Gas Utilities Industry Scorecard [1][2]	Current LTM 9/30/2019		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	N/A	N/A	N/A	
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.2x	Baa	3.5x - 4x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	12.3%	Baa	11% - 12%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	7.5%	Baa	5% - 7%	Ba
d) Debt / Capitalization (3 Year Avg)	56.6%	Baa	55% - 60%	Baa
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		Baa1		Baa1
HoldCo Structural Subordination Notching		0		0
a) Indicated Outcome from Scorecard		Baa1		Baa1
b) Actual Rating Assigned		A3		A3

Government-Related Issuer	Factor
a) Baseline Credit Assessment	baa1
b) Government Local Currency Rating	Aa3
c) Default Dependence	Very High
d) Support	Moderate
e) Final Rating Outcome	A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 9/30/2019(L).
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics

Appendix

Exhibit 7

Peer Comparison Table

	Hydro One Inc. A3 Stable			FortisBC Inc. Baa1 Stable			Newfoundland Power Inc. Baa1 Stable			FortisAlberta Inc. Baa1 Stable		
(in CAD millions)	FYE Dec-17	FYE Dec-18	LTM Sept-19	FYE Dec-17	FYE Dec-18	LTM Sept-19	FYE Dec-17	FYE Dec-18	LTM Jun-19	FYE Dec-17	FYE Dec-18	LTM Sept-19
Revenue	5,947	6,110	6,217	381	391	402	672	664	680	600	623	638
CFO Pre-W/C	1,671	1,624	1,529	114	114	115	110	117	112	266	299	318
Total Debt	12,526	13,061	13,096	1,149	1,160	1,185	615	629	595	2,098	2,251	2,263
CFO Pre-W/C / Debt	13.3%	12.4%	11.7%	9.9%	9.8%	9.7%	17.8%	18.7%	18.8%	12.7%	13.3%	14.0%
CFO Pre-W/C – Dividends / Debt	8.9%	8.2%	5.7%	5.9%	6.1%	5.9%	11.6%	14.3%	14.2%	9.6%	10.2%	10.8%
Debt / Capitalization	55.4%	57.9%	57.7%	55.2%	55.1%	55.2%	48.9%	48.8%	46.9%	56.3%	56.2%	55.8%

All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade
Source: Moody's Financial Metrics

Exhibit 8

Cash Flow and Credit Metrics

CF Metrics	Dec-15	Dec-16	Dec-17	Dec-18	LTM Sept-19
As Adjusted					
FFO	1,292	1,455	1,584	1,600	1,507
+/- Other	84	73	87	24	22
CFO Pre-WC	1,376	1,528	1,671	1,624	1,529
+/- ΔWC	139	95	(24)	(74)	5
CFO	1,515	1,623	1,647	1,550	1,534
- Div	880	620	556	558	782
- Capex	1,584	1,610	1,489	1,486	1,478
FCF	(949)	(607)	(398)	(494)	(726)
(CFO Pre-W/C) / Debt	12.3%	12.6%	13.3%	12.4%	11.7%
(CFO Pre-W/C - Dividends) / Debt	4.4%	7.5%	8.9%	8.2%	5.7%
FFO / Debt	11.5%	12.0%	12.6%	12.3%	11.5%
RCF / Debt	3.7%	6.9%	8.2%	8.0%	5.5%
Revenue	6,529	6,502	5,947	6,110	6,217
Cost of Good Sold	3,433	3,441	2,868	2,892	2,932
Interest Expense	471	464	487	507	519
Net Income	616	636	587	(234)	(132)
Total Assets	24,151	25,296	25,598	25,556	25,576
Total Liabilities	14,446	15,498	15,639	16,183	16,106
Total Equity	9,705	9,798	9,959	9,373	9,470

All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months
Source: Moody's Financial Metrics

Exhibit 9

Hydro One Inc. Moody's - Adjusted Debt Breakdown

(In CN $ Millions)	FYE Dec-13	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18	LTM Ending Sept-19
As Reported Debt	**9,108.0**	**8,945.0**	**10,198.0**	**11,149.0**	**10,996.0**	**11,961.0**	**12,497.0**
Pensions	845.0	1,236.0	952.0	900.0	981.0	547.0	547.0
Operating Leases	44.0	44.0	34.4	40.0	40.0	40.0	21.0
Hybrid Securities	323.0	323.0	0.0	0.0	486.0	486.0	0.0
Non-Standard Adjustments	0.0	0.0	0.0	25.0	23.0	27.0	31.0
Moody's - Adjusted Debt	**10,320.0**	**10,548.0**	**11,184.4**	**12,114.0**	**12,526.0**	**13,061.0**	**13,096.0**

Based on consolidated financial data of Hydro One Inc. All figures are calculated using Moody's estimates and standard adjustments
Source: Moody's Financial Metrics

Exhibit 10

Hydro One Inc. Moody's - Adjusted EBITDA Breakdown

(In CN $ Millions)	FYE Dec-13	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18	LTM Ending Sept-19
As Reported EBITDA	**1,874.0**	**1,860.0**	**1,850.0**	**1,929.0**	**1,957.0**	**2,124.0**	**2,117.0**
Pensions	146.0	48.0	17.0	-28.0	-59.0	-101.0	-104.0
Operating Leases	11.0	11.0	6.0	10.0	10.0	10.0	8.5
Moody's - Adjusted EBITDA	**2,031.0**	**1,919.0**	**1,873.0**	**1,911.0**	**1,908.0**	**2,033.0**	**2,021.5**

Based on consolidated financial data of Hydro One Inc. All figures are calculated using Moody's estimates and standard adjustments
Source: Moody's Financial Metrics

Ratings

Exhibit 11

Category	Moody's Rating
HYDRO ONE INC.	
Outlook	Stable
Senior Unsecured -Dom Curr	A3
Commercial Paper -Dom Curr	P-2

Source: Moody's Investors Service

© 2019 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for ratings opinions and services rendered by it fees ranging from $1,000 to approximately $2,700,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1203032

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S INVESTORS SERVICE

CREDIT OPINION
30 May 2023

Update

Send Your Feedback

RATINGS

Hydro One Inc.

Domicile	Toronto, Ontario, Canada
Long Term Rating	A3
Type	Senior Unsecured - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Gavin MacFarlane +1.416.214.3864
VP-Sr Credit Officer
gavin.macfarlane@moodys.com

Yifei Qin +1.647.417.6291
Associate Analyst
yifei.qin@moodys.com

Michael G. Haggarty +1.212.553.7172
Associate Managing Director
michael.haggarty@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Hydro One Inc.

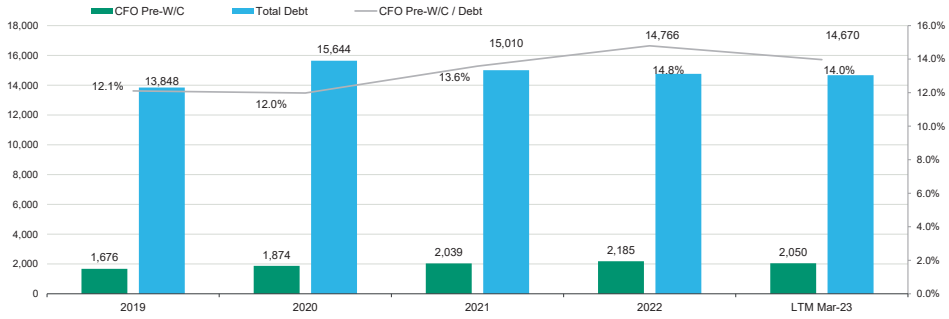
Update to credit analysis

Summary

Hydro One Inc.'s (HOI, A3 Stable) credit profile is reflected in its baseline credit assessment (BCA) of baa1 with a one notch uplift attributable to the moderate probability of extraordinary support from the Province of Ontario (Aa3 positive), which indirectly owns 47.2% of HOI. HOI's credit quality is analyzed under our Regulated Electric and Gas Utilities rating methodology, and reflects the regulated nature of its operations and its low business risk profile. The utility's rate base consists of roughly 61% transmission and 39% distribution assets, and it benefits from a credit supportive regulatory environment under the Ontario Energy Board (OEB).

We expect cash flow from operations to be predictable but financial metrics to decline modestly as the benefits of a favorable tax decision from the OEB expires. We forecast CFO-Pre W/C to debt of 11-13% in the next few years. These relatively weak financial metrics are primarily the result of its low authorized equity layer in the capital structure (currently 40%) that is established by the OEB, as well as low depreciation rates that are a function of long-life T&D assets.

Exhibit 1
Historical CFO pre-W/C, Debt and CFO pre-W/C to Debt (CAD million)



Source: Moody's Financial Metrics™

Credit strengths

» Supportive regulatory environment

» Stable, predictable cash flow

» Moderate probability of extraordinary support from the Province

Credit challenges

» Weak financial metrics driven by low authorized equity capital

» Incentive rate regulation marginally increases risk

Rating outlook

The stable outlook reflects the company's favorable regulatory framework and our expectation of weak but consistent financial metrics including CFO pre-W/C to debt in the 11-13% range.

Factors that could lead to an upgrade

» Key financial metrics increase, including CFO pre-W/C to debt forecast to be sustained above 14%

» An improvement in regulatory outcomes

» A strengthening of the relationship with the Province

Factors that could lead to a downgrade

» Key financial metrics decline, including CFO/debt forecast to be sustained below 11%

» A deterioration in regulatory outcomes

» A lower probability of extraordinary support from the Province

Key indicators

Exhibit 2

Hydro One Inc. [1]

	Dec-19	Dec-20	Dec-21	Dec-22	LTM Mar-23
CFO Pre- C nterest nterest	4.2	4.5	4.8	4.9	4.5
CFO Pre- C Debt	12.1	12.0	13.6	14.8	14.0
CFO Pre-W/C – Dividends / Debt	6.6	8.1	9.4	10.3	9.4
Debt Capitali ation	58.8	58.9	56.5	54.5	53.9

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics™

Profile

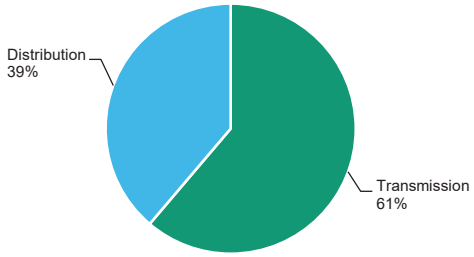
HOI is an electricity transmission and distribution company 47.2% indirectly owned by the Province of Ontario. Hydro One Limited (HOL unrated) is the publicly traded vehicle that owns 100% of HOI. In recent years, HOI has had its rates set by the OEB under cost of service and inflation based frameworks. Currently, both segments have rates set using incentive rate frameworks. The transmission business owns and operates virtually all of Ontario's electricity transmission system and represented 61% of HOI's total assets of CAD31 billion as of 31 March 2023. The distribution business serves about 1.5 million customers and owns a substantial portion of the province's electricity distribution system representing 39% of HOI's total assets.

HOI began operations in 1999, pursuant to the Electricity Act 1998, when the former Ontario Hydro was restructured into five entities: Ontario Power Generation Inc. (OPG), the Independent Electricity System Operator (IESO), Ontario Electricity Financial Corporation (OEFC), the Electricity Safety Authority and HOI. The Province does not guarantee HOI's debt obligations.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Exhibit 3

HOI's $23.6 billion 2022 rate base by segment



Source: HOI's MD&A

Detailed credit considerations

Supportive regulatory environment

The supportive Ontario regulatory environment is a key driver of HOI's credit quality. We expect the regulatory environment to remain relatively transparent, predictable and broadly credit supportive, with legislative and judicial underpinnings that are well developed and we expect them to remain unchanged. HOI has a monopoly position and inherently low business risk as a transmission and distribution (T&D) business compared to the elevated price, volume, operational and environmental risks typically associated with generation activities. HOI does not have any supply obligations.

The company does not have any direct commodity risk exposure since commodity costs are a pass through for the distribution business, although it recovers those costs over a period of as long as two years, a credit negative. However, it does have some modest exposure to volume risk that is typically driven by weather variability and the underlying performance of the economies in its service territories. The distribution business is moving towards full decoupling of its residential customers. It will charge a fixed rate that will cover distribution costs plus a volumetric charge.

In Q4 2022 HOI filed a settlement that was subsequently approved by the OEB for new rates effective 1 Jan 2023. The settlement and subsequent decision and rate order covers the period 1 Jan 2023 to 31 Dec 2027. This represents the first time the company has filed a joint rate application for both the distribution and transmission businesses.

Under the terms of the settlement, rate making takes the form of custom incentive rate regulation using 2023 as a forward test year. Rates in subsequent years are based on a revenue cap approach. Key drivers of changes in the revenue cap include inflation ("I"), a productivity factor ("X") and a capital factor ("C"). The underlying drivers for each of I, X and C differ somewhat between transmission and distribution companies as shown in the tables below. For example the OEB has determined that the inflation factors differ between the businesses, and both segments have different operating cost drivers as well as capital programs, which drive differences between the segments. We see the potential for increased cash flow volatility in the latte years with incentive rate regulation compared to a cost of service regulatory model with frequent rate resets. The company has operated under either incentive rate or cost of service regulation over the past decade, although this is the first time both the transmission and distribution businesses have been part of the same rate case.

Exhibit 4
Transmission Revenue requirement

	2023	2024	2025	2026	2027
Inflation Factor (I)		3.80%	3.80%	3.80%	3.80%
Productivity Factor (X)		-0.15%	-0.15%	-0.15%	-0.15%
Capital Factor (C)		2.51%	0.93%	1.38%	0.08%
Custom Revenue Cap Total Index		6.16%	4.58%	5.03%	3.73%
Revenue Requirement (CAD millions)	$ 1,953	$ 2,073	$ 2,168	$ 2,277	$ 2,362
Approved Rate Base (CAD millions)	$ 14,534	$ 15,342	$ 16,271	$ 17,149	$ 17,940

Source: OEB, Company filings

Exhibit 5
Distribution Revenue requirement

	2023	2024	2025	2026	2027
Inflation Factor (I)		3.70%	3.70%	3.70%	3.70%
Productivity Factor (X)		-0.45%	-0.45%	-0.45%	-0.45%
Capital Factor (C)		1.72%	0.79%	1.96%	1.12%
Custom Revenue Cap Total Index		4.97%	4.04%	5.21%	4.37%
Revenue Requirement (CAD millions)	$ 1,727	$ 1,813	$ 1,886	$ 1,985	$ 2,071
Approved Rate Base (CAD millions)	$ 9,460	$ 9,979	$ 10,573	$ 11,153	$ 11,656

Source: OEB, Company filings

Significantly, the I and C factors in the table above are placeholders, that are adjusted annually for inflation, providing inflation protection during the term covered by the rate order. In addition, the decision also contains an earnings sharing mechanism that has a 100bps deadband around the allowed ROE. Above or below that level the company shares the excess or shortfall in performance with customers on a 50/50 basis. Any ESM balances for the period 2021-2024 will be adjusted in the annual update for 2026 rates. The company continues to have a Z-factor which the company with the ability to request to recover material costs associated with unforeseen events that beyond its ability to effective manage.

Stable, predictable cash flow but weak financial metrics

We expect the company to continue to generate stable cash flow, a key credit strength. Underpinning this stability, cash flow from operations is generally a function of HOI's rate base, its deemed capital structure of 40% equity and its allowed return on equity (ROE) currently set at 9.36% for transmission and distribution, all figures that are established by the regulator. The OEB updates its ROE calculation annually using a formulaic approach that includes changes in Government of Canada yields and utility corporate bond spreads, however HOI's 9.36% ROE is fixed for the period 2023-2027.

We have assumed that the company continues to perform broadly in line with the levels established by the regulator and forecast CFO pre-W/C to debt in the 11-13% range. Financial metrics may exceed this range based on tax recoveries (discussed below) although we do not expect any outperformance above this range to be sustained given the narrow window assoicated with tax recoveries that is coming to an end. We expect the company to continue to pursue acquisitions of electricity distribution companies in Ontario, but believe that any acquisitions will be small relative to HOI and have only a modest impact on credit quality.

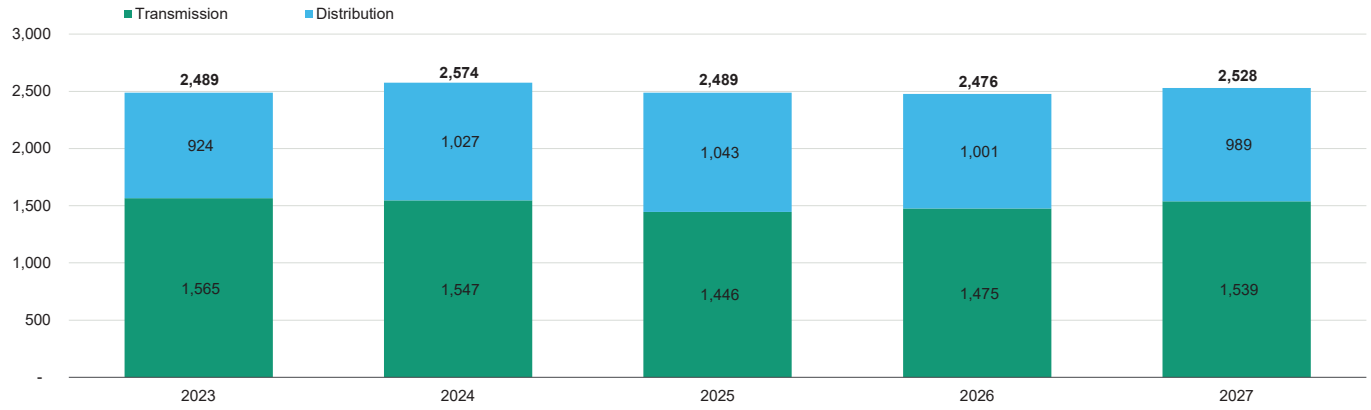
On July 16, 2020, the company received a favorable decision from the Ontario Divisional Court resolving an ongoing dispute relating to sharing a tax asset with customers that stemmed from the company's IPO in 2015. This led to an income tax recovery during 2020 of CAD783 million compared to an income tax expense of CAD51 million during 2019. On April 8, 2021, a subsequent OEB decision

allowed the company to recover the tax benefits shared with customers since 2017, resulting in recoveries of approximately CAD257 million (CAD165 million transmission and CAD95 million distribution) over a 2 year period. This recovery has led to increased cashflow of CAD65 million, CAD135 million and CAD65 million during the years 2021, 2022 and 2023, respectively. As rates are adjusted on a prospective basis to eliminate sharing with customers, this is forecast to lead to an increase in cash flow of CAD50 million per annum starting in 2022 that will gradually decline over time.

HOI continues to move forward with a large capital program of about CAD12.6 billion over the period 2023-2027, with about CAD7.6 billion of investment in transmission and about CAD5.0 billion in the distribution business. Both business segments benefit from a capital factor rate adjustment that provides cash flow support to the capital program between rate cases. In the absence of the capital factor, financial metrics would be much weaker as capital expenditures are more than double annual depreciation. The capital program generally consists of a series of smaller projects and the company is not exposed to material execution risk that is often associated with larger, more complex projects.

Exhibit 6

Projected capital expenses by segment
(CAD millions)



Source: Company filings

Relationship with and support from the Province of Ontario

We expect Hydro One and its parent Hydro One Limited (unrated) to continue to maintain their long-term focus on doing business in the Province of Ontario, which is a key consideration in our determination that Hydro One is a Government Related Issuer (GRI).

In accordance with Moody's GRI methodology, HOI's A3 rating reflects the following:

» Aa3/positive local currency rating of the Province of Ontario.

» Very high default dependence as a result of HOI and the Province deriving the vast majority of their revenues from within the government's territory and sharing some political risks.

» Moderate probability of extraordinary support from the Province reflecting the strategic importance of HOI to the provincial economy as an essential service provider and the current 47.2% indirect ownership interest that the Province has in HOI.

We believe the Province will continue to have effective control over HOI. For example, the Province exercised this control when it removed the board and CEO of HOI and HOL in July of 2018. Following HOL's partial privatization in 2015, although the Province reduced its stake to 47.2%, it is required by legislation to maintain a 40% equity interest in HOL. In addition, limitations have been placed on other shareholders that restrict their equity interest in HOL to less than 10%. HOI is restricted from selling a large portion of its regulated transmission or distribution business and will continue to be regulated by the Ontario Energy Board (OEB).

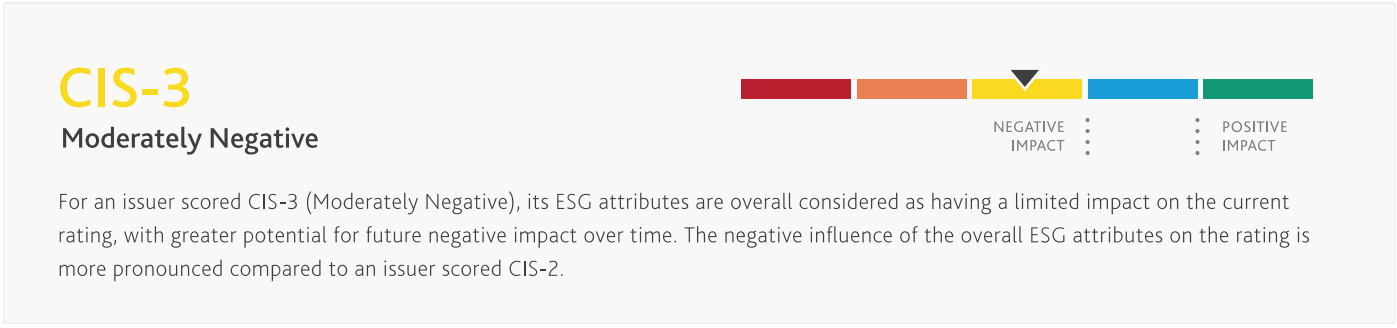
Mitigating its control somewhat, the government has implemented a predefined set of criteria to promote an independent, professional board with relevant expertise and a commercial orientation. These changes have been made in a stated attempt to

improve the efficiency of HOI and they also reduce the government ties to the company. HOL has CAD425 million of term debt outstanding and its own CAD250 million committed credit facility that is typically undrawn and expires in June 2027. HOL's credit profile does not constrain the credit profile of HOI.

ESG considerations

HOI's ESG Credit Impact Score is Moderately Negative CIS-3

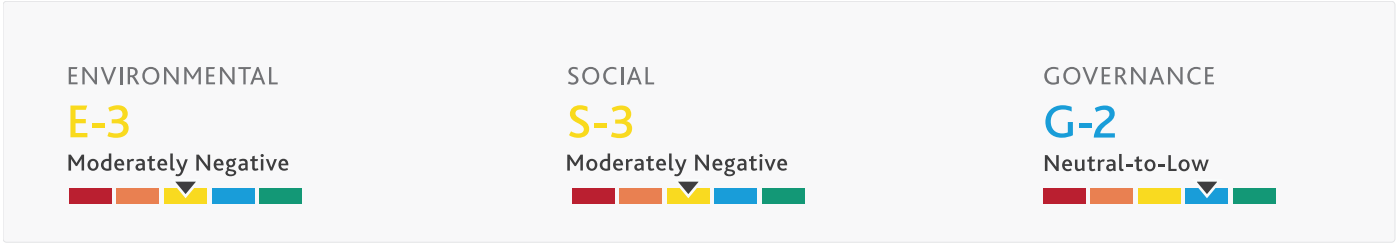
Exhibit 7
ESG Credit Impact Score



Source: Moody's Investors Service

HOI's **CIS-3** indicates that ESG considerations have a limited impact on the current rating, with the potential for greater impact over time. The primary drivers of ESG risk are exposure to physical climate risks and demographic and social trends as they relate to affordability issues.

Exhibit 8
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

E-3. HOI's has exposure to physical climate risks mostly in the form of extreme weather patterns which represents a challenge for the sector.

Social

S-3. HOI has exposure to social risks reflecting the higher risk to demographics and societal trends owing to a risk that public concern over affordability issues could lead to adverse regulatory or political intervention, a common theme in the sector.

Governance

G-2. The influence of governance is neutral to low and is broadly in line with other utilities. Unlike many peers, the company has some exposure to board structure owing to the ability of the government to change the board at its discretion as it has once in the past. This is offset by predictable financial policy, established financial strategy and management's credibility and track record.

ESG Issuer Profile Scores and Credit Impact Scores for HOI are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for HOI on MDC and view the ESG Scores section.

Liquidity analysis

HOI has an adequate liquidity profile demonstrated by its sources of capital exceeding its uses over the next 12 months. We believe that the company continues to have strong access to debt capital markets.

HOI's sources of capital include estimated operating cash flow of around CAD2.1 billion over the next 12 months and CAD2.3 billion of bank syndicated committed facilities that expire in June of 2027 that backstop its commercial paper program which had CAD806 million outstanding at March 31, 2023. These sources are sufficient to cover expected capex of around CAD2.5 billion, dividends of about CAD700 million and CAD130 million of debt maturities during the next 12 months.

HOI and HOL have a single financial covenant requiring that they maintain a debt to capitalization ratio of no more than 75%. As of 31 March 2023, both companies were in compliance. HOI's credit facility has an affirmative covenant that requires the company to provide lenders notice of a material adverse change but it does not prohibit drawings under the facility.

Rating methodology and scorecard factors

Exhibit 9

Methodology Scorecard Factors

Hydro One Inc.

Regulated Electric and Gas Utilities Industry Scorecard [1][2]	Current LTM 03/31/2023		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	N/A	N/A	N/A	N/A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.7x	A	4x - 5x	A
b) CFO pre-WC / Debt (3 Year Avg)	13.7%	Baa	11% - 13%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	9.4%	Baa	7% - 9%	Baa
d) Debt / Capitalization (3 Year Avg)	55.7%	Baa	55% - 60%	Baa
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		Baa1		Baa1
HoldCo Structural Subordination Notching		0		0
a) Scorecard-Indicated Outcome		Baa1		Baa1
b) Actual Rating Assigned		A3		A3

Government-Related Issuer	Factor
a) Baseline Credit Assessment	baa1
b) Government Local Currency Rating	Aa3
c) Default Dependence	Very High
d) Support	Moderate
e) Actual Rating Assigned	A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 3/31/2023
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Appendix

Exhibit 10

Peer Comparison Table [1]

	Hydro One Inc. A3 (Stable)			FortisBC Inc. Baa1 (Stable)			Newfoundland Power Inc. Baa1 (Stable)			FortisAlberta Inc. Baa1 (Stable)		
(In CAD millions)	FYE Dec-21	FYE Dec-22	LTM Mar-23	FYE Dec-21	FYE Dec-22	LTM Mar-23	FYE Dec-21	FYE Dec-22	LTM Mar-23	FYE Dec-21	FYE Dec-22	LTM Mar-23
Re enue	7,185	7,740	7,768	454	474	485	713	736	748	708	751	764
CFO Pre- C	2,039	2,185	2,050	127	136	134	148	120	112	366	386	392
otal Debt	15,010	14,766	14,670	1,267	1,281	1,240	645	690	739	2,409	2,568	2,622
CFO Pre- C nterest nterest	4.8	4.9	4.5	2.7	2.8	2.7	5.2	4.4	4.1	4.4	4.5	4.4
CFO Pre- C Debt	13.6	14.8	14.0	10.0	10.6	10.8	23.0	17.4	15.2	15.2	15.0	14.9
CFO Pre-W/C – Dividends / Debt	9.4	10.3	9.4	6.3	6.8	6.8	17.8	13.2	11.3	11.6	11.1	11.0
Debt Capitali ation	56.5	54.5	53.9	53.4	53.1	51.2	47.6	48.5	49.9	54.5	55.1	55.3

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade

Source: Moody's Financial Metrics™

Exhibit 11

Cash Flow and Credit Metrics [1]

CF Metrics	Dec-19	Dec-20	Dec-21	Dec-22	LTM Mar-23
As Adjusted					
FFO	**1,651**	**1,799**	**1,991**	**2,137**	**2,005**
- Ot er	25	75	48	48	45
CFO Pre-WC	**1,676**	**1,874**	**2,039**	**2,185**	**2,050**
+/- ΔWC	2	84	21	-54	-9
CFO	**1,678**	**1,958**	**2,060**	**2,131**	**2,041**
- Di	760	610	628	662	670
- Cape	1,584	1,796	2,002	2,008	2,052
FCF	**-666**	**-448**	**-570**	**-539**	**-681**
(CFO Pre- C) Debt	12.1	12.0	13.6	14.8	14.0
(CFO Pre- C - Di idends) Debt	6.6	8.1	9.4	10.3	9.4
FFO Debt	11.9	11.5	13.3	14.5	13.7
RCF Debt	6.4	7.6	9.1	10.0	9.1
Re enue	6,442	7,250	7,185	7,740	7,768
nterest E pense	522	539	537	559	583
Net ncome	814	1,675	857	862	837
otal Assets	26,869	30,084	30,161	31,227	31,237
otal Liabilities	17,294	19,319	19,040	19,681	19,575
otal E uity	9,575	10,765	11,121	11,546	11,662

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months

Source: Moody's Financial Metrics™

Exhibit 12

Hydro One Inc. Moody's - Adjusted Debt Breakdown [1]

(CAN Millions)	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-22	LTM Mar-23
As Reported Debt	**11,961.0**	**12,618.0**	**13,908.0**	**14,241.0**	**14,713.0**	**14,620.0**
Pensions	547.0	1,125.0	1,660.0	713.0	0.0	0.0
Operating Leases	40.0	74.0	76.0	56.0	53.0	50.0
ybrid Securities	486.0	0.0	0.0	0.0	0.0	0.0
Non-Standard Adjustments	27.0	31.0	0.0	0.0	0.0	0.0
Moody's Ajusted Debt	**13,061.0**	**13,848.0**	**15,644.0**	**15,010.0**	**14,766.0**	**14,670.0**

[1] Based on consolidated financial data of Hydro One Inc. All figures are calculated using Moody's estimates and standard adjustments

Source: Moody's Financial Metrics™

Exhibit 13

Hydro One Inc. Moody's - Adjusted EBITDA Breakdown [1]

(CAN Millions)	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-22
As Reported EBITDA	**1,957.0**	**2,056.0**	**2,228.0**	**2,249.0**	**2,418.0**	**2,687.0**
Pensions	-59.0	-101.0	-104.0	-69.0	-46.0	-161.0
Operating Leases	10.0	10.0	9.0	12.0	13.0	10.0
Moody's Adjusted EBITDA	**1,908.0**	**1,965.0**	**2,133.0**	**2,192.0**	**2,385.0**	**2,536.0**

[1] Based on consolidated financial data of Hydro One Inc. All figures are calculated using Moody's estimates and standard adjustments
Source: Moody's Financial Metrics™

Ratings

Exhibit 14

Category	Moody's Rating
HYDRO ONE INC.	
Outlook	Stable
Senior Unsecured -Dom Curr	A3
Commercial Paper -Dom Curr	P-2

Source: Moody's Investors Service

© 2023 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the credit rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from $1,000 to approximately $5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Charter Documents - Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1349290

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S INVESTORS SERVICE

CREDIT OPINION
25 November 2021

Update

Rate this Research

RATINGS

Hydro One Inc.

Domicile	Toronto, Ontario, Canada
Long Term Rating	A3
Type	Senior Unsecured - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Gavin MacFarlane +1.416.214.3864
VP-Sr Credit Officer
gavin.macfarlane@moodys.com

Yulia Rakityanskaya +1.416.214.3627
Analyst
yulia.rakityanskaya@moodys.com

Gajendra Mandal +1.416.214.3861
Associate Analyst
gajendra.mandal@moodys.com

Michael G. Haggarty +1.212.553.7172
Associate Managing Director
michael.haggarty@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Hydro One Inc.

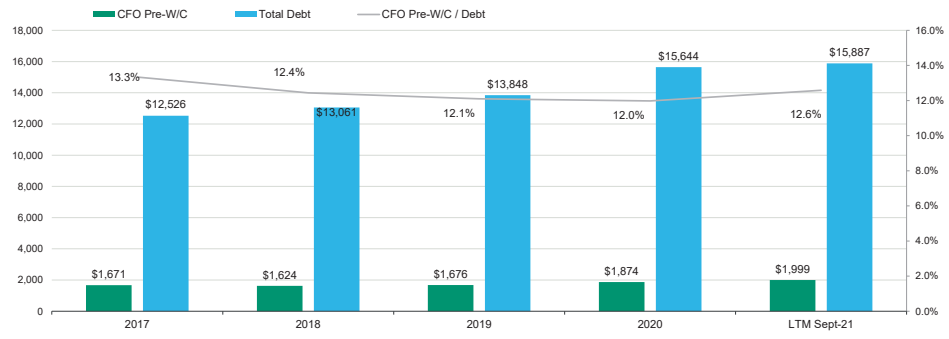
Update to credit analysis

Summary

Hydro One Inc.'s (HOI) credit profile is reflected in its baseline credit assessment (BCA) of baa1 with a one notch uplift attributable to the moderate probability of extraordinary support from the Province of Ontario (Aa3 stable), which indirectly owns 47.2% of HOI. HOI's credit quality is analyzed under our Regulated Electric and Gas Utilities rating methodology, and reflects the regulated nature of its operations and its low business risk profile. The utility's rate base consists of roughly 61% transmission and 39% distribution, and it benefits from a credit supportive regulatory environment under the Ontario Energy Board (OEB).

We expect cash flow from operations to be predictable but financial metrics to remain weak. These relatively weak financial metrics are primarily the result of its low existing allowed return on equity (currently set at 8.52% for transmission and 9% for distribution) and authorized equity layer in the capital structure (currently 40%) that are established by the OEB, as well as low depreciation rates that are a function of long-life T&D assets.

Exhibit 1
Historical CFO pre-W/C, Debt and CFO pre-W/C to Debt (CAD million)



Source: Moody's Financial Metrics

Credit strengths

» Supportive regulatory environment

» Stable, predictable cash flow

» Moderate probability of extraordinary support from the Province

Credit challenges

» Weak financial metrics driven by low authorized equity capital

» Incentive rate regulation marginally increases risk

Rating outlook

The stable outlook reflects the company's focus on the credit supportive Ontario regulatory jurisdiction and our expectation of weak but consistent financial metrics including CFO pre-W/C to debt in the 11-13% range.

Factors that could lead to an upgrade

» Key financial metrics increase, including CFO/debt forecast to be sustained above 14%

» An improvement in regulatory outcomes

» A strengthening of the relationship with the Province

Factors that could lead to a downgrade

» Key financial metrics decline, including CFO/debt forecast to be sustained below 11%

» A deterioration in regulatory outcomes

» A lower probability of extraordinary support from the Province

Key indicators

Hydro One Inc.

	Dec-17	Dec-18	Dec-19	Dec-20	LTM Sept-21
CFO Pre- C nterest nterest	4.4	4.2	4.2	4.5	4.8
CFO Pre- C Debt	13.3	12.4	12.1	12.0	12.6
CFO Pre-W/C – Dividends / Debt	8.9	8.2	6.6	8.1	8.7
Debt Capitali ation	55.4	57.9	58.8	58.9	58.0

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics

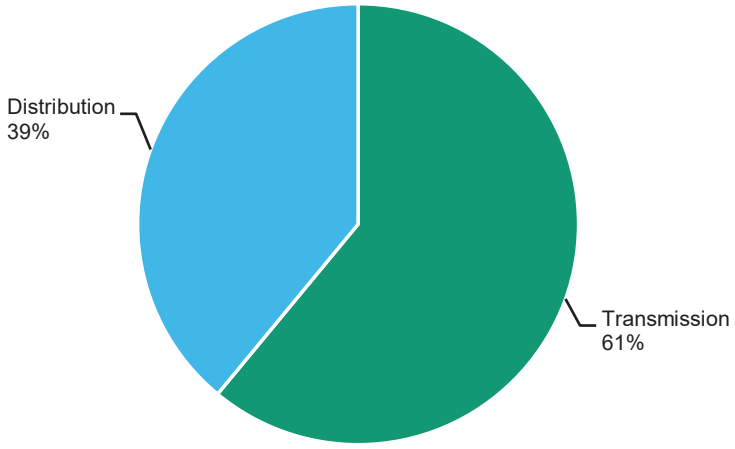
Profile

HOI is an electricity transmission and distribution company 47.2% indirectly owned by the Province of Ontario. Hydro One Limited (HOL unrated) is the publicly traded vehicle that owns 100% of HOI. In recent years, HOI has had its rates set by the OEB under cost of service and inflation based frameworks. Currently, both segments have rates set using incentive rate frameworks. The transmission business owns and operates virtually all of Ontario's electricity transmission system and represented 59% of HOI's total assets of CAD31 billion as of 30 September 2021. The distribution business serves about 1.4 million customers and owns a substantial portion of the province's electricity distribution system representing 38% of HOI's total assets. The remaining assets include the company's telecommunications business and other corporate activities that make a negligible contribution to revenue. HOI began operations in 1999, pursuant to the Electricity Act 1998, when the former Ontario Hydro was restructured into five entities: Ontario Power Generation Inc. (OPG), the Independent Electricity System Operator (IESO), Ontario Electricity Financial Corporation (OEFC), the Electricity Safety Authority and HOI. The Province does not guarantee HOI's debt obligations.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Exhibit 3

HOI's $21.7 billion 2020 rate base by segment



Source: HOL's presentation

Detailed credit considerations

Supportive regulatory environment

The supportive Ontario regulatory environment is a key driver of HOI's credit quality. HOI has a monopoly position as a transmission and distribution (T&D) company with no commodity price risk that underpins its credit strength. We expect the regulatory environment to remain relatively transparent, predictable and broadly credit supportive, with legislative and judicial underpinnings that are well developed and we expect them to remain unchanged. The company does not have any direct commodity risk exposure since commodity costs are a pass through for the distribution business. However, it does have some exposure to volume risk that is typically driven by weather variability and the underlying performance of the economies in its service territories. The company has inherently low business risk as a T&D business compared to the price, volume, operational and environmental risks typically associated with generation activities. HOI does not have any supply obligations.

Last year was the first year in which both transmission and distribution rates were established based on incentive rate mechanisms. In March 2019, the company received a custom incentive rate decision for the distribution business for the period 2018-2022. Prior to that decision, rates had been set under a 3 year incentive rate model.

Rates for the transmission business are being set using custom incentive rate regulation for the first time. In April 2020, an OEB decision established rates under an incentive rate making model for the period 2020-2022. Rates for the transmission business for 2019 were established using inflation based principles, where inflation rates are a key driver of rate setting and the OEB set the revenue index at 1.4% for 2019. Prior to 2019 rates for the transmission business were established using cost of service principles with frequent rate resets.

On August 5, 2021 HOI filed a joint transmission and distribution rate application for the period 2023-2027. While we have noted some lag in the timeliness of decisions, this has been somewhat mitigated by interim rates that are generally established at levels requested by the company. A decision on the rate application is expected towards the end of 2022.

Incentive rate regulation marginally increases risk compared to a cost of service regulatory model because of the potential for higher cash flow volatility over time, particularly towards the end of a longer duration period between rate cases. Annual revenue growth is driven by an inflation factor, a productivity factor and a capital factor. This is a custom incentive rate framework because both the productivity factor and capital factor contain elements specific to the company. This provides predictability in rate setting and in HOI revenues through 2022.

Stable, predictable cash flow but weak financial metrics

We expect the company to continue to generate stable cash flow, a key credit strength. Underpinning this stability, cash flow from operations is generally a function of HOI's rate base, its deemed capital structure of 40% equity established by the regulator, the allowed return on equity currently set at 8.52% for transmission and 9% for distribution, and depreciation. We have assumed that the company continues to perform broadly in line with the levels established by the regulator and forecast CFO pre-W/C to debt at the upper end of the 11-13% range. Financial metrics may exceed this range based on tax recoveries (discussed below) although we do not expect any outperformance above this range to be sustained given the 2 year time horizon associated with significant recoveries. We expect the company to continue to pursue acquisitions of electricity distribution companies in Ontario, but believe that any acquisitions will be small relative to HOI and have only a modest impact on credit quality.

Exhibit 4

Summary of key regulatory elements

Segment	2021 Rate base, CAD million	Equity Thickness	Allowed ROE	Regulatory Update
Transmission	12,927	40%	8.5%	April 2020 decision for 2020-2022
Distribution	8,514	40%	9.0%	March 2019 decision for 2018-2022

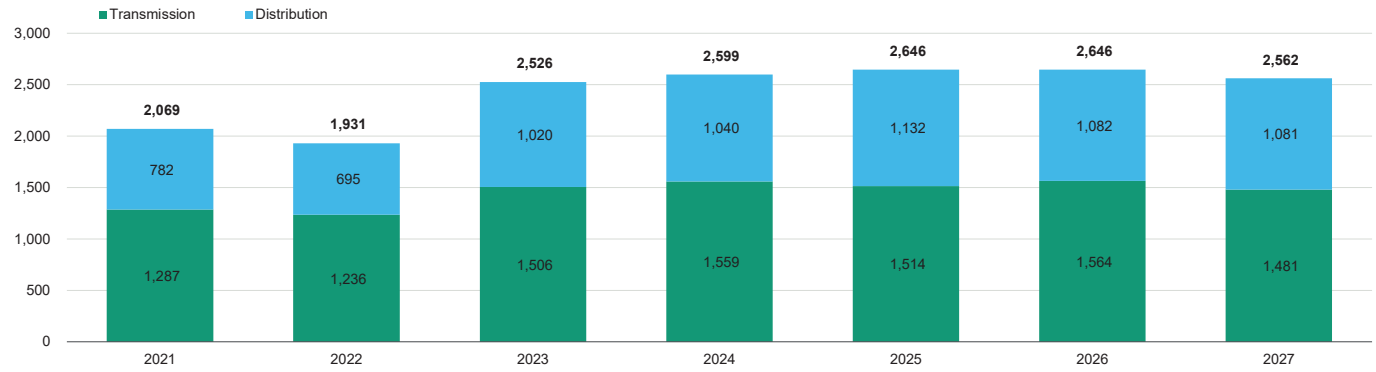
Source: Company filings

HOI continues to move forward with a large capital program of about CAD17 billion over the period 2021-2027, with about CAD10 billion of investment in transmission and about CAD6.8 billion in the distribution business. Both business segments benefit from a capital factor rate adjustment that provides cash flow support to the capital program between rate cases. In the absence of the capital factor, financial metrics would be much weaker as capital expenditures are more than double annual depreciation. The capital program consists of a series of smaller projects and the company is not exposed to material execution risk that is often associated with larger, more complex projects.

On July 16, 2020, the company received a favorable decision from the Ontario Divisional Court resolving an ongoing dispute relating to sharing a tax asset with customers that stemmed from the company's IPO in 2015. This led to an income tax recovery during 2020 of CAD783 million compared to an income tax expense of CAD51 million during 2019. On April 8, 2021, a subsequent OEB decision allowed the company to recover the tax benefits shared with customers since 2017, resulting in recoveries of approximately CAD257 million (CAD165 million transmission and CAD95 million distribution) over a 2 year period. This recovery will result in an annual FFO increase of CAD65 million, CAD135 million and CAD65 million during the years 2021, 2022 and 2023, respectively. As rates are adjusted on a prospective basis to eliminate sharing with customers, this is forecast to lead to an increase in cash flow of CAD50 million per annum starting in 2022 that will gradually decline over time.

Exhibit 5

Projected capital expenses by segment
(CAD million)



Source: Company filings

Relationship with and support from the Province of Ontario

HOI completed a strategic review in Q4 2019 and determined that it will remain focused exclusively on its businesses in Ontario for at least 5 years and there is no indication that the company will change its approach at the end of this period. A key outcome of the strategic review is that Hydro One and its parent Hydro One Limited (unrated) will maintain a long-term focus on doing business in the Province of Ontario, which is a key consideration in our determination that Hydro One is a Government Related Issuer (GRI).

In accordance with Moody's GRI methodology, HOI's A3 rating reflects the following:

» Aa3/stable local currency rating of the Province of Ontario.

» Very high default dependence as a result of HOI and the Province deriving the vast majority of their revenues from within the government's territory and sharing some political risks.

» Moderate probability of extraordinary support from the Province reflecting the strategic importance of HOI to the provincial economy as an essential service provider and the current 47.2% indirect ownership interest that the Province has in HOI.

We believe the Province will continue to have effective control over HOI. For example, the Province exercised this control when it removed the board and CEO of HOI and HOL in July of 2018. Following HOL's partial privatization in 2015, although the Province reduced its stake to 47.2%, it is required by legislation to maintain a 40% equity interest in HOL. In addition, limitations have been placed on other shareholders that restrict their equity interest in HOL to less than 10%. HOI is restricted from selling a large portion of its regulated transmission or distribution business and will continue to be regulated by the Ontario Energy Board (OEB).

Mitigating its control somewhat, the government has implemented a predefined set of criteria to promote an independent, professional board with relevant expertise and a commercial orientation. These changes have been made in a stated attempt to improve the efficiency of HOI and they also reduce the government ties to the company. HOL has CAD425 million of term debt outstanding and its own CAD250 million committed credit facility that is typically undrawn and expires in June 2026. HOL's credit profile does not constrain the credit profile of HOI.

ESG considerations

As an electric transmission and distribution utility, HOI has low carbon transition risk. With material fixed assets, the company is exposed to physical climate mostly in the form of extreme weather patterns which represents a challenge for the sector. The company benefits from favorable billing practices whereby customers are charged a fixed rate for T&D costs and a separate volumetric charge for volumes consumed. The company is exposed to moderate social risks that primarily relate to affordability issues, another common theme in the sector.

The company's strategic review completed in November 2019 lists its strategic priorities as efficiency and safety and building on existing relationships with indigenous communities and partners. The company has relatively complex board structures, policies and procedures owing to the government's ownership and intervention while at the same time positioning itself as an arm's length investor.

Liquidity analysis

HOI has an adequate liquidity profile as demonstrated by its sources of capital exceeding its uses over the next 12 months. In addition, we believe that the company continues to have strong access to the debt capital markets.

HOI's sources of capital include cash of CAD413 million, estimated operating cash flow of around CAD2.0 billion over the next 12 months and CAD2.3 billion of bank syndicated committed facilities that expire in June of 2026 that backstop its commercial paper program which had CAD960 million outstanding at September 30, 2021. These sources are more than sufficient to cover expected capex of around CAD2 billion, dividends of about CAD700 million and CAD600 million of debt maturities during the next 12 months.

HOI and HOL have a single financial covenant requiring that they maintain a debt to capitalization ratio of no more than 75%. As of September 30, 2021, both companies were in compliance. HOI's credit facility has an affirmative covenant that requires the company to provide lenders notice of a material adverse change but it does not prohibit drawings under the facility.

Rating methodology and scorecard factors

Methodology Scorecard Factors

Hydro One Inc.

Regulated Electric and Gas Utilities Industry Scorecard [1][2]	Current LTM 9/30/2021		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	N/A	N/A	N/A	N/A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.5x	Baa	4.5x - 5.5x	A
b) CFO pre-WC / Debt (3 Year Avg)	12.8%	Baa	11% - 13%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	8.2%	Baa	7% - 9%	Baa
d) Debt / Capitalization (3 Year Avg)	57.5%	Baa	55% - 60%	Baa
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		Baa1		A3
HoldCo Structural Subordination Notching		0		0
a) Scorecard-Indicated Outcome		Baa1		A3
b) Actual Rating Assigned		A3		A3

Government-Related Issuer	Factor
a) Baseline Credit Assessment	baa1
b) Government Local Currency Rating	Aa3
c) Default Dependence	Very High
d) Support	Moderate
e) Actual Rating Assigned	A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 9/30/2021(L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics

Appendix

Exhibit 7

Peer Comparison Table

	Hydro One Inc. A3 (Stable)			FortisBC Inc. Baa1 (Stable)			Newfoundland Power Inc. Baa1 (Stable)			FortisAlberta Inc. Baa1 (Stable)		
(In CAD millions)	FYE Dec-19	FYE Dec-20	LTM Sept-21	FYE Dec-19	FYE Dec-20	LTM Sept-21	FYE Dec-19	FYE Dec-20	LTM Sept-21	FYE Dec-19	FYE Dec-20	LTM Sept-21
Re enue	6,442	7,250	7,274	404	412	439	684	719	706	650	653	689
CFO Pre- C	1,676	1,874	1,999	108	107	122	111	137	151	353	394	422
otal Debt	13,848	15,644	15,887	1,233	1,249	1,269	638	644	637	2,279	2,391	2,446
CFO Pre- C nterest nterest	4.2	4.5	4.8	2.5	2.5	2.7	4.0	4.7	5.2	4.4	4.8	5.0
CFO Pre- C Debt	12.1	12.0	12.6	8.8	8.6	9.6	17.4	21.3	23.7	15.5	16.5	17.2
CFO Pre-W/C – Dividends / Debt	6.6	8.1	8.7	5.1	5.0	5.9	13.0	14.0	16.5	12.2	13.1	13.8
Debt Capitali ation	58.8	58.9	58.0	56.0	54.3	54.3	48.1	48.2	47.5	55.8	55.4	54.9

All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade
Source: Moody's Financial Metrics

Exhibit 8

Cash Flow and Credit Metrics

CF Metrics	Dec-17	Dec-18	Dec-19	Dec-20	LTM Sept-21
As Adjusted					
FFO	**1,584**	**1,600**	**1,651**	**1,799**	**1,942**
- Ot er	87	24	25	75	57
CFO Pre-WC	**1,671**	**1,624**	**1,676**	**1,874**	**1,999**
+/- ΔWC	-24	-74	2	84	-161
CFO	**1,647**	**1,550**	**1,678**	**1,958**	**1,838**
- Di	556	558	760	610	624
- Cape	1,489	1,486	1,584	1,796	2,082
FCF	**-398**	**-494**	**-666**	**-448**	**-868**
(CFO Pre- C) Debt	13.3	12.4	12.1	12.0	12.6
(CFO Pre- C - Di idends) Debt	8.9	8.2	6.6	8.1	8.7
FFO Debt	12.6	12.3	11.9	11.5	12.2
RCF Debt	8.2	8.0	6.4	7.6	8.3
Re enue	5,947	6,110	6,442	7,250	7,274
nterest E pense	487	507	522	536	526
Net ncome	587	-234	814	1,675	869
otal Assets	25,598	25,556	26,869	30,084	30,922
otal Liabilities	15,639	16,183	17,294	19,319	19,800
otal E uity	9,959	9,373	9,575	10,765	11,122

All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months
Source: Moody's Financial Metrics

Exhibit 9

Hydro One Inc. Moody's - Adjusted Debt Breakdown

(CAN Millions)	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-20	LTM Sept-21
As Reported Debt	**11,149.0**	**10,996.0**	**11,961.0**	**12,618.0**	**13,908.0**	**14,158.0**
Pensions	900.0	981.0	547.0	1,125.0	1,660.0	1,660.0
Operating Leases	40.0	40.0	40.0	74.0	76.0	69.0
ybrid Securities	0.0	486.0	486.0	0.0	0.0	0.0
Non-Standard Adjustments	25.0	23.0	27.0	31.0	0.0	0.0
Moody's Ajusted Debt	**12,114.0**	**12,526.0**	**13,061.0**	**13,848.0**	**15,644.0**	**15,887.0**

Based on consolidated financial data of Hydro One Inc. All figures are calculated using Moody's estimates and standard adjustments
Source: Moody's Financial Metrics

Exhibit 10

Hydro One Inc. Moody's - Adjusted EBITDA Breakdown

(CAN Millions)	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-20	LTM Sept-21
As Reported EBITDA	**1,929.0**	**1,957.0**	**2,056.0**	**2,228.0**	**2,246.0**	**2,379.0**
Pensions	-28.0	-59.0	-101.0	-104.0	-69.0	-53.0
Operating Leases	10.0	10.0	10.0	9.0	12.0	12.0
Moody's Adjusted EBITDA	**1,911.0**	**1,908.0**	**1,965.0**	**2,133.0**	**2,189.0**	**2,338.0**

Based on consolidated financial data of Hydro One Inc. All figures are calculated using Moody's estimates and standard adjustments
Source: Moody's Financial Metrics

Ratings

Exhibit 11

Category	Moody's Rating
HYDRO ONE INC.	
Outlook	Stable
Senior Unsecured -Dom Curr	A3
Commercial Paper -Dom Curr	P-2

Source: Moody's Investors Service

© 2021 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from $1,000 to approximately $5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1310484

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S RATINGS

CREDIT OPINION
26 July 2024

Update

Send Your Feedback

RATINGS

Hydro One Inc.

Domicile	Toronto, Ontario, Canada
Long Term Rating	A3
Type	Senior Unsecured - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Gavin MacFarlane +1.416.214.3864
VP-Sr Credit Officer
gavin.macfarlane@moodys.com

Yulia Rakityanskaya +1.416.214.3627
Analyst
yulia.rakityanskaya@moodys.com

Gajendra Mandal +1.416.214.3861
Sr Ratings Associate
gajendra.mandal@moodys.com

Michael G. Haggarty +1.212.553.7172
Associate Managing Director
michael.haggarty@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Hydro One Inc.

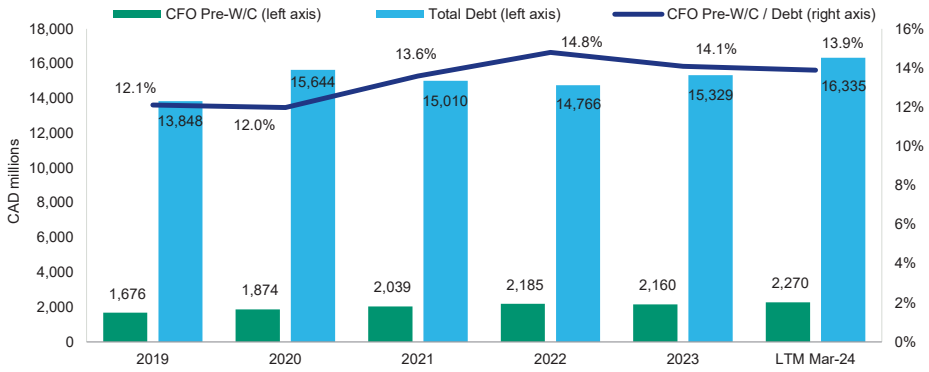
Update to credit analysis

Summary

Hydro One Inc.'s (HOI, A3 stable) credit profile reflects its baseline credit assessment (BCA) of baa1 with a one notch uplift attributable to the moderate probability of extraordinary support from the Province of Ontario (Aa3 positive), which indirectly owns 47.1% of HOI. HOI's credit quality is analyzed under our Regulated Electric and Gas Utilities rating methodology, and reflects the regulated nature of its operations and its low business risk profile. The utility's rate base consists of roughly 61% transmission and 39% distribution assets, and it benefits from a credit supportive regulatory environment under the Ontario Energy Board (OEB).

We expect cash flow from operations to continue to be predictable and we forecast CFO-Pre W/C to debt of 11-13% in the next few years, slightly lower than recent years as the benefits from a favorable tax decision expire. These relatively weak financial metrics are primarily the result of its low authorized equity layer in the capital structure (currently 40%) that is established by the OEB, as well as low depreciation rates that are a function of long-life T&D assets.

Exhibit 1
Historical CFO pre-W/C, Debt and CFO pre-W/C to Debt



All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Periods are fiscal year-end unless indicated. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Credit strengths

» Supportive regulatory environment

» Stable, predictable cash flow

» Moderate probability of extraordinary support from the Province

Credit challenges

» Weak financial metrics driven by low authorized equity capital

» Incentive rate regulation marginally increases risk

Rating outlook

The stable outlook reflects the company's favorable regulatory framework and our expectation of weak but consistent financial metrics including CFO pre-W/C to debt in the 11-13% range.

Factors that could lead to an upgrade

» Key financial metrics increase, including CFO pre-W/C to debt forecast to be sustained above 14%

» An improvement in regulatory outcomes

» A strengthening of the relationship with the Province

Factors that could lead to a downgrade

» Key financial metrics decline, including CFO/debt forecast to be sustained below 11%

» A deterioration in regulatory outcomes

» A lower probability of extraordinary support from the Province

Key indicators

Exhibit 2

Hydro One Inc.

	2019	2020	2021	2022	2023	LTM Mar-24
CFO Pre- C nterest nterest	4.2	4.5	4.8	4.9	4.4	4.5
CFO Pre- C Debt	12.1	12.0	13.6	14.8	14.1	13.9
CFO Pre-W/C – Dividends / Debt	6.6	8.1	9.4	10.3	9.5	9.5
Debt Capitali ation	58.8	58.9	56.5	54.5	54.0	55.2

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Periods are fiscal year-end unless indicated. LTM = Last 12 months.
Source: Moody's Financial Metrics™

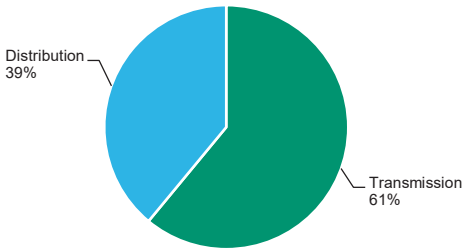
Profile

HOI is an electricity transmission and distribution company 47.1% indirectly owned by the Province of Ontario. Hydro One Limited (HOL unrated) is the publicly traded vehicle that owns 100% of HOI. In the past, HOI has had its rates set by the OEB under cost of service and inflation based frameworks. Currently, both segments have rates set using incentive rate frameworks. The transmission business owns and operates virtually all of Ontario's electricity transmission system and represented 59% of HOI's total assets of around CAD34 billion as of 31 March 2024. The distribution business serves about 1.5 million customers and owns a substantial portion of the province's electricity distribution system representing 38% of HOI's total assets with other assets contributing the remaining 2%.

HOI began operations in 1999, pursuant to the Electricity Act 1998, when the former Ontario Hydro was restructured into five entities: Ontario Power Generation Inc. (OPG), the Independent Electricity System Operator (IESO), Ontario Electricity Financial Corporation (OEFC), the Electricity Safety Authority and HOI. The Province does not guarantee HOI's debt obligations.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Exhibit 3
HOI's $25.0 billion 2023 rate base by segment



Source: HOI's MD&A

Detailed credit considerations

Supportive regulatory environment

The supportive Ontario regulatory environment is a key driver of HOI's credit quality. We expect the regulatory environment to remain relatively transparent, predictable and broadly credit supportive, with legislative and judicial underpinnings that are well developed and we expect them to remain unchanged. HOI has a monopoly position and inherently low business risk as a transmission and distribution (T&D) business compared to the elevated price, volume, operational and environmental risks typically associated with generation activities. HOI does not have any supply obligations.

The company does not have any direct commodity risk exposure since commodity costs are a pass through for the distribution business, although it recovers those costs over a period of as long as two years, a credit negative. However, it does have some modest exposure to volume risk that is typically driven by weather variability and the underlying performance of the economies in its service territories. The distribution business is moving towards full decoupling of its residential customers. It will charge a fixed rate that will cover distribution costs plus a volumetric charge for power consumed.

In Q4 2022, HOI filed a settlement that was subsequently approved by the OEB for new rates effective 1 Jan 2023. The settlement and subsequent decision and rate order cover the period 1 Jan 2023 to 31 Dec 2027. This represents the first time the company has filed a joint rate application for both the distribution and transmission businesses.

Under the terms of the settlement, rate making takes the form of custom incentive rate regulation using 2023 as a forward test year. Rates in subsequent years are based on a revenue cap approach. Key drivers of changes in the revenue cap include inflation ("I"), a productivity factor ("X") and a capital factor ("C"). The underlying drivers for each of I, X and C differ somewhat between transmission and distribution companies as shown in the tables below. For example, the OEB has determined that the inflation factors differ between the businesses, and both segments have different operating cost drivers as well as capital programs, which also drive differences between the segments. We see the potential for increased cash flow volatility in the latter years with incentive rate regulation compared to a cost of service regulatory model with frequent rate resets. The company has operated under either incentive rate or cost of service regulation over the past decade, although this is the first time both the transmission and distribution businesses have been part of the same rate case.

Exhibit 4

Transmission Revenue requirement

	2023	2024	2025	2026	2027
Inflation Factor (I)		5.40%	3.80%	3.80%	3.80%
Productivity Factor (X)		-0.15%	-0.15%	-0.15%	-0.15%
Capital Factor (C)		1.27%	0.93%	1.38%	0.08%
Custom Revenue Cap Total Index		6.52%	4.58%	5.03%	3.73%
Revenue Requirement (CAD millions)	$ 1,952	$ 2,080	$ 2,168	$ 2,277	$ 2,362
Approved Rate Base (CAD millions)	$ 14,534	$ 15,342	$ 16,271	$ 17,149	$ 17,940

Source: OEB, Company filings

Exhibit 5

Distribution Revenue requirement

	2023	2024	2025	2026	2027
Inflation Factor (I)		4.80%	3.70%	3.70%	3.70%
Productivity Factor (X)		-0.45%	-0.45%	-0.45%	-0.45%
Capital Factor (C)		1.01%	0.79%	1.96%	1.12%
Custom Revenue Cap Total Index		5.36%	4.04%	5.21%	4.37%
Revenue Requirement (CAD millions)	$ 1,727	$ 1,820	$ 1,886	$ 1,985	$ 2,071
Approved Rate Base (CAD millions)	$ 9,460	$ 9,979	$ 10,573	$ 11,153	$ 11,656

Source: OEB, Company filings

Significantly, the I and C factors in the tables above are placeholders that are adjusted annually for inflation, providing inflation protection during the term covered by the rate order. In addition, the decision also contains an earnings sharing mechanism that has a 100 bps deadband around the allowed ROE. The company shares the excess in performance above that level with customers on a 50/50 basis and has no downside performance sharing. Any earnings sharing mechanism balances for the period 2021-2024 will be adjusted in the annual update for 2026 rates. The company continues to have a Z-factor which gives it the ability to request recovery of material costs associated with unforeseen events that are beyond its ability to effectively manage.

Stable, predictable cash flow but weak financial metrics

We expect the company to continue to generate stable cash flow, a key credit strength. Underpinning this stability, cash flow from operations is generally a function of HOI's rate base, its deemed capital structure of 40% equity and its allowed return on equity (ROE) currently set at 9.36% for transmission and distribution, all figures that are established by the regulator. The OEB updates its ROE calculation annually using a formulaic approach that includes changes in Government of Canada yields and utility corporate bond spreads, however HOI's 9.36% ROE is fixed for the period 2024-2027.

We have assumed that the company continues to perform broadly in line with the levels established by the regulator and forecast CFO pre-W/C to debt in the 11-13% range. Financial metrics have exceeded this range primarily based on tax recoveries (discussed below) although we do not expect any outperformance above this range to be sustained given the narrow window associated with tax recoveries that has come to an end. We expect the company to continue to pursue acquisitions of electricity distribution companies in Ontario, but believe that any acquisitions will be small relative to HOI and have only a modest impact on credit quality.

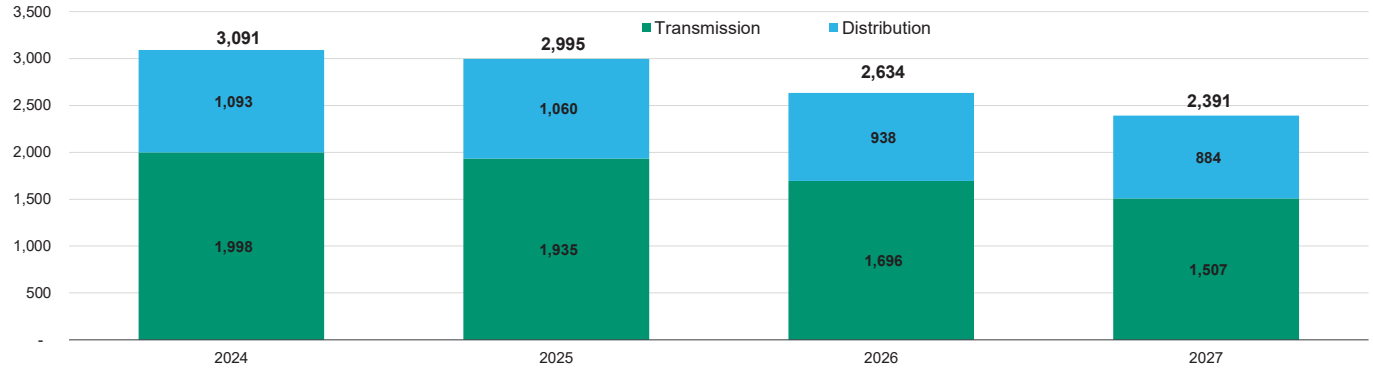
On July 16, 2020, the company received a favorable decision from the Ontario Divisional Court resolving an ongoing dispute relating to sharing a tax asset with customers that stemmed from the company's IPO in 2015. This led to an income tax recovery during 2020 of CAD783 million compared to an income tax expense of CAD51 million during 2019. On April 8, 2021, a subsequent OEB decision

allowed the company to recover the tax benefits shared with customers since 2017, resulting in recoveries of approximately CAD257 million (CAD165 million transmission and CAD95 million distribution) over a 2 year period. This recovery has led to increased cashflow of CAD65 million, CAD135 million and CAD65 million during the years 2021, 2022 and 2023, respectively. As rates are adjusted on a prospective basis to eliminate sharing with customers, this is forecast to lead to an increase in cash flow of CAD50 million per annum starting in 2022 that will gradually decline over time.

HOI continues to move forward with a large capital program of about CAD11.1 billion over the period 2024-2027, with about CAD7.1 billion of investment in transmission and about CAD4.0 billion in the distribution business. Both business segments benefit from a capital factor rate adjustment that provides cash flow support to the capital program between rate cases. In the absence of the capital factor, financial metrics would be much weaker as capital expenditures are more than double annual depreciation. The capital program generally consists of a series of smaller projects and the company is not exposed to material execution risk that is often associated with larger, more complex projects. However the company is proceeding with a series of transmission line and station expansions this decade which will likely consist of a series of projects with a larger capital spend than typical projects undertaken by the company.

Exhibit 6

Projected capital expenses by segment
(CAD millions)



Source: Company filings

Relationship with and support from the Province of Ontario

We expect Hydro One and its parent Hydro One Limited (unrated) to continue to maintain their long-term focus on doing business in the Province of Ontario, which is a key consideration in our determination that Hydro One is a Government Related Issuer (GRI).

In accordance with Moody's GRI methodology, HOI's A3 rating reflects the following:

» Aa3/positive local currency rating of the Province of Ontario.

» Very high default dependence as a result of HOI and the Province deriving the vast majority of their revenues from within the government's territory and sharing some political risks.

» Moderate probability of extraordinary support from the Province reflecting the strategic importance of HOI to the provincial economy as an essential service provider and the current 47.1% indirect ownership interest that the Province has in HOI.

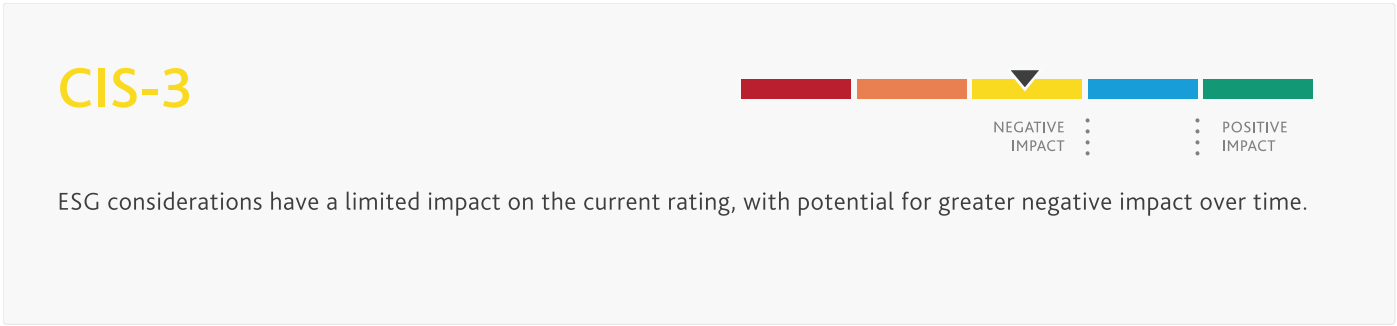
We generally expect HOI to operate in a manner consistent with investor owned utilities and unlike many government owned utilities in other provinces. Nonetheless, we believe the Province will continue to have effective control over HOI. For example, the Province exercised this control when it removed the board and CEO of HOI and HOL in July of 2018. Following HOL's partial privatization in 2015, although the Province reduced its stake to 47.1%, it is required by legislation to maintain a 40% equity interest in HOL. In addition, limitations have been placed on other shareholders that restrict their equity interest in HOL to less than 10%. HOI is restricted from selling a large portion of its regulated transmission or distribution business and will continue to be regulated by the OEB.

Mitigating its control somewhat, the government has implemented a predefined set of criteria to promote an independent, professional board with relevant expertise and a commercial orientation. These changes have been made in a stated attempt to improve the efficiency of HOI and they also reduce the government ties to the company. HOL has CAD425 million of term debt outstanding and its own CAD250 million committed credit facility that is typically undrawn and expires in June 2028. HOL's credit profile does not constrain the credit profile of HOI.

ESG considerations

Hydro One Inc.'s ESG credit impact score is CIS-3

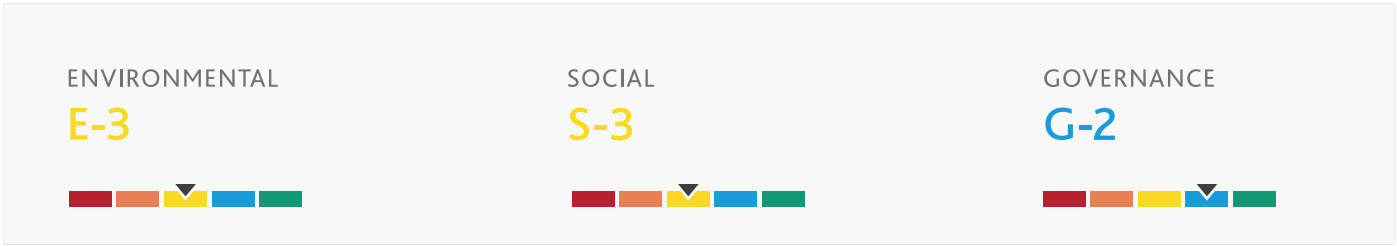
Exhibit 7
ESG credit impact score



Source: Moody's Ratings

HOI's **CIS-3** indicates that ESG considerations have a limited impact on the current rating, with the potential for greater impact over time. The primary drivers of ESG risk are exposure to physical climate risks and demographic and social trends as they relate to affordability issues.

Exhibit 8
ESG issuer profile scores



Source: Moody's Ratings

Environmental

HOI's **E-3** score reflects exposure to physical climate risks mostly in the form of extreme weather patterns which represents a challenge for the sector.

Social

S-3. Hydro One has exposure to social risks reflecting the higher risk to demographics and societal trends owing to a risk that public concern over environmental, social or affordability issues could lead to adverse regulatory or political intervention, a common theme in the sector.

Governance

G-2. The influence of governance is neutral to low and is broadly in line with other utilities. Unlike many peers, the company has some exposure to board structure owing to the ability of the government to change the board at its discretion as it has once in the past. This is offset by predictable financial policy, established financial strategy and management's credibility and track record.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

HOI has an adequate liquidity profile because it has strong access to debt capital markets and we expect it to refinance its debt maturities in timely manner. HOI's liquidity is also supported by its internally generated cash flow and available credit facilities.

HOI's sources of capital include estimated operating cash flow of around CAD2.3 billion over the next 12 months and CAD2.3 billion of total syndicated committed facilities (approximately CAD1.8 billion available as of March 31, 2024). HOI's facilities expire in June 2028 and backstop its commercial paper program which had CAD497 million outstanding as March 31, 2024. HOI also has cash of CAD588 million as of March 31, 2024. We expect HOI to spend around CAD3 billion in capital expenditures and pay dividends of about CAD700 million during the next 12 months. We expect HOI to refinance its upcoming debt maturities.

HOI and HOL have a single financial covenant requiring that they maintain a debt to capitalization ratio of no more than 75%. As of 31 March 2024, both companies were in compliance. HOI's credit facility has an affirmative covenant that requires the company to provide lenders notice of a material adverse change but it does not prohibit drawings under the facility.

Rating methodology and scorecard factors

Exhibit 9

Methodology Scorecard Factors

Hydro One Inc.

Regulated Electric and Gas Utilities Industry	Current LTM Mar-24		Moody's 12-18 Month Forward View	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.6x	A	3.8x - 4.3x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	14.0%	Baa	11% - 13%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	9.6%	Baa	7% - 9%	Baa
d) Debt / Capitalization (3 Year Avg)	54.8%	Baa	55% - 60%	Baa
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		A3		Baa1
HoldCo Structural Subordination Notching		0		0
a) Scorecard-Indicated Outcome		A3		Baa1
b) Actual Rating Assigned		A3		A3

Government-Related Issuer	Factor
a) Baseline Credit Assessment	baa1
b) Government Local Currency Rating	Aa3
c) Default Dependence	Very High
d) Support	Moderate
e) Actual Rating Assigned	A3

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. LTM = Last 12 months. Moody's forecasts are Moody's opinion and do not represent the views of the issuer.

Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Appendix

Exhibit 10

Peer Comparison

Hydro One Inc.

	Hydro One Inc. A3 Stable			FortisAlberta Inc. Baa1 Stable			FortisBC Inc. Baa1 Stable			Newfoundland Power Inc. Baa1 Stable		
(in CAD millions)	FY Dec-22	FY Dec-23	LTM Mar-24	FY Dec-22	FY Dec-23	LTM Mar-24	FY Dec-22	FY Dec-23	LTM Mar-24	FY Dec-22	FY Dec-23	LTM Mar-24
Re enue	7,740	7,799	7,892	750	814	834	474	513	517	736	774	781
CFO Pre- C	2,185	2,160	2,270	386	419	427	136	120	123	120	99	87
otal Debt	14,766	15,329	16,335	2,567	2,765	2,820	1,281	1,329	1,337	690	782	831
CFO Pre- C nterest nterest	4.9	4.4	4.5	4.5	4.3	4.3	2.8	2.5	2.5	4.4	3.6	3.2
CFO Pre- C Debt	14.8	14.1	13.9	15.0	15.2	15.1	10.6	9.0	9.2	17.4	12.6	10.4
CFO Pre-W/C – Dividends / Debt	10.3	9.5	9.5	11.1	11.4	11.3	6.8	5.2	5.4	13.2	11.7	10.4
Debt Capitali ation	54.5	54.0	55.2	55.1	55.8	56.0	53.1	52.4	52.3	48.5	49.6	50.9

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 11

Moody's-adjusted cash flow metrics

Hydro One Inc.

(in CAD millions)	2019	2020	2021	2022	2023	LTM Mar-24
FFO	**1,651.0**	**1,799.0**	**1,990.7**	**2,136.7**	**2,090.8**	**2,198.7**
- Ot er	25.0	75.0	48.0	48.0	69.0	71.0
CFO Pre-WC	**1,676.0**	**1,874.0**	**2,038.7**	**2,184.7**	**2,159.8**	**2,269.7**
+/- ΔWC	2.0	84.0	21.0	(54.0)	131.0	132.0
CFO	**1,678.0**	**1,958.0**	**2,059.7**	**2,130.7**	**2,290.8**	**2,401.7**
- Di	760.0	610.0	628.0	662.0	703.0	714.0
- Cape	1,584.0	1,796.0	2,001.7	2,007.7	2,606.8	2,767.7
FCF	**(666.0)**	**(448.0)**	**(570.0)**	**(539.0)**	**(1,019.0)**	**(1,080.0)**
(CFO Pre- C) Debt	12.1	12.0	13.6	14.8	14.1	13.9
(CFO Pre- C - Di idends) Debt	6.6	8.1	9.4	10.3	9.5	9.5
FFO Debt	11.9	11.5	13.3	14.5	13.6	13.5
RCF Debt	6.4	7.6	9.1	10.0	9.1	9.1
Re enue	6,442.0	7,250.0	7,185.0	7,740.0	7,799.0	7,892.0
nterest E pense	521.6	538.6	536.6	559.4	635.2	652.3
Net ncome	814.0	1,674.6	856.7	862.0	898.7	910.7
otal Assets	26,869.0	30,084.0	30,161.0	31,227.0	32,636.0	33,875.0
otal Liabilities	17,293.9	19,318.7	19,039.8	19,680.5	20,707.2	21,821.2
otal E uity	9,575.1	10,765.3	11,121.2	11,546.5	11,928.8	12,053.8

All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months
Source: Moody's Financial Metrics™

Exhibit 12

Moody's-adjusted debt reconciliation

Hydro One Inc.

(in CAD millions)	2019	2020	2021	2022	2023	LTM Mar-24
As reported debt	**12,618.0**	**13,908.0**	**14,241.0**	**14,713.0**	**15,282.0**	**16,278.0**
Pensions	1,125.0	1,660.0	713.0	-	-	-
Operating Leases	74.0	76.0	56.0	53.0	47.0	57.0
Non-Standard Adjustments	31.0	-	-	-	-	-
Moody's – adjusted debt	**13,848.0**	**15,644.0**	**15,010.0**	**14,766.0**	**15,329.0**	**16,335.0**

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Periods are fiscal year-end unless indicated. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 13

Moody's-adjusted EBITDA reconciliation

Hydro One Inc.

(in CAD millions)	2019	2020	2021	2022	2023	LTM Mar-24
As reported EBITDA	**2,228.0**	**2,249.0**	**2,418.0**	**2,687.0**	**2,703.0**	**2,731.0**
Pensions	(104.0)	(69.0)	(46.0)	(161.0)	(192.0)	(192.0)
Operating Leases	9.0	12.0	13.0	10.0	12.0	12.0
Moody's – adjusted EBITDA	**2,133.0**	**2,192.0**	**2,385.0**	**2,536.0**	**2,523.0**	**2,551.0**

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Periods are fiscal year-end unless indicated. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Ratings

Exhibit 14

Category	Moody's Rating
HYDRO ONE INC.	
Outlook	Stable
Senior Unsecured -Dom Curr	A3
Commercial Paper -Dom Curr	P-2

Source: Moody's Ratings

© 2024 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.
CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED OR OTHERWISE MADE AVAILABLE BY MOODY'S (COLLECTIVELY, "MATERIALS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S MATERIALS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S MATERIALS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND MATERIALS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND MATERIALS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND MATERIALS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES OR OTHERWISE MAKES AVAILABLE ITS MATERIALS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.
MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND MATERIALS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR MATERIALS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.
ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. FOR CLARITY, NO INFORMATION CONTAINED HEREIN MAY BE USED TO DEVELOP, IMPROVE, TRAIN OR RETRAIN ANY SOFTWARE PROGRAM OR DATABASE, INCLUDING, BUT NOT LIMITED TO, FOR ANY ARTIFICIAL INTELLIGENCE, MACHINE LEARNING OR NATURAL LANGUAGE PROCESSING SOFTWARE, ALGORITHM, METHODOLOGY AND/OR MODEL.
MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND MATERIALS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.
All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the credit rating process or in preparing its Materials.
To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.
To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.
NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.
Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Charter Documents - Director and Shareholder Affiliation Policy."
Moody's SF Japan K.K., Moody's Local AR Agente de Calificación de Riesgo S.A., Moody's Local BR Agência de Classificação de Risco LTDA, Moody's Local MX S.A. de C.V, I.C.V., Moody's Local PE Clasificadora de Riesgo S.A., and Moody's Local PA Calificadora de Riesgo S.A. (collectively, the "Moody's Non-NRSRO CRAs") are all indirectly wholly-owned credit rating agency subsidiaries of MCO. None of the Moody's Non-NRSRO CRAs is a Nationally Recognized Statistical Rating Organization.
Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.
Additional terms for India only: Moody's credit ratings, Assessments, other opinions and Materials are not intended to be and shall not be relied upon or used by any users located in India in relation to securities listed or proposed to be listed on Indian stock exchanges.
Additional terms with respect to Second Party Opinions (as defined in Moody's Investors Service Rating Symbols and Definitions): Please note that a Second Party Opinion ("SPO") is not a "credit rating". The issuance of SPOs is not a regulated activity in many jurisdictions, including Singapore. JAPAN: In Japan, development and provision of SPOs fall under the category of "Ancillary Businesses", not "Credit Rating Business", and are not subject to the regulations applicable to "Credit Rating Business" under the Financial Instruments and Exchange Act of Japan and its relevant regulation. PRC: Any SPO: (1) does not constitute a PRC Green Bond Assessment as defined under any relevant PRC laws or regulations; (2) cannot be included in any registration statement, offering circular, prospectus or any other documents submitted to the PRC regulatory authorities or otherwise used to satisfy any PRC regulatory disclosure requirement; and (3) cannot be used within the PRC for any regulatory purpose or for any other purpose which is not permitted under relevant PRC laws or regulations. For the purposes of this disclaimer, "PRC" refers to the mainland of the People's Republic of China, excluding Hong Kong, Macau and Taiwan.

REPORT NUMBER 1411349

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

S&P Global
Ratings

Research

Hydro One Inc.

Primary Credit Analyst:
Andrew Ng, Toronto + 1 (416) 507 2545; andrew.ng@spglobal.com

Secondary Contact:
Mayur Deval, Toronto (1) 416-507-3271; mayur.deval@spglobal.com

Table Of Contents

Credit Highlights

Outlook

Our Base-Case Scenario

Company Description

Business Risk

Financial Risk

Liquidity

Environmental, Social, And Governance

Group Influence

Issue Ratings - Subordination Risk Analysis

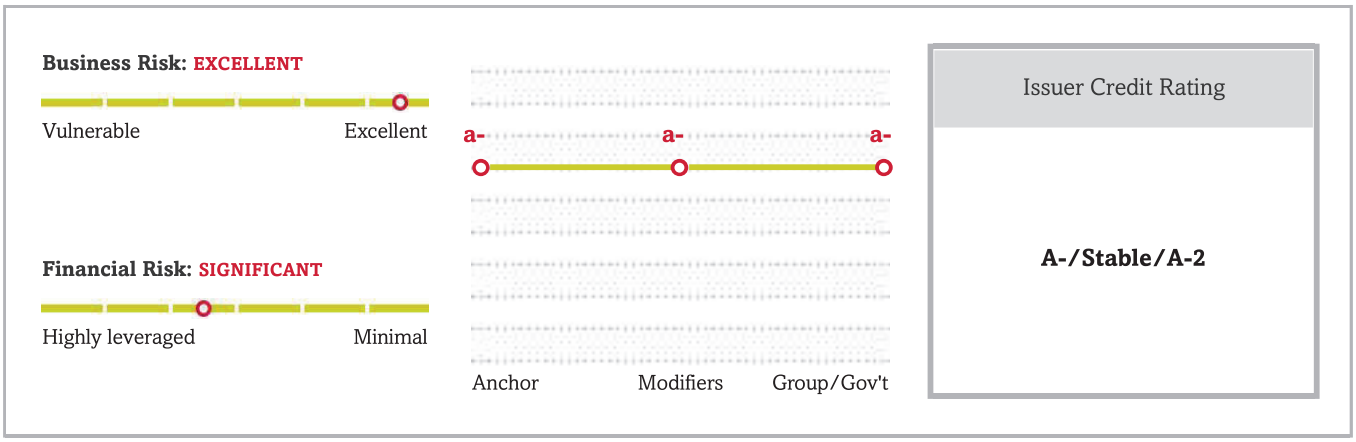
Ratings Score Snapshot

Reconciliation

Related Criteria

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Hydro One Inc.



Credit Highlights

Overview

Key strengths	Key risks
A relatively strong regulatory structure that supports stable cash flows for the low-risk electricity transmission and distribution (T&D) business.	Large capital spending programs to replace aging infrastructure over the next several years will continue to pressure credit metrics.
Although HOI operates only in Ontario, it has a large T&D footprint across Ontario.	Low likelihood of extraordinary government support.
No exposure to commodity cost risk and with minimal non-utility business.	

Hydro One Inc. (HOI) is a fully regulated utility with large footprint across Ontario. HOI is a fully regulated electric transmission and distribution (T&D) utility with minimal non-utility operations. Although the utility operates only in Ontario, it owns 98% of the province's transmission capacity, serves about 1.4 million distribution customers, and covers approximately 75% of the region.

HOI has a large capital-spending plan over the outlook period. HOI continues to have large capital expenditures from 2020 to 2021, averaging about C$1.9 billion per year. This is almost twice its depreciation cost, which will pressure credit metrics and can lead to higher execution risks, including completing its key capital projects on time and within budget.

HOI's operating environment has stabilized but the risk of government intervention still exists. HOI's operating environment has stabilized with the ongoing reform of the Ontario Energy Board (OEB) that promotes transparency, regulatory independence, and efficiency and our view that the government is unlikely to further intervene with Hydro One Ltd. (HOL), the parent of HOI, at this point. However the risk of government intervention still exists given the government still has the authority to exercise legislative power to override HOL's board decisions, as seen in recent past. Overall, we believe the parent's new low-risk business strategy, a stabilized operating environment, and potential improvement to the regulatory construct will result in a gradual improvement in HOL's and HOI's credit profile over time, which supports our use of the positive rating analysis modifier.

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Outlook: Stable

The stable outlook on HOI reflects that of the outlook on its parent utility holding company HOL. We expect HOL will continue to focus on regulated operations in Ontario and we do not expect the utility to expand outside Ontario. During our two-year outlook period, we expect HOL's funds from operations (FFO) to debt to range between 11.5% and 12%.

Downside scenario

We could take a negative rating action on HOI over the next 18-24 months if we downgrade the parent holding company HOL. This could happen if HOL's financial measures deteriorate such that FFO to debt consistently remains below 11% with no prospect for improvement.

Alternatively, we could lower the ratings if HOL decides to pursue growth outside of Ontario or in other business opportunities that have higher business risks or if the Ontario government intervenes further in HOL's business or operating decisions, resulting in additional governance deficiencies that we consider severe.

Upside scenario

Although unlikely, we could raise the ratings on HOL and HOI over the next 18-24 months if the utility improves its financial measures, including FFO to debt consistently above 16%.

Our Base-Case Scenario

Assumptions

- HOL and HOI will continue to focus on regulated electricity transmission and distribution businesses in Ontario.
- HOI will not experience material adverse regulatory decisions from the Ontario Energy Board (OEB), the regulator for the Province of Ontario, and the OEB will continue to operate in a predictable and transparent manner.
- HOI will continue to earn close to its allowed return on equity based on the deemed capital structure.
- Capital expenditures averaging about C$1.9 per year in 2020 and 2021.
- Dividend payments averaging about C$650 million per year in 2020 and 2021.

Key Metrics

	2019e	2020e	2021f
FFO to debt (%)	12	11.5-12	11.5-12
FFO to cash interest (x)	4.7	4.0-4.5	4.0-4.5

a--actual. e--estimate. f--forecast. FFO--Funds from operations. OCF--Operating cash flow.

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

- We did not factor in the pending deferred tax decision in the base case scenario.

Company Description

HOI is the operating subsidiary of HOL, the largest electricity transmission and distribution utility in Ontario. HOI delivers electricity to approximately 1.4 million residential customers, as well as to industrial customers and municipal utilities, in the province. The utility operates through three segments: transmission, distribution, and other business. HOI owns and operates virtually all of Ontario's electricity transmission network, and approximately 123,000 circuit kilometers of primary low-voltage distribution lines.

Business Risk: Excellent

Our assessment of HOI's business risk profile largely reflects its low-risk electricity T&D operations and our view of its management of regulatory risk.

The utility continues to operate under a supportive regulatory regime. The OEB is the provincial regulator and provides a generally transparent, consistent, and independently operated regulatory framework that supports a stable and predictable cash flow model. We view this as a key credit strength. In addition, local distribution companies in Ontario, including HOI, have no obligation to ensure an adequate supply of electricity and are not exposed to the procurement process, including power purchase agreements, which reduces operating risk. Furthermore, HOI has limited exposure to commodity risk because its electric cost is fully passed through to its ratepayers.

Further supporting the business risk profile is HOI's natural monopoly position in its service territories and the asset-intensive nature of the electric T&D operations, both of which limit competitive risk. Additionally, HOI has a large footprint in Ontario (owing 98% of transmission capacity and serves about 1.4 million customers in the distribution segment). We believe the company's customer base supports the overall stability of revenues and greatly limits exposure to any particular customer or customer class. In the transmission business, municipally owned, investment-grade electricity distribution companies collect transmission revenues and forward them to HOI through the Independent Electricity System Operator. The company's distribution business collects revenues from a relatively stable customer base that residential and commercial customers dominate. We view the economy of Ontario, which the transmission business services, as large, wealthy, and well diversified. We do not expect the utility's customer composition to change materially over the next two years.

Peer comparison

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Table 1

Hydro One Inc. -- Peer Comparison

Industry Sector: Electric

	Hydro One Inc.	Toronto Hydro Corp.	CU Inc.	AltaLink L.P.	ITC Holdings Corp.
Ratings as of Feb. 12, 2020	A-/Stable/A-2	A/Stable/--	A-/Stable/A-2	A/Stable/--	A-/Negative/A-2
	--Fiscal year ended Dec. 31, 2018--	--Fiscal year ended Dec. 31, 2018--	--Fiscal year ended Dec. 31, 2018--	--Fiscal year ended Dec. 31, 2018--	--Fiscal year ended Dec. 31, 2018--
(Mil. Mix curr.)	C$	C$	C$	C$	US$
Revenue	6,110.0	3,472.7	2,507.0	1,002.1	1,156.0
EBITDA	2,140.0	530.2	1,351.9	802.7	827.0
Funds from operations (FFO)	1,641.3	408.5	949.3	588.7	607.8
Interest expense	492.7	90.8	391.0	197.5	233.2
Cash interest paid	483.7	79.1	384.6	214.0	232.2
Cash flow from operations	1,533.3	514.2	937.9	494.1	644.8
Capital expenditure	1,478.0	490.6	958.0	338.8	760.0
Free operating cash flow (FOCF)	55.3	23.6	(20.1)	155.3	(115.2)
Discretionary cash flow (DCF)	(487.7)	(70.3)	(360.6)	(63.7)	(315.2)
Cash and short-term investments	492.0	0.0	21.0	4.9	6.0
Debt	13,577.5	2,365.1	8,323.3	5,028.7	5,392.3
Equity	9,512.0	1,833.5	4,512.0	3,383.8	2,051.0
Adjusted ratios					
EBITDA margin (%)	35.0	15.3	53.9	80.1	71.5
Return on capital (%)	5.5	7.0	6.7	6.2	9.2
EBITDA interest coverage (x)	4.3	5.8	3.5	4.1	3.5
FFO cash interest coverage (x)	4.4	6.2	3.5	3.8	3.6
Debt/EBITDA (x)	6.3	4.5	6.2	6.3	6.5
FFO/debt (%)	12.1	17.3	11.4	11.7	11.3
Cash flow from operations/debt (%)	11.3	21.7	11.3	9.8	12.0
FOCF/debt (%)	0.4	1.0	(0.2)	3.1	(2.1)
DCF/debt (%)	(3.6)	(3.0)	(4.3)	(1.3)	(5.8)

Source: S&P Global Ratings and company data.

Financial Risk: Significant

We assess HOI's financial risk profile using the low-volatility financial benchmark table, reflecting the company's lower-risk regulated electric T&D operations and effective management of regulatory risk that is consistent with its

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

peers.

Under our base case scenario, which includes capital spending averaging about C$1.9 billion per year and dividend payments of about C$650 million per year in each of 2020 and 2021, we expect adjusted FFO to debt of about 11.5%-12% during this period. Our base case scenario excludes the potential impact from HOI's appeal of the deferred tax asset decision, which could provide an upside of about C$60 million if the appeal is successful.

Financial summary

Table 2

Hydro One Inc. -- Financial Summary

Industry Sector: Electric

	--Fiscal year ended Dec. 31--				
	2018	2017	2016	2015	2014
(Mil. C$)					
Revenue	6,110.0	5,947.0	6,502.0	6,529.0	6,548.0
EBITDA	2,140.0	2,099.5	2,102.5	1,972.5	2,017.0
Funds from operations (FFO)	1,641.3	1,610.6	1,652.5	1,174.2	1,458.5
Interest expense	492.7	489.9	443.0	429.3	470.5
Cash interest paid	483.7	477.9	420.0	470.3	472.5
Cash flow from operations	1,533.3	1,621.6	1,621.5	(1,304.8)	1,273.5
Capital expenditure	1,478.0	1,480.0	1,601.0	1,480.0	1,432.0
Free operating cash flow (FOCF)	55.3	141.6	20.5	(2,784.8)	(158.5)
Discretionary cash flow (DCF)	(487.7)	(390.4)	(599.5)	(3,677.8)	(436.5)
Cash and short-term investments	492.0	0.0	48.0	89.0	100.0
Gross available cash	492.0	0.0	48.0	89.0	100.0
Debt	13,577.5	13,526.1	12,958.1	12,205.6	11,302.7
Equity	9,512.0	10,102.0	9,941.0	9,825.0	7,785.5
Adjusted ratios					
EBITDA margin (%)	35.0	35.3	32.3	30.2	30.8
Return on capital (%)	5.5	5.5	5.8	6.3	7.4
EBITDA interest coverage (x)	4.3	4.3	4.7	4.6	4.3
FFO cash interest coverage (x)	4.4	4.4	4.9	3.5	4.1
Debt/EBITDA (x)	6.3	6.4	6.2	6.2	5.6
FFO/debt (%)	12.1	11.9	12.8	9.6	12.9
Cash flow from operations/debt (%)	11.3	12.0	12.5	(10.7)	11.3
FOCF/debt (%)	0.4	1.0	0.2	(22.8)	(1.4)
DCF/debt (%)	(3.6)	(2.9)	(4.6)	(30.1)	(3.9)

Source: S&P Global Ratings and company data.

Liquidity: Adequate

Our assessment of HOI's liquidity is adequate. We expect liquidity sources to exceed uses by more than 1.1x over the next 12 months. In the event of a 10% drop in the company's EBITDA, we also expect liquidity sources will cover uses.

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

In our view, HOI has sound relationships with banks and generally satisfactory standing in the credit markets. In the unlikely event of liquidity distress, we expect HOI to scale back its capital spending to preserve liquidity.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash balance of C$7 million as of Dec. 31, 2019. • Committed credit facilities availability of about C$2.3 billion as of Dec. 31, 2019; and • Cash FFO of about C$1.6 billion	• Debt maturities of about C$1.8 billion including current portion of long-term and short-term debt; • Maintenance capital spending of about C$1.2 billion; and • Dividend payments of about C$640 million.

Debt maturities

- 2020: $653 million
- 2021: $803 million
- 2022: $604 million
- 2023: $131 million
- 2024: $700 million

Environmental, Social, And Governance

Although we do not expect the government to further intervene with HOL and HOI, we believe their credit quality is more negatively influenced by its ownership and governance structure than peers, resulting in our assessment of their management and governance as fair only. Specifically, HOL is partly owned by the government of Ontario and the government could potentially exercise legislative power to promote its own interests and priorities above those of other stakeholders, as we have seen in recent past. The Ontario government in 2018 passed an amendment to the Ontario Energy Board Act to exclude any compensation paid to HOL's CEO and other senior executives from consumer rates. We view this legislative action as a governance deficiency related to HOL's ownership structure since the Ontario Province exercised its legislative authority to lower electricity rates, consistent with the government's election campaign promises. In our view, the use of this legislative authority to influence HOL's compensation structure for executives undermines the effectiveness of the company's governance structure, and potentially promotes the interests and priorities of the Ontario government above those of other stakeholders.

We also note that these events followed the 2018 resignation of HOL's entire previous board of directors. Additional interferences in HOL's business or operating decisions could weaken the company's governance, reflecting severe deficiencies. From a social perspective, HOL has a history of providing affordable, safe, and reliable electric utility service to its customers, consistent with the broader industry.

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Group Influence

We continue to view HOI as a core entity to the HOL group because HOI generates virtually all of the group's cash flow. In addition, we do not expect HOL to divest HOI in the foreseeable future. Furthermore, both HOL and HOI share the same name, reputation, operations, and management team. As a result, we have equalized our ratings on HOI with the 'a-' group credit profile of HOL, leading to the final 'A-' rating.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of Dec. 31, 2019, HOI's capital structure consists of about C$11.5 billion of senior unsecured long-term debt and C$1.1 billion in commercial paper.

Analytical conclusions

We rate the senior unsecured debt 'A-', the same as the issuer credit rating on HOI, because the debt is issued by a qualifying investment-grade utility. We also rate HOI's CP program at 'A-2' on the global or 'A-1 (Low)' on the Canadian National Scale based on HOI's 'A-' issuer credit rating.

Ratings Score Snapshot

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-

Modifiers

- **Diversification/portfolio effect:** Neutral
- **Capital structure:** Neutral
- **Financial policy:** Neutral
- **Liquidity:** Adequate
- **Management and governance:** Fair (-1 notch)
- **Comparable rating analysis:** Positive (+1 notch)

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Stand-alone credit profile : a-

- **Group credit profile:** a-
- **Entity status within group:** Core (no impact)

Reconciliation

Table 3

Reconciliation Of Hydro One Inc. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. C$)

	--Fiscal year ended Dec. 31, 2018--								
Hydro One Inc. reported amounts									
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**CFFO**	**Dividends**	**Capex**
	11,961.0	9,928.0	2,156.0	1,326.0	408.0	2,140.0	1,604.0	23.0	1,531.0
S&P Global Ratings' adjustments									
Cash taxes paid	--	--	--	--	--	(15.0)	--	--	--
Cash taxes paid: Other	--	--	--	--	--	--	--	--	--
Cash interest paid	--	--	--	--	--	(405.0)	--	--	--
Operating leases	21.0	--	8.0	1.7	1.7	(1.7)	6.3	--	--
Debt-like hybrids	486.0	(486.0)	--	--	24.0	(24.0)	(24.0)	(24.0)	--
Postretirement benefit obligations/deferred compensation	1,472.9	--	(30.0)	(30.0)	--	--	--	--	--
Accessible cash and liquid investments	(492.0)	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	53.0	(53.0)	(53.0)	--	(53.0)
Asset retirement obligations	128.6	--	6.0	6.0	6.0	--	--	--	--
Nonoperating income (expense)	--	--	--	(10.0)	--	--	--	--	--
Noncontrolling interest/minority interest	--	70.0	--	--	--	--	--	--	--
Total adjustments	1,616.5	(416.0)	(16.0)	(32.3)	84.7	(498.7)	(70.7)	(24.0)	(53.0)
S&P Global Ratings' adjusted amounts									
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**FFO**	**CFFO**	**Dividends paid**	**Capex**
	13,577.5	9,512.0	2,140.0	1,293.7	492.7	1,641.3	1,533.3	(1.0)	1,478.0

Capital expenditures--Capex. CFFO--Cash flow from operations. FFO--Funds from operations. Source: S&P Global Ratings and company data.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

- 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
- Criteria | Corporates | General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, 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, 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 February 24, 2020)*

Hydro One 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	
08-Nov-2019	A-/Stable/A-2
10-Dec-2018	A-/Negative/A-2
13-Sep-2018	A-/Watch Neg/A-2
15-Jun-2018	A/Watch Neg/A-1
19-Jul-2017	A/Negative/A-1
20-Apr-2015	A/Stable/A-1

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Ratings Detail (As Of February 24, 2020)*(cont.)

Related Entities	
Hydro One Limited	
Issuer Credit Rating	A-/Stable/--
Ontario Power Generation Inc.	
Issuer Credit Rating	BBB+/Negative/--
Commercial Paper	
Canada National Scale Commercial Paper	A-1(LOW)
Senior Unsecured	BBB+
Ontario (Province of)	
Issuer Credit Rating	A+/Stable/A-1
Commercial Paper	
Foreign Currency	A-1
Senior Unsecured	A+
UMH Energy Partnership	
Senior Secured	BBB+/Negative

*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.

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Copyright © 2024 Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

S&P Global
Ratings

Research

Hydro One Inc.

Primary Credit Analyst:
Mayur Deval, Toronto (1) 416-507-3271; mayur.deval@spglobal.com

Secondary Contact:
Andrew Ng, Toronto + 1 (416) 507 2545; andrew.ng@spglobal.com

Research Contributor:
Jesal Gandhi, CRISIL Global Analytical Center, an S&P Global Ratings affiliate, Mumbai

Table Of Contents

Credit Highlights

Outlook

Our Base-Case Scenario

Company Description

Peer Comparison

Business Risk

Financial Risk

Liquidity

Environmental, Social, And Governance

Group Influence

Issue Ratings - Subordination Risk Analysis

Ratings Score Snapshot

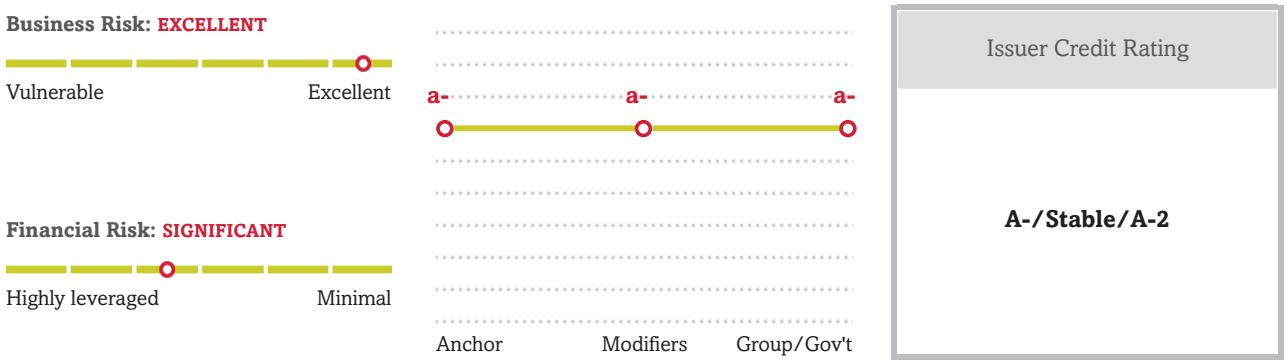
© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Table Of Contents (cont.)

Related Criteria

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Hydro One Inc.



Credit Highlights

Overview

Key strengths	Key risks
A relatively strong regulatory structure that supports stable cash flows for the low-risk electricity transmission and distribution (T&D) business	Elevated capital spending to replace aging infrastructure over the next several years could lead to weaker financial measures.
Company operates in Ontario only but has a large footprint across the province.	Low likelihood of extraordinary government support.
No exposure to commodity costs.	

The Ontario Energy Board (OEB) established deferral accounts to record costs and losses arising from the COVID-19 pandemic. The OEB, Ontario's regulator, acknowledged that utility distributors, including those of Hydro One Inc. (HOI), may incur incremental costs related to the ongoing COVID-19 pandemic. As a result, the OEB established deferral accounts for utilities to track incremental costs and lost revenues related to the COVID-19 pandemic. This provides HOI the authority to recover potential lost revenue, incremental expenses, or costs relating to bad debt expenses subject to OEB approval. We expect rate recovery of deferred costs will partly mitigate lost revenues and cash flow volatility due to the pandemic.

HOI is a fully regulated utility with a large footprint across Ontario. HOI is a fully regulated electric transmission and distribution (T&D) intermediate holding company of utilities. Although the utility operates only in Ontario, it owns 98% of the province's transmission capacity, serves about 1.4 million distribution customers through its distribution operations , and covers approximately 75% of the region.

HOI has an elevated capital-spending plan over the outlook period. HOI continues its elevated capital spending through 2023, averaging about C$2 billion per year. This is a little more than twice the company's annual depreciation expense, which will pressure credit metrics and can lead to higher execution risks such as completing key projects on time and within budget.

HOI's operating environment has stabilized but the risk of government intervention still exists. HOI's operating environment has stabilized with the ongoing reform of the OEB that promotes transparency, regulatory independence, and efficiency. With these reforms, we believe that the government currently is unlikely to intervene again with Hydro One Ltd. (HOL), the parent of HOI. However, the risk of government intervention still exists given the government still has the authority to exercise legislative power to override HOL's board decisions. Over the past few years, we have

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

witnessed improved governance with no political intervention.

Outlook: Stable

The stable outlook on HOI reflects that of the outlook on parent company HOL. We expect HOL will continue to focus on regulated operations in Ontario and we do not expect the utility to expand outside of Ontario. During our two-year outlook period, we expect HOL's funds from operations (FFO) to debt to range between 10.7%-11.7%.

Downside scenario

We could take a negative rating action on HOI over the next 18 to 24 months if we downgrade the parent holding company HOL. This could happen if HOL's financial measures deteriorate such that FFO to debt consistently remains below 11% with no prospect for improvement.

Alternatively, we could lower the ratings if HOL decides to pursue growth outside of Ontario or in other business opportunities that have higher business risks or if the Ontario government intervenes further in HOL's business or operating decisions, resulting in additional governance deficiencies that we consider severe.

Upside scenario

Although unlikely, we could raise the ratings on HOL and HOI over the next 18 to 24 months if the utility improves its financial measures, including FFO to debt consistently above 16%.

Our Base-Case Scenario

Assumptions

- HOL and HOI will continue to focus on regulated electricity T&D businesses in Ontario.
- HOI will not experience material adverse regulatory decisions from the OEB which will continue to operate in a predictable and transparent manner.
- HOI will continue to earn close to its allowed return on equity based on the authorized capital structure.
- Capital expenditures averaging about C$2 billion per year from 2021-2023.
- Dividend payments averaging about C$690 million per year from 2021-2023.
- We did not factor in the pending deferred tax decision in the base case scenario.

Key Metrics

Hydro One Inc.--Key Metrics

	2021f	2022f	2023f
FFO to debt (%)	11.2-11.6	11.5-11.9	11.7-12.1
FFO to cash interest (x)	3.9-4.3	3.9-4.3	3.9-4.3

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Hydro One Inc.--Key Metrics (cont.)

	2021f	2022f	2023f
Debt to EBITDA (x)	6.2-6.8	6.1-6.7	6-6.6

f--forcast. FFO--Funds from operations.

Company Description

HOI is an intermediate holding company of HOL, and owns operating electricity transmission and distribution utilities in Ontario. HOI, through its operating subsidiary Hydro One Networks Inc., owns and operates virtually all of Ontario's electricity transmission network, and approximately 124,000 circuit kilometers of primary low-voltage distribution lines. HOI's utilities deliver electricity to approximately 1.4 million residential customers, as well as to industrial customers and municipal utilities, in the province.

Peer Comparison

Table 1

Hydro One Inc.--Peer Comparison

Industry Sector: Electric

	Hydro One Inc.	Toronto Hydro Corp.	CU Inc.	AltaLink L.P.	ITC Holdings Corp.
Ratings as of March 5, 2021	A-/Stable/A-2	A/Stable/--	A-/Stable/A-2	A/Stable/--	A-/Negative/A-2
	--Fiscal year ended Dec. 31, 2019--				
(Mil. Mix curr.)	C$	C$	C$	C$	$
Revenue	6,442.0	3,673.3	2,787.0	932.2	1,327.0
EBITDA	2,316.0	584.8	1,557.0	721.9	999.0
Funds from operations (FFO)	1,807.0	461.8	1,178.5	527.4	765.8
Interest expense	503.0	96.6	389.7	194.2	232.2
Cash interest paid	488.0	85.7	384.5	194.5	236.2
Cash flow from operations	1,678.0	507.7	1,155.5	698.0	621.8
Capital expenditure	1,577.0	568.1	936.0	315.6	857.0
Free operating cash flow (FOCF)	101.0	(60.4)	219.5	382.4	(235.2)
Discretionary cash flow (DCF)	(1,145.0)	(160.8)	(171)	92.0	(485.2)
Cash and short-term investments	7.0	0.0	71.0	1.3	7.0
Debt	14,920.1	2,567.3	8,371.4	4,927.6	5,862.5
Equity	9,723.0	1,887.5	4,853.0	3,350.9	2,232.0
Adjusted ratios					
EBITDA margin (%)	36.0	15.9	55.9	77.4	75.3
Return on capital (%)	6.0	7.7	8.3	5.4	10.1
EBITDA interest coverage (x)	4.6	6.1	4.0	3.7	4.3
FFO cash interest coverage (x)	4.7	6.4	4.1	3.7	4.2
Debt/EBITDA (x)	6.4	4.4	5.4	6.8	5.9
FFO/debt (%)	12.1	18.0	14.1	10.7	13.1

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Table 1

Hydro One Inc.--Peer Comparison (cont.)

Industry Sector: Electric

	Hydro One Inc.	Toronto Hydro Corp.	CU Inc.	AltaLink L.P.	ITC Holdings Corp.
Cash flow from operations/debt (%)	11.2	19.8	13.8	14.2	10.6
FOCF/debt (%)	0.7	(2.4)	2.6	7.8	(4.0)
DCF/debt (%)	(7.7)	(6.3)	(2.0)	1.9	(8.3)

Source: S&P Global Ratings and company data.

Business Risk: Excellent

Our assessment of HOI's business risk profile largely reflects its low-risk electricity T&D operations and our view of its management of regulatory risk.

The utility continues to operate under a supportive regulatory environment. The OEB is the provincial regulator and provides a generally transparent, consistent, and independently operated regulatory framework that supports a stable and predictable cash flow model. We view this as a key credit strength. In addition, local distribution companies in Ontario, including HOI, do not have power procurement obligations, reducing operating risk. Furthermore, HOI has limited exposure to commodity risk since the Independent Electricity System Operator (IESO) procures power and distribution companies (acting as billing agents) collect these costs from ratepayers.

Further supporting the business risk profile is HOI's monopoly position in its service territories and the asset-intensive nature of its electric T&D operations, both of which limit risk from competition. Additionally, HOI has a large footprint in Ontario (owning 98% of transmission capacity and serves about 1.4 million customers through its distribution utilities). We believe the company's customer base supports the overall stability of revenues and greatly limits exposure to any particular customer segment. In the transmission business, municipally owned investment-grade electricity local distribution companies collect transmission revenues and forward them to HOI through the IESO. The company's distribution business collects revenues from a relatively stable base of residential and commercial customers. We view the economy of Ontario, which the transmission business services, as large, wealthy, and well diversified. We do not expect the utility's customer composition to change materially over the next two years.

Financial Risk: Significant

Under our base-case scenario, which includes capital spending averaging about C$2 billion per year and dividend payments averaging about C$690 million per year from 2021-2023, we expect HOI's adjusted FFO to debt of about 11.3%-12% during this period. Our base-case scenario excludes the potential impact from the Ontario Divisional Court's (ODC) order on the deferred tax asset decision. The ODC has ordered HOI to submit its proposal for the recovery of the deferred tax asset. Once implemented, this has a potential upside to the HOI's cash flows. We expect HOI's discretionary cash flow will remain negative and will require external funding, including debt. We also anticipate minimal EBITDA growth and adjusted debt to EBITDA to be elevated and above 6x over the next few years.

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

We base our assessment on our low-volatility financial benchmarks, which are the most relaxed when compared to those used for a typical corporate issuer. This reflects the company's focus on low-risk, regulated electric T&D operations and strong management of regulatory risk.

Financial summary

Table 2

Hydro One Inc. -- Financial Summary

Industry Sector: Electric

	--Fiscal year ended Dec. 31--				
	2019	2018	2017	2016	2015
(Mil. C$)					
Revenue	6,442.0	6,110.0	5,947.0	6,502.0	6,529.0
EBITDA	2,316.0	2,140.0	2,099.5	2,102.5	1,972.5
Funds from operations (FFO)	1,807.0	1,641.3	1,610.6	1,652.5	1,174.2
Interest expense	503.0	492.7	489.9	443.0	429.3
Cash interest paid	488.0	483.7	477.9	420.0	470.3
Cash flow from operations	1,678.0	1,533.3	1,621.6	1,621.5	(1,304.8)
Capital expenditure	1,577.0	1,478.0	1,480.0	1,601.0	1,480.0
Free operating cash flow (FOCF)	101.0	55.3	141.6	20.5	(2,784.8)
Discretionary cash flow (DCF)	(1,145.0)	(487.7)	(390.4)	(599.5)	(3,677.8)
Cash and short-term investments	7.0	492.0	0.0	48.0	89.0
Gross available cash	7.0	492.0	0.0	48.0	89.0
Debt	14,920.1	13,577.5	13,526.1	12,958.1	12,205.6
Equity	9,723.0	9,512.0	10,102.0	9,941.0	9,825.0
Adjusted ratios					
EBITDA margin (%)	36.0	35.0	35.3	32.3	30.2
Return on capital (%)	6.0	5.5	5.5	5.8	6.3
EBITDA interest coverage (x)	4.6	4.3	4.3	4.7	4.6
FFO cash interest coverage (x)	4.7	4.4	4.4	4.9	3.5
Debt/EBITDA (x)	6.4	6.3	6.4	6.2	6.2
FFO/debt (%)	12.1	12.1	11.9	12.8	9.6
Cash flow from operations/debt (%)	11.2	11.3	12.0	12.5	(10.7)
FOCF/debt (%)	0.7	0.4	1.0	0.2	(22.8)
DCF/debt (%)	(7.7)	(3.6)	(2.9)	(4.6)	(30.1)

N.M.--Not meaningful

Reconciliation

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Table 3

Hydro One Inc.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts

	--Fiscal year ended Dec. 31, 2019--							
Hydro One Inc. reported amounts (mil. C$)								
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Capital expenditure**
	12,618.0	9,644.0	2,340.0	1,469.0	449.0	2,316.0	1,719.0	1,625.0
S&P Global Ratings' adjustments								
Cash taxes paid	--	--	--	--	--	(21.0)	--	--
Cash interest paid	--	--	--	--	--	(438.0)	--	--
Reported lease liabilities	74.0	--	--	--	--	--	--	--
Operating leases	--	--	9.0	2.0	2.0	(2.0)	7.0	--
Postretirement benefit obligations/deferred compensation	2,124.2	--	(37.0)	(37.0)	--	--	--	--
Accessible cash and liquid investments	(7.0)	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	48.0	(48.0)	(48.0)	(48.0)
Asset-retirement obligations	111.0	--	4.0	4.0	4.0	--	--	--
Nonoperating income (expense)	--	--	--	(11.0)	--	--	--	--
Noncontrolling interest/minority interest	--	79.0	--	--	--	--	--	--
Total adjustments	2,302.1	79.0	(24.0)	(42.0)	54.0	(509.0)	(41.0)	(48.0)
S&P Global Ratings' adjusted amounts								
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Capital expenditure**
	14,920.1	9,723.0	2,316.0	1,427.0	503.0	1,807.0	1,678.0	1,577.0

Source: S&P Global Ratings and company data.

Liquidity: Adequate

We assess HOI's stand-alone liquidity as adequate because we believe its 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. We believe HOI has sound banking relationships, the ability to absorb high-impact, low-probability events without refinancing, and a satisfactory standing in the credit markets. Update latest

Principal liquidity sources

- Estimated cash balance of about C$712 million;
- Credit facilities availability of about C$2.3 billion; and
- Estimated cash FFO of about C$1.9 billion.

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Principal liquidity uses

- Debt maturities of about C$1.6 billion;
- Capital spending of about C$1.9 billion; and
- Dividends of about C$655 million.

Debt maturities

- 2021: $803 million
- 2022: $604 million
- 2023: $731 million
- 2024: $700 million
- 2025: 750 million

Environmental, Social, And Governance

Although we do not expect the Ontario government to further intervene with parent HOL and HOI, we believe their credit quality is more negatively influenced by its ownership and governance structure than peers, resulting in our assessment of their management and governance as fair only. Specifically, HOL is partly owned by the government of Ontario and the government could potentially exercise legislative power to promote its own interests and priorities above those of other stakeholders, as we have seen in the past. In 2018, the Ontario government passed an amendment to the Ontario Energy Board Act to exclude any compensation paid to HOL's CEO and other senior executives from consumer rates. We view this legislative action as a governance deficiency related to HOL's ownership structure since the Ontario government exercised its legislative authority to lower electricity rates, consistent with the government's election campaign promises. In our view, the use of this legislative authority to influence HOL's compensation structure for executives undermines the effectiveness of the company's governance structure, and potentially promotes the interests and priorities of the Ontario government above those of other stakeholders.

HOI's environmental and social risk is not materially different from that of regulated electric utility network peers.

Group Influence

Under our group rating methodology, we consider HOI a core subsidiary of HOL, reflecting our view that HOI is highly unlikely to be sold, is integral to the group's overall strategy, possesses a strong long-term commitment from senior management, and is closely linked to the parent's name and reputation. We assess the issuer credit rating for HOI to be in line with the group credit profile of 'a-'.

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Issue Ratings - Subordination Risk Analysis

- Our 'A-2' short-term rating on HOI is based on our long-term issuer credit rating.
- We also rate HOI's CP program at 'A-2' on the global scale or 'A-1 (Low)' on the Canadian National Scale based on our long-term issuer credit rating of HOI.

Capital structure

- HOI's capital structure includes roughly C$13.1 billion of debt including about C$13 billion of senior unsecured debt.

Analytical conclusions

- We rate HOI's senior unsecured debt at the same level as our long-term issuer credit rating because priority debt does not exceed 50% of the company's consolidated debt, after which point HOI's debt could be considered structurally subordinated.

Ratings Score Snapshot

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-

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Fair (-1 notch)
- **Comparable rating analysis:** Positive (+1 notch)

Stand-alone credit profile : a-

- **Group credit profile:** a-
- **Entity status within group:** Core (no impact)

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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
- Criteria | Corporates | General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, 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 March 11, 2021)*

Hydro One 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	
08-Nov-2019	A-/Stable/A-2

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Ratings Detail (As Of March 11, 2021)*(cont.)	
10-Dec-2018	A-/Negative/A-2
13-Sep-2018	A-/Watch Neg/A-2
15-Jun-2018	A/Watch Neg/A-1
19-Jul-2017	A/Negative/A-1

*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.

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

S&P Global
Ratings

Research

Hydro One Inc.

Primary Credit Analyst:
Mayur Deval, Toronto (1) 416-507-3271; mayur.deval@spglobal.com

Secondary Contact:
Matthew L O'Neill, New York + 1 (212) 438 4295; matthew.oneill@spglobal.com

Table Of Contents

Credit Highlights

Outlook

Our Base-Case Scenario

Company Description

Peer Comparison

Business Risk

Financial Risk

Liquidity

Environmental, Social, And Governance

Group Influence

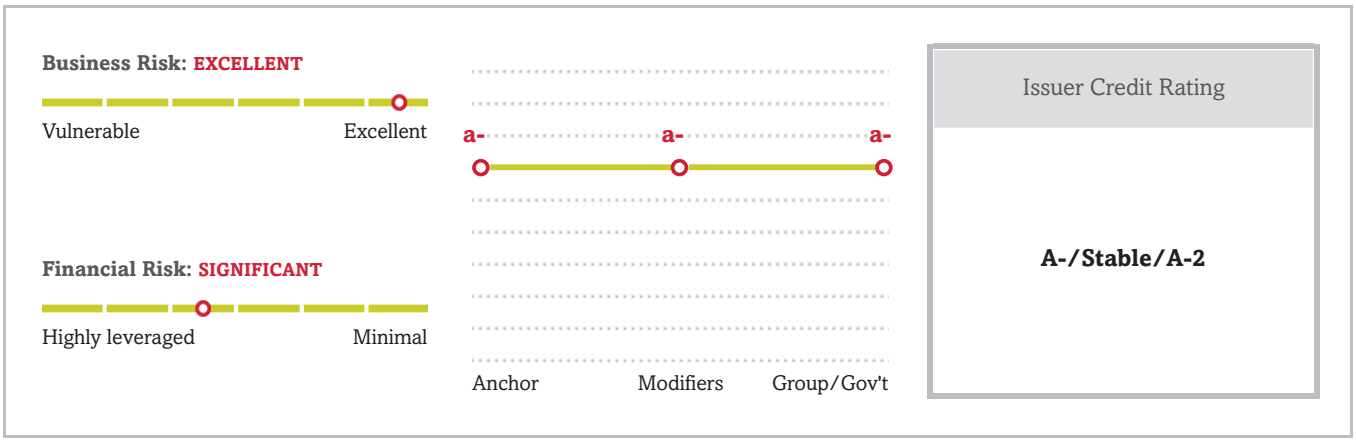
Issue Ratings - Subordination Risk Analysis

Ratings Score Snapshot

Related Criteria

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Hydro One Inc.



Credit Highlights

Overview

Key strengths	Key risks
A relatively strong regulatory structure that supports stable cash flows.	Elevated capital spending to replace aging infrastructure over the next several years could lead to weaker financial measures.
Low-risk electricity transmission and distribution business.	Low likelihood of extraordinary government support.
Only operates in Ontario but has a large footprint across the province.	

Hydro One Inc. (HOI), is a fully regulated utility intermediate holding company with a large footprint across Ontario. HOI is a fully regulated electric transmission and distribution (T&D) utility with minimal non-utility operations. Although the company only operates in Ontario, it owns 98% of the province's transmission capacity and serves about 1.5 million distribution customers.

Ongoing 2023-2027 Joint Rate Application (JRAP). In August 2021 HOI filed its first-ever T&D JRAP under a Custom Incentive Rate-Setting framework, for five-year forecasted period (2023-2027). The JRAP filing is to address investment needs at HOI to improve reliability and accommodate growth of its T&D infrastructure, as the company identified about C$13 billion of capital expenditures over the forecasted period. HOI has submitted updated evidence to incorporate elevated business and services costs due to higher-than-expected inflationary macro environment. We continue to monitor the regulatory proceedings and expect a settlement early 2023.

Favorable deferred tax asset decision should improve financial measures. In April 2021, the Ontario Energy Board (OEB) approved the recovery of misallocated tax savings. The company will recover about C$265 million over the 2021-2023 period with the remaining balance thereafter.

HOI has a large capital-spending plan over our outlook period. We expect HOI's aggressive capital spending through 2024 at about C$2.3 billion per year on average will pressure HOI's financial measures. In addition, the elevated capital spending will increase its execution risks related to completing key projects on time and on budget.

HOI's operating environment has stabilized but the risk of government intervention remains. HOI's operating environment has stabilized amid the ongoing reform of the OEB, which is promoting transparency, regulatory independence, and efficiency. With these reforms, we believe that the government is unlikely to intervene with Hydro

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

One Ltd. (HOL) again at this time. However, the risk of government intervention still exists given that the government has the authority to exercise its legislative power to override the decisions of HOL's board. Overall, we believe the company's focused business strategy, stabilized operating environment, and regulatory construct will lead it to gradually improve its credit profile, which supports our positive one-notch comparable rating analysis modifier.

Outlook: Stable

The stable outlook on HOI reflects that of the outlook on parent company HOL. We expect HOL will continue to focus on regulated operations in Ontario and we do not expect the utility to expand outside of Ontario. During our two-year outlook period, we expect HOL's funds from operations (FFO) to debt to range between 11%-14%.

Downside scenario

We could take a negative rating action on HOI over the next 18 to 24 months if we downgrade the parent holding company HOL. This could happen if HOL's financial measures deteriorate such that FFO to debt consistently remains below 11% with no prospect for improvement.

Alternatively, we could lower the ratings if HOL decides to pursue growth outside of Ontario or in other business opportunities that have higher business risks or if the Ontario government intervenes further in HOL's business or operating decisions, resulting in additional governance deficiencies that we consider severe.

Upside scenario

Although unlikely, we could raise the ratings on HOL and HOI over the next 18 to 24 months if the utility improves its financial measures, including FFO to debt consistently above 16%.

Our Base-Case Scenario

Assumptions

- HOL and HOI will continue to focus on regulated electricity T&D businesses in Ontario.
- HOI will not experience material adverse regulatory decisions from the OEB.
- HOI will continue to earn close to its allowed return on equity based on the authorized capital structure.
- Capital expenditures averaging about C$2.3 billion per year for 2022-2024.
- Dividend payments averaging about C$690 million per year from 2022-2024.

Key metrics

Hydro One Inc.--Key Metrics*

	2021a	2022f	2023f
FFO to debt (%)	12.7	13.8-14.8	12.1-13.1
FFO to cash interest (x)	5	5.0-5.5	4.7-5.2

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Hydro One Inc.--Key Metrics* (cont.)

	2021a	2022f	2023f
Debt to EBITDA (x)	6.2	5.3-5.8	6-6.5

*S&P Global Ratings -adjusted. a--actual. f--forcast. FFO--Funds from operations.

Company Description

HOI is an intermediate holding company of HOL, and owns operating electricity transmission and distribution utilities in Ontario. HOI, through its operating subsidiary Hydro One Networks Inc., owns and operates virtually all of Ontario's electricity transmission network, and approximately 125,000 circuit kilometers of primary low-voltage distribution lines. HOI's utilities deliver electricity to approximately 1.5 million residential customers, as well as to industrial customers and municipal utilities, in the province.

Peer Comparison

Table 1

Hydro One Inc. -- Peer Comparison

Industry Sector: Electric

	Hydro One Inc.	Toronto Hydro Corp.	CU Inc.	AltaLink L.P.	ITC Holdings Corp.
Ratings as of April 14, 2022	A-/Stable/A-2	A/Stable/--	A-/Stable/A-2	A/Stable/--	A-/Stable/A-2
	--Fiscal year ended Dec. 31, 2021--				
(Mil. Mix curr.)	C$	C$	C$	C$	$
Revenue	7,185.0	3,567.1	2,823.0	989.8	1,349.0
EBITDA	2,539.0	468.9	1,428.0	786.4	1,024.0
Funds from operations (FFO)	2,010.5	384.4	1,044.5	599.3	779.0
Interest expense	514.5	92.7	382.3	188.6	259.0
Cash interest paid	508.5	84.5	368.5	187.1	245.0
Cash flow from operations	2,052.5	498.8	1,010.5	274.1	777.0
Capital expenditure	1,990.0	598.7	994.0	253.8	826.0
Free operating cash flow (FOCF)	62.5	(99.9)	16.5	20.3	(49)
Discretionary cash flow (DCF)	(565.5)	(170.2)	(438)	(75.0)	(281)
Cash and short-term investments	499.0	0.0	121.0	6.6	5.0
Debt	15,778.8	2,941.3	8,771.0	4,913.1	6,686.4
Equity	11,260.0	1,982.7	4,800.5	3,630.7	2,474.0
Adjusted ratios					
EBITDA margin (%)	35.3	13.1	50.6	79.5	75.9
Return on capital (%)	6.1	3.7	6.6	6.0	8.7
EBITDA interest coverage (x)	4.9	5.1	3.7	4.2	4.0
FFO cash interest coverage (x)	5.0	5.5	3.8	4.2	4.2
Debt/EBITDA (x)	6.2	6.3	6.1	6.2	6.5
FFO/debt (%)	12.7	13.1	11.9	12.2	11.7

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Table 1

Hydro One Inc. -- Peer Comparison (cont.)					
Cash flow from operations/debt (%)	13.0	17.0	11.5	5.6	11.6
FOCF/debt (%)	0.4	(3.4)	0.2	0.4	(0.7)
DCF/debt (%)	(3.6)	(5.8)	(5.0)	(1.5)	(4.2)

Source: S&P Global Ratings.

Business Risk: Excellent

We base our assessment of HOI's business risk on its low-risk regulated utility operations that provide essential services in Ontario. Furthermore, given material barriers to entry, HOI, and the regulated utility industry, effectively operates insulated from competitive market challenges. HOI's business risk is bolstered by its large footprint in Ontario with almost all of the province's transmission and a large customer base of about 1.5 million electric distribution customers.

The utility continues to operate under a supportive regulatory environment. The OEB is the provincial regulator and provides a generally transparent, consistent, and independently operated regulatory framework that supports a stable and predictable cash flow model. We view this as a key credit strength. In addition, local distribution companies in Ontario, including HOI, do not have power procurement obligations, reducing operating risk. Furthermore, HOI has limited exposure to commodity risk since the Independent Electricity System Operator (IESO) procures power and distribution companies (acting as billing agents) collect these costs from ratepayers.

Financial Risk: Significant

Under our base-case scenario, we expect capital spending averaging about C$2.3 billion per year and dividends of about C$690 million per year for the 2022-2024. We also expect HOI's core financial measures including adjusted FFO to debt of about 14%-15% range for 2022 from expected full-year recovery of misallocated tax savings, but it should revert back to the 11%-13% FFO to debt range thereafter. Over the same period, our supplemental ratio of adjusted FFO cash interest coverage will be about 4x-5x, bolstering our financial risk profile assessment. We expect HOI's discretionary cash flow to remain negative due to HOI's elevated capital spending, indicating external funding needs that we believe will include debt issuances. Leverage is high as indicated by adjusted debt to EBITDA in the 5.5x-6.5x range over the next few years.

We base our assessment on our low-volatility financial benchmarks, which are more relaxed than those we use for typical corporate issuers. This reflects the company's focus on its low-risk, regulated electric T&D operations and strong management of regulatory risk.

Financial summary

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Table 2

Hydro One Inc. -- Financial Summary

Industry Sector: Electric

	--Fiscal year ended Dec. 31--				
	2021	2020	2019	2018	2017
(Mil. C$)					
Revenue	7,185.0	7,250.0	6,442.0	6,110.0	5,947.0
EBITDA	2,539.0	2,377.0	2,316.0	2,140.0	2,099.5
Funds from operations (FFO)	2,010.5	1,837.1	1,807.0	1,641.3	1,610.6
Interest expense	514.5	515.0	503.0	492.7	489.9
Cash interest paid	508.5	507.0	488.0	483.7	477.9
Cash flow from operations	2,052.5	1,946.1	1,678.0	1,533.3	1,621.6
Capital expenditure	1,990.0	1,786.0	1,577.0	1,478.0	1,480.0
Free operating cash flow (FOCF)	62.5	160.1	101.0	55.3	141.6
Discretionary cash flow (DCF)	(565.5)	(450.0)	(1,145.0)	(487.7)	(390.4)
Cash and short-term investments	499.0	712.0	7.0	492.0	0.0
Gross available cash	499.0	712.0	7.0	492.0	0.0
Debt	15,778.8	15,952.5	14,920.1	13,577.5	13,526.1
Equity	11,260.0	10,898.0	9,723.0	9,512.0	10,102.0
Adjusted ratios					
EBITDA margin (%)	35.3	32.8	36.0	35.0	35.3
Return on capital (%)	6.1	5.8	6.0	5.5	5.5
EBITDA interest coverage (x)	4.9	4.6	4.6	4.3	4.3
FFO cash interest coverage (x)	5.0	4.6	4.7	4.4	4.4
Debt/EBITDA (x)	6.2	6.7	6.4	6.3	6.4
FFO/debt (%)	12.7	11.5	12.1	12.1	11.9
Cash flow from operations/debt (%)	13.0	12.2	11.2	11.3	12.0
FOCF/debt (%)	0.4	1.0	0.7	0.4	1.0
DCF/debt (%)	(3.6)	(2.8)	(7.7)	(3.6)	(2.9)

Source: S&P Global Ratings.

Reconciliation

Table 3

Hydro One Inc.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts

	--Fiscal year ended Dec. 31, 2021--							
Hydro One Inc. reported amounts (mil. C$)								
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Capital expenditure**
	14,241.0	11,172.0	2,525.0	1,612.0	452.0	2,539.0	2,108.0	2,050.0
S&P Global Ratings' adjustments								
Cash taxes paid	--	--	--	--	--	(20.0)	--	--
Cash interest paid	--	--	--	--	--	(447.0)	--	--

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Table 3

Hydro One Inc.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (cont.)

Reported lease liabilities	56.0	--	--	--	--	--	--	--
Operating leases	--	--	13.0	1.5	1.5	(1.5)	11.5	--
Postretirement benefit obligations/deferred compensation	1,880.9	--	--	--	--	--	--	--
Accessible cash and liquid investments	(499.0)	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	60.0	(60.0)	(60.0)	(60.0)
Asset-retirement obligations	100.0	--	1.0	1.0	1.0	--	--	--
Nonoperating income (expense)	--	--	--	20.0	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	(7.0)	--
Noncontrolling interest/minority interest	--	88.0	--	--	--	--	--	--
Total adjustments	1,537.8	88.0	14.0	22.5	62.5	(528.5)	(55.5)	(60.0)

S&P Global Ratings' adjusted amounts

Debt	Equity	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Capital expenditure
15,778.8	11,260.0	2,539.0	1,634.5	514.5	2,010.5	2,052.5	1,990.0

Source: S&P Global Ratings.

Liquidity: Adequate

We assess HOI's stand-alone liquidity as adequate because we believe its 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. We believe HOI has sound banking relationships, the ability to absorb high-impact, low-probability events without refinancing, and a satisfactory standing in the credit markets.

Principal liquidity sources

- Estimated cash balance of about C$500 million;
- Credit facilities availability of about C$2.3 billion; and
- Estimated cash FFO of about C$2.3 billion.

Principal liquidity uses

- Debt maturities of about C$1.6 billion;
- Capital spending of about C$2 billion; and
- Dividends of about C$700 million.

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Debt maturities

- 2022: C$603 million
- 2023: C$731 million
- 2024: C$700 million
- 2025: C$750 million
- 2026: C$500 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
- N/A					- N/A					- Other governance factors				

N/A—Not applicable. 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.

Although we do not expect the government to further intervene with HOI, we believe the company's credit quality is negatively influenced by its ownership and governance structure that leads us to assess its management and governance assessment of fair. Specifically, HOL, the ultimate parent of HOI, is partly owned by the government of Ontario and the government could potentially exercise legislative power to promote its own interests above those of other stakeholders, which we have seen in the past. Such as in 2018, when the Ontario government passed an amendment to the Ontario Energy Board Act to exclude any compensation paid to HOL's CEO and other senior executives from the calculation of its consumer rates. We view this legislation as a governance deficiency. Additional interference in the company's business or operating decisions could further weaken its governance and reflect severe deficiencies. Environmental and social risks are consistent with other regulated utilities.

Group Influence

Under our group rating methodology, we consider HOI a core subsidiary of HOL, reflecting our view that HOI is highly unlikely to be sold, is integral to the group's overall strategy, possesses a strong long-term commitment from senior management, and is closely linked to the parent's name and reputation. We assess the issuer credit rating for HOI to be in line with the group credit profile of 'a-'.

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Issue Ratings - Subordination Risk Analysis

- Our 'A-2' short-term rating on HOI is based on our long-term issuer credit rating.
- We also rate HOI's commercial paper program at 'A-2' on the global scale or 'A-1 (Low)' on the Canadian National Scale based on our long-term issuer credit rating of HOI.

Capital structure

- HOI's capital structure includes roughly C$14.2 billion of debt including about C$14.1 billion of senior unsecured debt as of Dec. 31, 2021.

Analytical conclusions

- We rate HOI's senior unsecured debt at the same level as our long-term issuer credit rating because priority debt does not exceed 50% of the company's consolidated debt, after which point HOI's debt could be considered structurally subordinated.

Ratings Score Snapshot

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-

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Fair (-1 notch)
- **Comparable rating analysis:** Positive (+1 notch)

Stand-alone credit profile : a-

- **Group credit profile:** a-

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

- **Entity status within group:** Core (no impact)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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
- Criteria | Corporates | General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, 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

Business And Financial Risk Matrix

Business Risk Profile	Financial 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 15, 2022)*

Hydro One 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-

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Ratings Detail (As Of April 15, 2022)*(cont.)

Issuer Credit Ratings History	
08-Nov-2019	A-/Stable/A-2
10-Dec-2018	A-/Negative/A-2
13-Sep-2018	A-/Watch Neg/A-2
15-Jun-2018	A/Watch Neg/A-1
19-Jul-2017	A/Negative/A-1
Related Entities	
Hydro One Ltd.	
Issuer Credit Rating	A-/Stable/--
Senior Unsecured	BBB+
Ontario Power Generation Inc.	
Issuer Credit Rating	BBB+/Stable/--
Commercial Paper	
Canada National Scale Commercial Paper	A-1(LOW)
Senior Unsecured	BBB+
Ontario (Province of)	
Issuer Credit Rating	A+/Stable/A-1
Commercial Paper	
Foreign Currency	A-1
Senior Unsecured	A+
UMH Energy Partnership	
Senior Secured	BBB+/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.

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

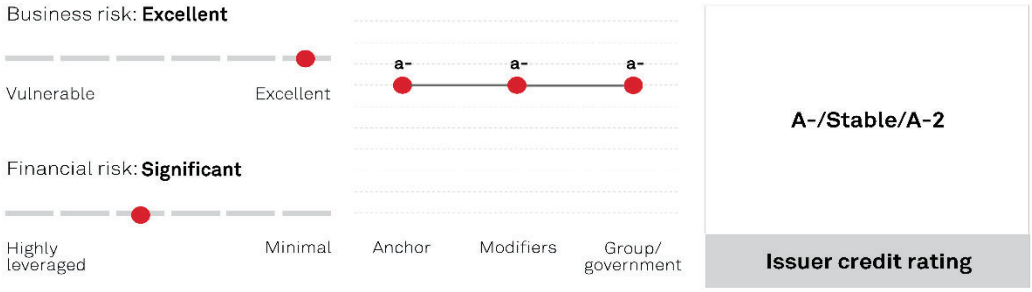
S&P Global
Ratings

Research

Hydro One Inc.

March 17, 2023

Ratings Score Snapshot



PRIMARY CONTACT

Mayur Deval
Toronto
1-416-507-3271
mayur.deval
@spglobal.com

SECONDARY CONTACT

Matthew L O'Neill
New York
1-212-438-4295
matthew.oneill
@spglobal.com

RESEARCH CONTRIBUTOR

Piyush Seth
CRISIL Global Analytical Center,
an S&P Global Ratings affiliate
Pune

Credit Highlights

Overview

Key strengths	Key risks
A relatively strong regulatory structure that supports stable cash flows.	Elevated capital spending to replace aging infrastructure over the next several years could lead to weaker financial measures.
Low-risk electricity transmission and distribution business.	Low likelihood of extraordinary government support.
Only operates in Ontario but has a large footprint across the province.	

Hydro One Inc. (HOI), is a fully regulated utility intermediate holding company with a large footprint across Ontario. HOI is a fully regulated electric transmission and distribution (T&D) utility with minimal nonutility operations. Although the company only operates in Ontario, it owns 92% of the province's transmission capacity and serves about 1.5 million distribution customers. It is 100% owned by, the ultimate holding company, Hydro One Ltd. (HOL).

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

HOI recently reported strong financial performance for 2022. The transmission and distribution operations benefitted from positive regulatory outcomes following the Joint Rate Application (JRAP) decision. The positive trends in the top line were partially offset by higher operations and maintenance expenses primarily driven by higher work program costs following emergency restorations, maintenance of stations, and lines due to storm activities. The company continues to invest heavily in upgrading infrastructure to maintain safe and reliable operations. The company also reported lower net pension obligations for 2023 because of higher discount rate further boosting the financial measures. However, we expect the financial performance to remain in line with the current financial risk profile assessment as the company continues to share earnings with customers based on earning sharing mechanism and the capital spending remains elevated.

HOI's first-ever T&D JRAP application under a Custom Incentive Rate-Setting framework for five-year forecasted period (2023-2027) was approved in November 2023. The JRAP filing is to address investment needs at HOI to improve reliability and accommodate growth of its T&D infrastructure, as the company identified about C$13 billion of capital expenditures over the forecasted period. The approved settlement reflects $11.8 billion in capital expenditure effective from Jan. 1, 2023, with allowed ROE of 9.36% for transmission and distribution operations.

HOI has a large capital-spending plan over our outlook period. We expect HOI's aggressive capital spending through 2027 at about C$2.5 billion per year on average will pressure HOI's financial measures. In addition, the elevated capital spending will increase its execution risks related to completing key projects on time and on budget.

HOI has been undergoing some leadership changes. On June 21, 2022, Hydro One Ltd. announced that Mark Poweska will be stepping down as president and CEO to assume a leadership position at a utility closer to his family in Western Canada. In January 2023, HOL announced the appointment of David Lebeter as the new CEO.

The Ontario Energy Board (OEB) is implementing reforms that promote transparency, regulatory independence, and efficiency. With these reforms, we do not believe the government is likely to intervene with HOL again at this time. In addition, the current executive compensation framework that limits the total compensation of the chief executive officer and other executives ceased to exist on Jan. 1, 2023, providing HOL with an independent environment to build an executive compensation framework in line with other utility peers.

However, at this time, the risk of government intervention still exists given the government has the authority to exercise its legislative power to override the decisions of HOL's board. Overall, we believe the company's focused business strategy, stabilized operating environment, and regulatory construct will lead it to gradually improve its credit profile, which supports our positive one-notch comparable rating analysis modifier.

Outlook

The stable outlook on HOI reflects that of the outlook on parent company HOL. We expect HOL will continue to focus on regulated operations in Ontario and we do not expect the utility to expand outside of Ontario. During our two-year outlook period, we expect HOL's funds from operations (FFO) to debt to range between 11% and 14%.

Downside scenario

We could take a negative rating action on HOI within the next 18 to 24 months if we downgrade the parent holding company HOL. This could happen if HOL's financial measures deteriorate such that FFO to debt consistently remains below 11% with no prospect for improvement.

Alternatively, we could lower the ratings if HOL decides to pursue growth outside of Ontario or in other business opportunities that have higher business risks or if the Ontario government intervenes further in HOL's business or operating decisions, resulting in additional governance deficiencies that we consider severe.

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Upside scenario

Although unlikely, we could raise the ratings on HOL and HOI within the next 18 to 24 months if the utility improves its financial measures, including FFO to debt consistently above 16%.

Our Base-Case Scenario

Assumptions

- HOL and HOI will continue to focus on regulated electricity T&D businesses in Ontario.
- HOI will not experience material adverse regulatory decisions from the OEB.
- HOI will continue to earn close to its allowed return on equity based on the authorized capital structure.
- Capital expenditures averaging about C$2.5 billion per year for 2023-2025.
- Dividend payments averaging about C$700 million per year from 2023-2025.

Key metrics

Hydro One Inc. --Key Metrics*

	2022a	2023e	2024f
FFO to debt (%)	14.3	12-14	12-14
Debt to EBITDA (x)	5.4	5.5-6	5.5-6
FFO cash interest Coverage (x)	4.7	4-5	4-5

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Company Description

HOI is an intermediate holding company of HOL, and owns operating electricity transmission and distribution utilities in Ontario. HOI, through its operating subsidiary Hydro One Networks Inc., owns and operates virtually all of Ontario's electricity transmission network, and approximately 125,000 circuit kilometers of primary low-voltage distribution lines. HOI's utilities deliver electricity to approximately 1.5 million residential customers, as well as to industrial customers and municipal utilities, in the province.

Peer Comparison

Hydro One Inc.--Peer Comparisons

	Hydro One Inc.	Toronto Hydro Corp.	CU Inc.	AltaLink L.P.	ITC Holdings Corp.
Foreign currency issuer credit rating	A-/Stable/A-2	A/Positive/--	A-/Stable/A-2	A/Stable/--	A-/Stable/A-2

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Hydro One Inc.--Peer Comparisons

Local currency issuer credit rating	A-/Stable/A-2	A/Positive/--	A-/Stable/A-2	A/Stable/--	A-/Stable/A-2
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2021-12-31	2021-12-31	2022-12-31	2022-12-31
Mil.	C$	C$	C$	C$	C$
Revenue	7,740	3,567	2,823	989	1,984
EBITDA	2,801	469	1,428	790	1,536
Funds from operations (FFO)	2,177	384	1,045	597	1,175
Interest	525	93	382	192	376
Cash interest paid	591	85	369	193	346
Operating cash flow (OCF)	2,121	499	1,011	458	1,195
Capital expenditure	1,999	599	994	227	1,251
Free operating cash flow (FOCF)	122	(100)	17	230	(55)
Discretionary cash flow (DCF)	(540)	(170)	(438)	(17)	(425)
Cash and short-term investments	458	0	121	0	5
Gross available cash	458	0	121	0	5
Debt	15,244	2,941	8,771	4,902	9,461
Equity	11,682	1,983	4,801	3,697	3,616
EBITDA margin (%)	36.2	13.1	50.6	79.9	77.4
Return on capital (%)	6.4	3.7	6.6	5.9	9.0
EBITDA interest coverage (x)	5.3	5.1	3.7	4.1	4.1
FFO cash interest coverage (x)	4.7	5.5	3.8	4.1	4.4
Debt/EBITDA (x)	5.4	6.3	6.1	6.2	6.2
FFO/debt (%)	14.3	13.1	11.9	12.2	12.4
OCF/debt (%)	13.9	17.0	11.5	9.3	12.6
FOCF/debt (%)	0.8	(3.4)	0.2	4.7	(0.6)
DCF/debt (%)	(3.5)	(5.8)	(5.0)	(0.3)	(4.5)

Business Risk

We base our assessment of HOI's business risk on its low-risk regulated utility operations that provide essential services in Ontario. Furthermore, given material barriers to entry, HOI, and the regulated utility industry, effectively operates insulated from competitive market challenges. HOI's business risk is bolstered by its large footprint in Ontario with almost all of the province's transmission and a large customer base of about 1.5 million electric distribution customers.

The utility continues to operate under a supportive regulatory environment. The OEB is the provincial regulator and provides a generally transparent, consistent, and independently operated regulatory framework that supports a stable and predictable cash flow model. We view this as a key credit strength. In addition, local distribution companies in Ontario, including HOI, do not have power procurement obligations, reducing operating risk. Furthermore, HOI has limited exposure to commodity risk since the Independent Electricity System Operator (IESO) procures power and distribution companies (acting as billing agents) collect these costs from ratepayers.

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Financial Risk

Under our base-case scenario, we expect capital spending averaging about C$2.5 billion per year and dividends of about C$700 million per year for the 2023-2025. In addition, we expect the company to demonstrate stable and predictable growth in cash flows driven by strong customer demand and JRAP approved rates. This is offset by the company's elevated capex plan that is largely funded with internally generated cash flows and debt. Thus, we expect HOI's core financial measures including adjusted FFO to debt of about 11%-14% range through 2025. Over the same period, our supplemental ratio of adjusted FFO cash interest coverage will be about 4x-5x, bolstering our financial risk profile assessment. We expect HOI's discretionary cash flow to remain negative due to HOI's elevated capital spending, indicating external funding needs that we believe will include debt issuances. Leverage is high as indicated by adjusted debt to EBITDA in the 5.5x-6x range over the next few years.

We base our assessment on our low-volatility financial benchmarks, which are more relaxed than those we use for typical corporate issuers. This reflects the company's focus on its low-risk, regulated electric T&D operations and strong management of regulatory risk.

Debt maturities

- 2023: C$731 million
- 2024: C$700 million
- 2025: C$750 million
- 2026: C$500 million
- Thereafter: C$10.7 billion

Hydro One 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
Display currency (mil.)	C$	C$	C$	C$	C$	C$
Revenues	5,947	6,110	6,442	7,250	7,185	7,740
EBITDA	2,100	2,140	2,316	2,377	2,539	2,801
Funds from operations (FFO)	1,611	1,641	1,807	1,837	2,010	2,177
Interest expense	490	493	503	515	515	525
Cash interest paid	478	484	488	507	509	591
Operating cash flow (OCF)	1,622	1,533	1,678	1,946	2,052	2,121
Capital expenditure	1,480	1,478	1,577	1,786	1,990	1,999
Free operating cash flow (FOCF)	142	55	101	160	62	122
Discretionary cash flow (DCF)	(390)	(488)	(1,145)	(450)	(566)	(540)
Cash and short-term investments	0	492	7	712	499	458
Gross available cash	0	492	7	712	499	458
Debt	13,526	13,578	14,920	15,953	15,779	15,244
Common equity	10,102	9,512	9,723	10,898	11,260	11,682
Adjusted ratios						
EBITDA margin (%)	35.3	35.0	36.0	32.8	35.3	36.2
Return on capital (%)	5.5	5.5	6.0	5.8	6.1	6.4
EBITDA interest coverage (x)	4.3	4.3	4.6	4.6	4.9	5.3
FFO cash interest coverage (x)	4.4	4.4	4.7	4.6	5.0	4.7

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Hydro One Inc.--Financial Summary

Debt/EBITDA (x)	6.4	6.3	6.4	6.7	6.2	5.4
FFO/debt (%)	11.9	12.1	12.1	11.5	12.7	14.3
OCF/debt (%)	12.0	11.3	11.2	12.2	13.0	13.9
FOCF/debt (%)	1.0	0.4	0.7	1.0	0.4	0.8
DCF/debt (%)	(2.9)	(3.6)	(7.7)	(2.8)	(3.6)	(3.5)

Reconciliation Of Hydro One 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	14,713	11,596	7,740	2,790	1,833	460	2,801	2,185	662	2,062
Cash taxes paid	-	-	-	-	-	-	(33)	-	-	-
Cash interest paid	-	-	-	-	-	-	(527)	-	-	-
Lease liabilities	53	-	-	-	-	-	-	-	-	-
Operating leases	-	-	-	10	1	1	(1)	9	-	-
Postretirement benefit obligations/ deferred compensation	847	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(458)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	63	(63)	(63)	-	(63)
Asset-retirement obligations	89	-	-	1	1	1	-	-	-	-
Nonoperating income (expense)	-	-	-	-	(105)	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(10)	-	-
Noncontrolling/ minority interest	-	86	-	-	-	-	-	-	-	-
Total adjustments	531	86	-	11	(103)	65	(624)	(64)	-	(63)

S&P Global Ratings adjusted	Debt	Equity	Revenue	EBITDA	EBIT	Interest expense	Funds from Operations	Operating cash flow	Dividends	Capital expenditure

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Reconciliation Of Hydro One 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
15,244	11,682	7,740	2,801	1,730	525	2,177	2,121	662	1,999

Liquidity

Our 'A-2' short-term rating on HOI is based on our long-term issuer credit rating. As of Dec 31, 2022, we assess HOI's liquidity as adequate, with sources covering uses by 1.1x over the coming 12 months, and that its sources cover uses even if forecasted consolidated EBITDA declines by 10%. We believe the predictable regulatory framework for HOI's provides a manageable level of cash flow stability for the company even in times of economic stress, supporting our use of slightly lower thresholds to assess liquidity. In addition, HOI has the ability to absorb high impact, low probability events, reflecting that the company maintains about C$2.3 billion in committed credit facilities through 2027, and our belief that the company can lower its high capital spending (averaging about C$2.5 billion annually) during stressful periods, indicative of a limited need for refinancing under such conditions. Furthermore, our assessment reflects the company's sound banking relationships, the ability to absorb high-impact, low-probability events without refinancing, and a satisfactory standing in the credit markets. Overall, we believe that the company should be able to withstand adverse market circumstances over the next 12 months with sufficient liquidity to meet its obligations. The company has no major long-term debt maturities in next 5 years.

Principal liquidity sources

- Cash balance of $458 million as on Dec. 31, 2022.
- Credit facilities availability of about C$2.3 billion; and
- Estimated cash FFO of about C$2.3 billion.

Principal liquidity uses

- Debt maturities of about C$2.1 billion;
- Capital spending of about C$1.65 billion; and
- Dividends of about C$700 million.

Environmental, Social, And Governance

ESG Credit Indicators

E	S	G
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
- N/A	- N/A	- Other governance factors

N/A—Not applicable. 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.

Although we do not expect the government to further intervene with HOI, we believe the company's credit quality is negatively influenced by its ownership and governance structure that leads us to assess its management and governance assessment of fair. Specifically, HOL, the ultimate parent of HOI, is partly owned by the government of Ontario and the government could potentially exercise legislative power to promote its own interests above those of other stakeholders, which we have seen in the past. Such as in 2018, when the Ontario government passed an amendment to the Ontario Energy Board Act to exclude any compensation paid to HOL's CEO and other senior executives from the calculation of its consumer rates. We view this legislation as a governance deficiency.

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Additional interference in the company's business or operating decisions could further weaken its governance and reflect severe deficiencies. Environmental and social risks are consistent with other regulated utilities.

Group Influence

Under our group rating methodology, we consider HOI a core subsidiary of HOL, reflecting our view that HOI is highly unlikely to be sold, is integral to the group's overall strategy, possesses a strong long-term commitment from senior management, and is closely linked to the parent's name and reputation. We assess the issuer credit rating for HOI to be in line with the group credit profile of 'a-'.

Issue Ratings--Subordination Risk Analysis

Capital structure

- HOI's capital structure includes long term debt of about C$13.4 billion of which majority are senior unsecured debt as of Dec 31, 2022.

Analytical conclusions

- We also rate HOI's commercial paper program at 'A-2' on the global scale or 'A-1 (Low)' on the Canadian National Scale based on our long-term issuer credit rating of HOI.
- We rate HOI's senior unsecured debt at the same level as our long-term issuer credit rating because priority debt does not exceed 50% of the company's consolidated debt, after which point HOI's debt could be considered structurally subordinated.

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	Fair (-1 notch)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile	**a-**

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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
- Criteria | Corporates | General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, 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 March 17, 2023)*

Hydro One 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	
08-Nov-2019	A-/Stable/A-2
10-Dec-2018	A-/Negative/A-2
13-Sep-2018	A-/Watch Neg/A-2
15-Jun-2018	A/Watch Neg/A-1
Related Entities	
Hydro One Ltd.	
Issuer Credit Rating	A-/Stable/--
Senior Unsecured	BBB+
Ontario Power Generation Inc.	
Issuer Credit Rating	BBB+/Stable/--
Commercial Paper	
Canada National Scale Commercial Paper	A-1(LOW)
Senior Unsecured	BBB+
Ontario (Province of)	
Issuer Credit Rating	A+/Stable/A-1
Commercial Paper	

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Hydro One Inc.

Ratings Detail (as of March 17, 2023)*

Foreign Currency	A-1
Senior Unsecured	A+

UMH Energy Partnership

Senior Secured	BBB+/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.

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

S&P Global
Ratings

Research

Research Update:

Hydro One Ltd. Upgraded To 'A' On Improved Governance Following Changes To Its Executive Compensation, Outlook Stable

June 10, 2024

Rating Action Overview

- Hydro One Ltd. (HOL) recently announced that its board of directors has updated its executive compensation framework to align it with those in the competitive market, including its industry peers. We view this development as restoring the effectiveness of the company's governance structure by aligning the long-term interests and priorities of the Ontario government with those of its other stakeholders.
- Therefore, we raised our issuer credit ratings (ICR) on HOL and its subsidiary Hydro One Inc. (HOI) to 'A' from 'A-', our issue-level rating on HOL's senior unsecured debt to 'A-' from 'BBB+', our issue-level rating on HOI's senior unsecured debt to 'A' from 'A-', and our Global and Canada National scale ratings on HOI's commercial paper to 'A-1' and 'A-1 (Mid)' from 'A-2' and 'A-1 (Low)', respectively.
- The stable outlook reflects our expectation that HOL will continue to operate without any undue influence from the government of Ontario and focus on its growing regulated operations in the province. The outlook also reflects our expectation that the company's funds from operations (FFO) to debt will be in the 11%-13% range through 2026.

PRIMARY CREDIT ANALYST

Mayur Deval
Toronto
(1) 416-507-3271
mayur.deval
@spglobal.com

SECONDARY CONTACTS

Matthew L O'Neill
New York
+ 1 (212) 438 4295
matthew.oneill
@spglobal.com

Omar El Gamal, CFA
Toronto
+1 4165072523
omar.elgamal
@spglobal.com

Rating Action Rationale

We believe HOL has improved its governance structure. Following the cessation of key provisions of the Hydro One Accountability Act, 2018 (HOAA), the company implemented an updated executive compensation framework that is benchmarked against those offered by its similar-scale industry peers. In addition, the revised compensation framework includes a new equity-based, long-term incentive plan that will likely enable it to retain experienced executives. Furthermore, the revised compensation framework is largely intended to promote performance-based outcomes that are important to the long-term success of the company. We assess the new compensation structure as reversing prior legislative priorities that clearly promoted the interests and priorities of one owner above those of other stakeholders. Over the

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

longer term, we do not expect that the government of Ontario will intervene in HOL's governance, which demonstrates a long-term and permanent improvement in its governance structure.

Our base-case scenario assumes that the interests of HOL and its controlling shareholder, the government of Ontario, are now aligned with its long-term regulated growth strategy. The company's capital investments predominantly relate to its regulated transmission and distribution projects in the province. Consequently, we do not believe that the government of Ontario would undermine the effectiveness of the company's governance structure and potentially promote its interests and priorities above those of the other stakeholders.

Furthermore, we assess HOL's board as sufficiently independent. We believe its board has the ability and willingness to make decisions that serve the interests of all of its various stakeholders, including its creditors. Additionally, 10 of the company's 11 directors are independent, which indicates the board's capability to comprehensively fulfill its oversight duties. HOL's board members are also reasonably diversified by professional background and experience, which we expect will support balanced decision making. The company holds frequent and well-attended regular board and committee meetings that are commensurate with its business complexity. Accordingly, these factors led us to revise our assessment of HOL's management and governance to neutral from moderately negative.

We continue to assess HOL's business risk profile as excellent. Our assessment reflects the company's low-risk regulated utility operations that provide essential services in Ontario. Furthermore, given HOL's monopoly and material barriers to entry, it is effectively insulated from pure-play competitive market challenges. The company's business risk profile is bolstered by its large footprint in Ontario, which includes almost all (95%) of the province's transmission system and a large customer base of about 1.5 million electric distribution customers. We assess the utility as operating under a supportive, generally transparent, consistent, and independently operated regulatory construct, which supports a stable and predictable cash flow model that minimizes its regulatory lag.

We continue to assess HOL's financial risk profile as significant. Under our base-case scenario, we assume capital spending averaging about C$3 billion per year in 2024 and 2025 and dividend payments of about C$750 million per year over the same period. We forecast HOL's FFO to debt will be in the 11%-13% range in 2024-2026. We assess the company's financial measures using our low-volatility financial benchmark table, which contains more-relaxed benchmarks than those we use for typical industrial issuers. This reflects HOL's lower-risk regulated business and effective regulatory risk management.

Outlook

The stable outlook reflects our expectation that HOL will continue to operate without any undue influence from the government of Ontario and focus on its growing regulated operations in the province. The outlook also reflects our expectation that the company's FFO to debt will be in the 11%-13% range through 2026.

Downside scenario

We could downgrade HOL over the next 24 months if its consolidated financial measures weaken, including FFO to debt of consistently below 11%. This could occur if the company experiences adverse regulatory decisions. We could also lower the ratings if we determine that HOL's business

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

risk has increased.

Upside scenario

Although less likely, we could raise our ratings on HOL over the next 24 months if its financial measures improve, including FFO to debt of consistently above 16%, without increasing its business risk.

Company Description

HOL, through its subsidiaries, owns and operates electricity transmission and distribution utilities in Ontario. HOI, through its operating subsidiary Hydro One Networks Inc., owns and operates virtually all of Ontario's electricity transmission network and approximately 125,000 circuit kilometers of primary low-voltage distribution lines. HOI's utilities deliver electricity to approximately 1.5 million residential customers, as well as to industrial customers and municipal utilities, in the province.

Liquidity

We assess HOL's liquidity as adequate and expect that its sources of liquidity will be about 1.1x its uses over the next 12 months. In addition, we anticipate that the company's net sources of liquidity would remain positive even if its EBITDA declines by 10%. We believe HOL's predictable regulatory framework provides it with a manageable level of cash flow stability, even in times of economic stress, which support our use of slightly lower thresholds to assess its liquidity. In addition, we believe the company has the ability to absorb high-impact, low-probability events, given that it maintains about C$2.55 billion of committed credit facilities through 2028. We also believe it could reduce its high capital spending (averaging about C$2.7 billion annually) during stressful periods, which indicates a limited need for refinancing under such conditions. Furthermore, our assessment reflects HOL's sound banking relationships and satisfactory standing in the credit markets.

Overall, we believe the company will likely be able to withstand adverse market circumstances over the next 12 months while maintaining sufficient liquidity to meet its obligations. HOL does not face any major long-term debt maturities in the next five years.

Principal liquidity sources:

- Cash of about C$686 million as of March 31, 2024;
- Committed credit facilities availability of about C$2.55 billion as of March 31, 2024; and
- Cash FFO of about C$2.3 billion

Principal liquidity uses:

- Debt maturities of about C$1.6 billion, including both the current portion of its long-term debt and its outstanding commercial paper, as of March 31, 2024;
- Maintenance capital spending of about C$2.8 billion over the next 12 months; and
- Dividend payments of about C$750 million over the next 12 months.

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Environmental, Social, And Governance

The company's ownership structure includes a majority shareholder (government of Ontario), which has intervened in its corporate decision-making by exercising legislative power to promote its own interests above those of other stakeholders. However, we assess the likelihood of further government intervention as significantly decreased, which reflects our believe that HOL's regulated growth strategy is now aligned with the interest of all of its stakeholders. Moreover, the company is no longer required to consult or seek approval from the provincial government for matters related to its compensation policy. We view the cessation of key provisions of the HOAA as supportive of HOL's credit quality because this will allow its board of directors and management to execute independent decisions related to any compensation-related matters and to balance the interests of all stakeholders.

Issue Ratings - Subordination Risk Analysis

Capital structure

- HOL's capital structure comprises about C$16.2 billion of debt, with priority debt issued and outstanding at HOI of about C$15.8 billion.
- HOI's capital structure includes long-term debt of about C$15.8 billion, all of which was senior unsecured debt as of March 31, 2024.

Analytical conclusions

- We rate HOL's unsecured debt one notch below our 'A' long-term issuer credit rating because its priority debt exceeds 50% of its consolidated debt, which leads us to view the notes as structurally subordinated.
- We rate HOI's senior unsecured debt at the same level as our long-term issuer credit rating because priority debt does not exceed 50% of the company's consolidated debt, after which we would consider its debt to be structurally subordinated.
- We also rate HOI's commercial paper program 'A-1' on the global scale or 'A-1 (Mid)' on the Canadian National scale based on our long-term issuer credit rating on HOI.

Ratings Score Snapshot

Issuer credit rating: A/Stable/--

Business risk: Excellent

- Country risk: Very Low
- Industry risk: Very Low
- Competitive position: Excellent

Financial risk: Significant

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

- 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: Neutral (no impact)
- Comparable rating analysis: Positive (+1 notch)

Stand-alone credit profile: a

Environmental, social, and governance (ESG) credit factors for this change in credit rating/outlook and/or CreditWatch status:

- Governance structure

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024

Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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
- Criteria | Corporates | General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Ratings List

Upgraded; Outlook Action

	To	From
Hydro One Ltd.		
Issuer Credit Rating	A/Stable/--	A-/Positive/--
Hydro One Inc.		
Issuer Credit Rating	A/Stable/A-1	A-/Positive/A-2

Upgraded

	To	From
Hydro One Ltd.		
Senior Unsecured	A-	BBB+
Hydro One Inc.		
Senior Unsecured	A	A-
Commercial Paper	A-1	A-2
Hydro One Inc.		
Commercial Paper	A-1(MID)	A-1(LOW)

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 criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Copyright © 2024 Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

MORNINGSTAR | DBRS

Rating Report
Hydro Ottawa Holding Inc.

DBRS Morningstar
October 18, 2023

Contents

1 Ratings
1 Rating Update
2 Financial Information
2 Issuer Description
3 Rating Considerations
4 Corporate Structure
5 Earnings and Outlook
6 Financial Profile
7 Liquidity and Credit Facilities
8 Long-Term Debt Maturities
8 Generation Facilities
9 Regulation
10 Assessment of Hydro Ottawa's Regulatory Environment
11 Hydro Ottawa Holding Inc.
12 Balance Sheet and Liquidity and Capital Ratios
13 ESG Credit Risk Considerations
15 Application of Multiple Methodologies
15 Rating History
15 Previous Action
15 Previous Report

Steven Lin
Assistant Vice President
Utilities
+1 416 597-7596
steven.lin@dbrsmorningstar.com

Tom Li
Vice President
Utilities
+1 416 597-7378
tom.li@dbrsmorningstar.com

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A (low)	Confirmed	Negative
Senior Unsecured Debt	A (low)	Confirmed	Negative
Commercial Paper	R-1 (low)	Confirmed	Negative

Rating Update

On September 22, 2023, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating and Senior Unsecured Debt rating of Hydro Ottawa Holding Inc. (Hydro Ottawa or the Company) at A (low) and changed the trends on the ratings to Negative from Stable. Concurrently, DBRS Morningstar confirmed the rating of Hydro Ottawa's Commercial Paper program at R-1 (low) and changed the trend on the rating to Negative from Stable. The rating confirmations reflect the continued strength and stability of Hydro Ottawa's regulated electricity distribution operations. The Negative trends reflect DBRS Morningstar's concern that Hydro Ottawa's current and projected growth from unregulated businesses will continue to outpace growth from its regulated business, which could further deteriorate its business risk profile.

In 2020, DBRS Morningstar had downgraded Hydro Ottawa's ratings to A (low) from "A" because the sustained increase in EBIT contribution from the unregulated electricity generation business rose above the previous 20% threshold, as DBRS Morningstar considers Hydro Ottawa's unregulated business, even with presence of long-term contracts, as higher risk than its core regulated electricity distribution business. Since then, the proportion of unregulated businesses in the earnings mix has continued to increase materially, with the unregulated business consistently contributing around 35% of consolidated EBIT and reaching close to 40% in 2022. The negative rating actions reflect the developments over the medium term, including the growth in the unregulated business, which materially surpassed DBRS Morningstar's previous expectation that this business would be limited to 30% to 35% of consolidated EBIT. DBRS Morningstar may change the trend to Stable if EBIT contribution by the unregulated business decreases and remains below 35% on a sustained basis, while a rating downgrade is likely if contributions remain at or above 35%.

Hydro Ottawa's overall business risk profile continues to benefit from Hydro Ottawa Limited (HOL), which is a stable regulated electricity distributor in the City of Ottawa (100% owner of Hydro Ottawa). Ontario Energy Board regulates HOL and sets its rates under the Custom incentive rate (IR) method, which is a hybrid of cost of service (COS) and the IR-setting method (IRM), for a five-year period from

2021 to 2025. The business risk is increased by its growing portfolio of unregulated electricity generation assets at Energy Ottawa Inc (EOI) and an expanding energy services business including Envari, Hydro Ottawa's energy services division, and the recently launched Hiboo Networks Inc., a business-to-business telecommunications optical fibre business. The electricity generation portfolio largely consists of annually indexed fixed-price power purchase agreements with approximately 83% of installed capacity contracted with the Independent Electricity System Operator (IESO). DBRS Morningstar notes this business segment is subject to hydrology and operational risk, which may lead to more volatile earnings and cash flows than the regulated business. Given Hydro Ottawa's forecast growth, DBRS Morningstar now expects the unregulated business to contribute around 35% to 40% of consolidated EBIT over the short to medium term, with the remainder coming from the regulated business.

Hydro Ottawa's financial metrics remained stable in 2022 and weakened modestly in the 12 months ended June 30, 2023, reflecting higher borrowing costs and weaker performance of the generation facilities. DBRS Morningstar notes Hydro Ottawa has relatively weaker consolidated financial metrics compared with its utility peers, reflecting higher levels of leverage associated with the electricity generating assets. DBRS Morningstar will monitor the increasing mix of unregulated revenue from all sources in its assessment of Hydro Ottawa's business fundamentals. Maintaining the share of EBIT from unregulated business at current levels will likely result in a one-notch downgrade to current ratings. Further negative rating actions, which DBRS Morningstar deems unlikely, may occur should Hydro Ottawa's key credit metrics deteriorate to a level no longer commensurate with the current rating category, even if unregulated EBIT contribution is maintained at the current level. Conversely, the trend can return to Stable if, assuming market conditions remain normal, contributions from the unregulated segment stays below 35%. A ratings upgrade is unlikely in the foreseeable future, unless Hydro Ottawa materially reduces its exposure to the unregulated business.

Financial Information

	12 mos. to June 30	For the year ended December 31				
(CAD millions where applicable)	**2023**	**2022**[2]	**2021**	**2020**	**2019**	**2018**
Total debt in capital structure (%)[1]	72.8	72.2	71.9	72.8	72.5	68.4
Cash flow/Total debt (%)[1]	9.3	9.9	9.8	8.5	8.1	11.3
EBIT gross interest coverage (times) [1]	1.91	2.18	2.20	1.65	1.71	2.38

1 Includes operating leases.
2 Adjusted for costs associated with the derecho storm in May 2022.

Issuer Description

Hydro Ottawa is a holding company (wholly owned by the City) that owns the following subsidiaries: (1) Hydro Ottawa Limited (HOL), a regulated electricity distributor (Hydro Ottawa's primary business); (2) Energy Ottawa Inc. (EOI), an unregulated power-generation company; and (3) Envari Holding Inc., which is involved in energy-management services.

Rating Considerations

Strengths

1. Stability from regulated business

Hydro Ottawa benefits from stable earnings and cash flow generated by its regulated electricity distribution business. Hydro Ottawa operates under a five-year Custom IR allowing it to generate relatively stable earnings and cash flows with reasonable inflation, productivity, and stretch factors. The OEB allows HOL to have a deemed equity of 40%, which is consistent with the other electricity distribution companies in Ontario.

2. Strong franchise

Hydro Ottawa is one of the largest municipally owned local distribution companies in Ontario, serving the densely populated areas within the City and the Village of Casselman. The majority of Hydro Ottawa's electricity sales are to residential customers; the federal government; and the municipalities, universities, schools, and hospitals (MUSH) sector. DBRS Morningstar notes that the government and MUSH sectors have relatively stable year-over-year demand because they are less sensitive to economic cycles.

3. Long-term contracts for power generation

Although Hydro Ottawa's power generation business provides opportunities for earnings growth, it also entails higher business risk than the regulated distribution business. However, commodity price risk is mitigated by long-term contracts with creditworthy counterparties, such as the IESO. Hydro Ottawa has installed capacity of 131MW mostly in hydroelectric generation, with approximately 90% of generation output contracted under long-term power purchase agreements (PPA).

Challenges

1. Increasing exposure to higher-risk unregulated business

DBRS Morningstar considers Hydro Ottawa's unregulated businesses as higher risk than its core regulated electricity distribution business. On the generation side, this is largely due to the hydrology risk associated with the generation business. Long-term contracts with off-takers have mitigated commodity price risk, but increasing exposure to this segment could result in greater volatility in Hydro Ottawa's earnings and cash flows. Additionally, Hydro Ottawa has continued to focus on growing its energy services business through Envari, which will further increase the unregulated mix of EBIT. DBRS Morningstar estimates that the total unregulated business will contribute around 35% to 40% of EBIT or EBITDA in the near to medium term.

2. Large capex program

Hydro Ottawa is in the middle of major capex programs to enhance the reliability of the system and meet growing demographic demands. The OEB-approved Hydro Ottawa's Custom Incentive Rate-setting (IR) application from 2021 to 2025 includes capex spend averaging more than $115 million per year. DBRS Morningstar expects this will result in Hydro Ottawa continuing to generate modest deficits in free cash flow over the medium term.

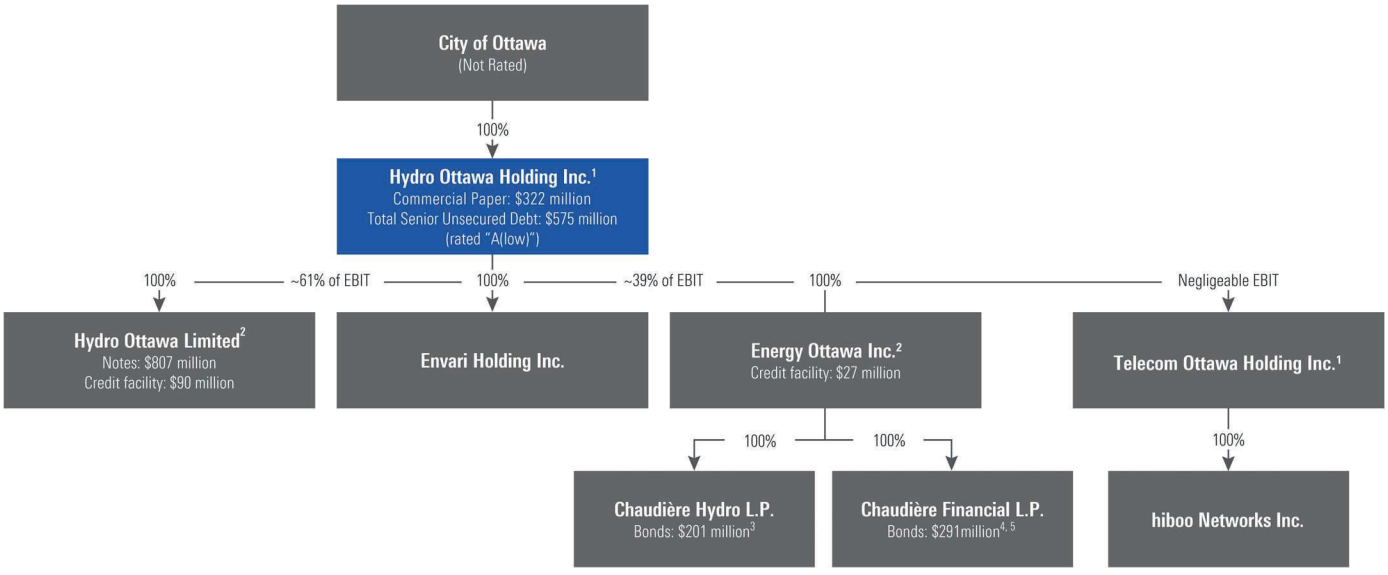
3. Operational risks

DBRS Morningstar considers the unregulated generation segment as having higher operational risk than the regulated distribution business. Examples of operational risks include mechanical failure of the turbines or flood events that could lead to a shutdown of the generation facilities. Hydro Ottawa has already experienced several such events, including a mechanical failure in 2017 caused by a manufacturing defect leading to significant damage to one of four turbines at the Chaudière Falls Expansion and a 100-year flood event resulting in the prolonged shutdown of two stations on the Ottawa River. Such unplanned outages could significantly reduce generation output and negatively affect the earnings and cash flows of Hydro Ottawa. This risk is, however, partly mitigated by the maintenance of adequate insurance coverage. Hydro Ottawa maintains sufficient and appropriate insurance coverage on all generating facilities and insurance fully compensated for both the 2017 events.

4. No access to equity markets

Hydro Ottawa's ownership structure (100% owned by the City) limits its ability to directly access equity markets. As a result, Hydro Ottawa finances any cash flow deficits largely through its revolving credit facilities and debt issuances.

Corporate Structure



1 Total Senior Unsecured Debt is presented at face value.
2 The debt at these subsidiaries is owed to the Company, mostly in the form of promissory notes.
3 The senior secured amortizing bonds were issued for the Chaudière Falls Expansion and are nonrecourse to the Company.
4 The senior secured amortizing bonds issued by Chaudière Financial L.P. were guaranteed by the Company until the completion of the Refurbishments, which were fully completed by early 2021 and were fully nonrecourse to the Company as of year-end 2021.
5 Bond proceeds are onward lent by Chaudière Financial L.P. to various entities within the Hydro Ottawa corporate family in a series of intercompany loans.
6 The Company established a telecommunications services subsidiary in 2022. EBIT contribution is currently immaterial.
Debt balances as at June 30, 2023.
EBIT proportions represent full-year ended December 31, 2022.

- Hydro Ottawa is wholly owned by the City. All outstanding notes and credit facility at the HOL and EOI level are in the form of intercompany debt owed to the Company.
- The Company incorporated Envari Holding Inc. in 2018 to separate the energy management and infrastructure services EOI previously delivered.
- In May 2019, the Company incorporated Chaudière Financial L.P., a wholly owned subsidiary of EOI, to issue Senior Secured Amortizing Green Bonds to fund the Refurbishments. Bonds were issued with a recourse guarantee from Hydro Ottawa for the duration of the refurbishment phase. Upon completion of the refurbishments by mid-2021, the bonds' recourse to Hydro Ottawa was then fully released as of year-end 2021.
- DBRS Morningstar views the relationship between the Company and the City as strong.
    - While the City has acknowledged its commitment to retaining and supporting the Company in a situation of extraordinary financial distress, DBRS Morningstar continues to view Hydro Ottawa on a stand-alone basis, separate from the City, and has not included any potential support from the City in its assessment of the Company's ratings.

Earnings and Outlook

	12 mos. to June 30	For the year ended December 31				
(CAD millions where applicable)	**2023**	**2022**[2]	**2021**	**2020**	**2019**	**2018**
Total revenues	1,188	1,193	1,166	1,271	1,187	1,144
Net sales	336	329	299	283	282	286
EBITDA	178	176	163	144	137	141
EBIT	100	100	92	70	67	79
Gross interest expense[1]	52	46	42	43	39	33
Net income before nonrecurring items	42	45	47	33	32	42
Reported net income	37	40	47	34	33	42
Return on equity (%)	8.1	8.7	9.6	7.0	6.9	9.4
EBIT by subsidiary (estimate)						
Hydro Ottawa Limited	65	67	65	59	62	61
Energy Ottawa Inc.	35	38	33	25	16	20

1 Includes interests on operating leases.
2 Adjusted for costs associated with the derecho storm in May 2022.

2022 Summary

- Net income before nonrecurring items remained stable in 2022 reflecting higher earnings offset by higher interest expense and higher depreciation from the growing rate base. The reported net income was offset by considerable costs incurred in the derecho storm of May 2022, which caused significant localized damage to the Company's distribution network.
- EBIT from unregulated operations accounted for approximately 39% of consolidated EBIT in 2022. DBRS Morningstar views this as a permanent shift in the earnings composition of the Company and expects future earnings to be more volatile because of this increased exposure. The performance of the generation business is typically more volatile because this sector is subject to greater volume risk.

2023 Outlook

- DBRS Morningstar expects Hydro Ottawa's earnings to weaken modestly, reflecting the current inflationary environment and higher interest expenses from short-term borrowings. Recovery of the higher costs is subject to regulatory lag.
- DBRS Morningstar expects EBIT from unregulated operations to account for approximately 35% to 40% of consolidated EBIT. Cash flow from operations may be more volatile as a result of the Company's greater exposure to unregulated operations, counterbalancing some benefits.

Financial Profile

	12 mos. to June 30	For the year ended December 31				
(CAD millions where applicable)	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**
Net income before nonrecurring items	42	45	47	33	32	42
Depreciation & amortization	78	76	71	74	69	62
Deferred income taxes and other	10	14	10	3	(2)	8
Cash flow from operations	**130**	**135**	**128**	**110**	**100**	**113**
Dividends paid	(20)	(24)	(21)	(23)	(22)	(22)
Capital expenditures	(158)	(138)	(139)	(196)	(215)	(222)
Free cash flow (bef. working cap. changes)	**(48)**	**(27)**	**(32)**	**(109)**	**(138)**	**(131)**
Changes in working capital	(46)	(58)	15	(22)	(18)	(20)
Net free cash flow	**(94)**	**(85)**	**(18)**	**(131)**	**(155)**	**(151)**
Acquisitions & long-term investments	0	(0)	(12)	(2)	16	(2)
Net equity change	0	0	0	0	0	0
Net debt change[1]	93	87	206	(0)	287	0
Other financing	11	5	7	18	(13)	87
Change in cash[1]	**11**	**7**	**184**	**(114)**	**135**	**(66)**
Consolidated total debt[1]	1,405	1,368	1,298	1,288	1,240	1,001
Total debt in capital structure (%)[1]	72.8	72.2	71.9	72.8	72.5	68.4
Cash flow/Total debt (%)[1]	9.3	9.9	9.8	8.5	8.1	11.3
EBIT gross interest coverage (times) [1]	1.91	2.18	2.20	1.65	1.71	2.38
Dividend payout ratio (%)	47.3	52.7	44.0	68.4	69.5	51.9

1 Includes operating leases.

2022 Summary

- Hydro Ottawa's cash flow-to-debt, EBIT gross interest coverage, and debt-to-capital ratios remained stable in 2022.
    - Hydro Ottawa's consolidated key metrics are closer to the BBB category under the Regulated Utilities Methodology, and in the BB category under the Independent Power Producer Methodology.
    - Given the current mix of regulated and unregulated businesses, DBRS Morningstar continues to view the rating as largely determined by the Regulated Utilities Methodology, albeit pressured by weaker results of the Independent Power Producer Methodology.
- Consolidated cash flow from operations modestly improved with contributions from the generation assets.

- Capex remained elevated because of the continued high level of capex needed in the regulated distribution business to sustain the reliability of the system.
- Dividends of $20 million paid in 2023 based on the 2022 results were in line with the Company's dividend policy. Hydro Ottawa pays dividends equal to the greater of $20 million or 60% of HOL's net income.
- The Company continued to generate negative net free cash flow because of the high level of sustaining capex required to renew its asset base.

2023 Outlook

- DBRS Morningstar expects a modest decrease in cash flow from operations for 2023, in line with the expected lower earnings.
- DBRS Morningstar is of the view that the labour disruption that occurred in the third quarter will modestly affect short-term rate base growth and productivity but will not materially affect the key credit metrics.
- Hydro Ottawa continues to invest in renewing the infrastructure of the distribution system. Capex is expected to remain elevated through 2025.

Liquidity and Credit Facilities

Credit facilities				
(CAD millions - as at December 31, 2022)	**Amount**	**CPs/Drawn/LOCs**	**Available**	**Expiry**
Revolving operating credit line 1	440.0	297.1[1]	142.9	1-Aug-25
Commercial card facility	1.0	0.0	1.0	1-Aug-25
Commercial card facility (USD facility)	0.2	0.0	0.2	1-Aug-25
Total consolidated credit facilities	**441.0**	**297.1**	**144.1**	

1 Includes CAD 276.4 million committed as backstop to outstanding commercial paper, CAD 10.6 million in direct draws, and CAD 10.1 million in letter of credit.

- Hydro Ottawa put in place a commercial paper program in July 2021 with a maximum availability of $400 million to help optimize short-term borrowing costs. As part of the commercial paper launch, existing credit facilities balances have been rolled into the commercial paper program as shown above. Existing bank credit facilities with a total $440 million are used to backstop the commercial paper program. As of year-end 2021, $190 million of commercial paper was issued.
- Hydro Ottawa's liquidity remains reasonable to cover near- to medium-term obligations.
- The credit facility contains customary covenants and events of default. It also requires the debt-to-capitalization ratio to be at or below 75% on a consolidated basis. The Company was in compliance with its covenants as at June 30, 2023.

Long-Term Debt Maturities

Long-Term Debt Maturity			
(CAD millions - as at December 31, 2023)	**Amount**	**Rate (%)**	**Maturity**
Senior Unsecured Debentures, Series 2006-1	50.0	5.0	Dec. 2036
Senior Unsecured Debentures, Series 2013-1	150.0	4.0	May 2043
Senior Unsecured Debentures, Series 2015-1	200.0	2.6	Feb. 2025
Senior Unsecured Debentures, Series 2015-2	175.0	3.6	Feb. 2045
Notes Payable	17.6	4.1	Feb. 2041
Total recourse debt	**592.6**		
Senior secured amortizing bonds	290.5	3.5	Dec. 2059
Senior secured amortizing bonds	202.6	4.1	Mar. 2057
Total long-term debt	**1,085.1**		
Less: current portion	(2.4)		
Less: Unamortized debt-issuance costs	(7.8)		
Total	**1,075.6**		

- Debt maturities are reasonably staggered and manageable.
- The $200 million senior unsecured debentures maturing in 2025 are expected to be refinanced.
- The trust indenture for the Series 2006, Series 2013, and Series 2015 debentures contains the following covenants:
    - Any additional indebtedness subject to a 75% capitalization ratio test;
    - A negative pledge clause; and
    - Restrictions on asset sales and amalgamations.
- The Company was in compliance with its covenants as at June 30, 2023.
- DBRS Morningstar notes the $492 million senior secured amortizing bonds, representing approximately 35% of consolidated debt, are non-recourse and self-supported at the electricity generation assets level. DBRS Morningstar does not apply any notching to Hydro Ottawa's debt although it is structurally subordinated.

Generation Facilities

(as at June 30, 2023)			Capacity	% of Total	Contract
Fuel	**Facility**	**Ownership (%)**	**(MW)**	**Capacity**	**Expiry**
Hydro	Chaudiére #2 Station	100	8	6	2030
	Chaudiére #4 Station	100	8	6	2030
	Grinder Station	100	1	1	2027
	Chaudiére Hydro LP Plant	100	29	22	2057
	Chaudiére Hydro North LP Plant	100	12	9	2060
	Hull Energy	100	27	21	2060
	8 Eastern Ontario assets	100	11	8	2030
	4 New York state assets	100	23	17	
Total Hydro			**116**	**90**	
Landfill Gas	Trail Road Landfill	60	6	5	2027
	Moose Creek Landfill	50	4	3	2033
Total Landfill Gas			**10**	**8**	
Solar	Solar rooftop projects	100	2	2	2036
Total			**131**		

- Hydro Ottawa has PPAs with the IESO for all its generation facilities except for the four New York State assets.
- The Company has completed the refurbishment of the Chaudière North plant and Hull Energy assets, and has PPAs in place with the IESO for the plants. The Chaudière North plant returned to service in February 2020, and the Hull Energy returned to service in the first half of 2021.

Regulation

- HOL (the local distribution company; a regulated subsidiary of Hydro Ottawa) is regulated by the OEB under the Ontario Electricity Act, 1998.
- Hydro Ottawa is currently in year 3 of its 2021–25 Custom Incentive Regulation (Custom IR) rate filing, which was approved in its revised form in November 2020 with rates finalized on January 7, 2021. Pursuant to Ontario Energy Board (OEB) requirements, Hydro Ottawa has filed an update with requests for approval of rates for 2023.
- The 2021–25 Custom IR was initially filed in February 2020, its second such filing based on the Custom IR framework. On November 19, 2020, the OEB issued its decision, largely accepting terms of the revised application submitted in late 2020, while its January 7, 2021, decision finalized the rates to be applied. Key terms of the approved application settlement are shown in the table below, and include approved rate base as listed, an accepted ROE of 8.34% from 2021 to 23 (with 2024 and 2025 to be determined based on OEB's Cost of Capital Parameters to be issued in Q4 2023) and a cost of long-term debt of 3.30%, applicable from 2021 to 2025.

Key Terms of Approved Rate Application

(CAD millions)	2021	2022	2023	2024	2025
Revenue requirement	205.6	220.1	232.9	241.8	248.2
OM&A	93.9	96.3	98.7	101.2	103.7
Capex	163.1	124.1	109.5	116.4	115.3
Rate Base	1,218.7	1,303.9	1,349.6	1,376.8	1,419.8

- Other parameters include the following:
    - Operations, maintenance, and administration expenditures are based on budgeted costs over the five-year period covered by the rate application, and then subsequently translated to a 2021 test year with a Custom Price Escalation Factor (CPEF) applied for the following years. Consistent with the Custom IR approach, the annual adjustment rate is based on a custom index supported by testable empirical evidence and additionally includes explicit financial incentive for cost-control targets.
    - The rate application settlement includes a CPEF factor of 1.89%. This factor is based on an inflation rate as determined and updated annually by the OEB for incentive rate-setting under Price Cap IR and Annual Index plan, based on standard OEB labour/non-labour weighting factors, plus a growth factor of 0.35%, based on forecast load growth, less a productivity and stretch factor of 0.45%, based on relative benchmarking. DBRS Morningstar notes these proposed factors compare with the 2018–20 CPEF factor of 1.55%, based on an inflation factor of 1.71%, growth factor of 0.14%, and productivity factor of 0.3%.

- ROE agreed to in the settlement sets the return at 8.34% for 2021–23, based on the OEB's 2021 Cost of Capital Parameters issued in November 2020. ROE for 2024 and 2025 will be established in late 2023 when the OEB issues Cost of Capital parameters for 2024.
- Both the OEB and HOL agreed to maintain the Capital Variance Account approved in the 2016–20 rate application. The Capital Variance Account tracks variances in actual versus proposed spending and serves to ensure that if projects are delayed, any reduction in revenue requirement will reflect only the period of delay and cease when completed projects have been added to the rate base. The 2021–25 rate maintains the subaccounts tracking spending variance across three capex categories: System Access, System Services and System Renewal, and General Plant. In addition, another subaccount will be created to track System Access, because these requests are generally driven by customer request, and are generally more difficult to predict, with the level of required expenditure beyond HOL's control.
- HOL has also proposed to maintain the Earnings Sharing Mechanism, whereby excess ROE earnings above a certain threshold (excluding earnings derived from unregulated activities) would be shared 50/50 between the Company and its ratepayers.

- HOL is allowed to fully recover its purchased power costs (except doubtful accounts on power cost, which are manageable) in a timely fashion, eliminating its exposure to power price risk. DBRS Morningstar views this as a positive factor in the current regulatory system in Ontario.
- The OEB announced in April 2015 its policy to implement revenue decoupling for all local distribution companies in Ontario. Beginning December 2016, HOL phased in a fixed monthly rate for its residential customers over a four-year period. Since 2020, all residential customers have been charged a fixed monthly fee for distribution services.
    - This policy reduces HOL's volume risk, because revenues from residential customers will no longer fluctuate as a result of weather sensitivities.

Assessment of Hydro Ottawa's Regulatory Environment

The chart below reflects DBRS Morningstar's assessment of the current regulatory environment for Hydro Ottawa based on DBRS Morningstar's methodologies.

Criteria	Score	Analysis
1. Deemed Equity	Excellent Good Satisfactory Below Average Poor	The OEB allows HOL to have a deemed equity of 40%, which is consistent with the other electricity distribution companies in Ontario. As a result of the need to maintain the regulatory capital structure, Hydro Ottawa's leverage has been in line with the "A" rating range.
2. Allowed ROE	Excellent Good **Satisfactory** Below Average Poor	HOL has an allowed ROE of 8.34% for 2021–23. The difference in ROE between HOL and other distribution companies is mainly because of the timing of the regulatory filings and the interest environment prevalent at that time. ROE for 2024 and 2025 will be set based on OEB's Cost of Capital Parameters to be issued in Q4 2023.
3. Energy Cost Recovery	**Excellent** Good Satisfactory Below Average Poor	There is no power price risk for HOL because it is not responsible for purchasing power from generation facilities or the wholesale market. Power costs are passed on to rate payers at rates set by the OEB, and HOL collects the payments from its customers on a monthly basis.

Criteria	Score	Analysis
4. Capital and Operating Cost Recoveries	Excellent **Good** Satisfactory Below Average Poor	Under Custom IR, the OEB has settled with HOL on the capex plan for 2021–25. Capital costs will be added to the rate base after completion on an annual basis. DBRS Morningstar notes that a Capital Variance Account has been established to track underspending or delays in three capex categories and will be returned to customers at the end of the Custom IR period. Any overspending above the capex plan will not be charged back to customers.
5. COS vs. IRM	Excellent Good **Satisfactory** Below Average Poor	HOL is regulated under Custom IR, which is a hybrid of cost of service (COS) and the incentive rate-setting method (IRM), for a five-year period from 2021 to 2025. The inflation, productivity, and stretch factors are reasonable.
6. Political Interference	Excellent Good Satisfactory **Below Average** 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 (Hydro Ottawa is owned by Ottawa). Further, 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 **Good** Satisfactory Below Average Poor	Minimal stranded costs exist in the Ontario market. DBRS Morningstar notes that the recovery of the costs is also subject to some regulatory lag. Although stranded costs have been fully recovered in the past years, assets could potentially be written down if the OEB does not approve the recovery of the costs.
8. Rate Freeze	Excellent Good **Satisfactory** Below Average Poor	Distribution rates were frozen for a short time in the early 2000s. There have been no subsequent provincewide rate freezes.

Hydro Ottawa Holding Inc.

(CAD millions)	Jun. 30	Dec. 31	Dec. 31	Dec. 31		Jun. 30	Dec. 31	Dec. 31	Dec. 31
Assets	**2023**	**2022**	**2021**	**2020**	**Liabilities & Equity**	**2023**	**2022**	**2021**	**2020**
Cash & equivalents	11	14	24	37	Bank indebtedness	326	289	219	226
Accounts receivable	181	181	173	207	Accounts payable	203	182	192	203
Inventories	1	2	1	1	Current portion L.T.D.	2	2	1	0
Prepaid expenses & other	15	11	10	16	Other current liab.	10	7	1	0
Total current assets	**209**	**207**	**207**	**260**	**Total current liab.**	**542**	**480**	**413**	**429**
Net fixed assets	2,008	1,947	1,850	1,754	Long-term debt	1,075	1,076	1,076	1,061
Future income tax assets	6	7	7	16	Provisions	13	13	16	18
Goodwill & intangibles	157	158	163	149	Deferred income taxes	107	107	86	75
Investments & others	174	165	135	112	Other L.T. liab.	293	282	264	228
					Shareholders' equity	524	527	507	480
Total assets	**2,554**	**2,484**	**2,362**	**2,291**	**Total liab. & SE**	**2,554**	**2,484**	**2,362**	**2,291**

Balance Sheet and Liquidity and Capital Ratios

	12 mos. to Jun. 30	For the year ended December 31				
	2023	**2022**	**2021**	**2020**	**2019**	**2018**
Current ratio	0.39	0.43	0.50	0.61	0.85	0.51
Total debt in capital structure (%)[1]	72.8	72.2	71.9	72.8	72.5	68.4
Total recourse debt in capital structure (%)[1, 2]	63.6	62.5	61.2	68.0	68.8	63.3
Cash flow/Total debt (%)[1]	9.3	9.9	9.8	8.5	8.1	11.3
Cash flow/Total recourse debt (%)[1, 2]	13.7	16.0	14.3	8.9	8.5	13.8
(Cash flow dividends)/Capex (x)	0.70	0.81	0.77	0.45	0.36	0.41
Dividend payout ratio (%)	47.3	52.7	44.0	68.4	69.5	51.9
Coverage ratios (x)						
EBIT gross interest coverage[1]	1.91	2.18	2.20	1.65	1.71	2.38
EBITDA gross interest coverage[1]	3.41	3.84	3.90	3.38	3.48	4.26
Fixed-charge coverage	1.91	2.18	2.20	1.65	1.71	2.38
Profitability ratios (%)						
EBITDA margin	53.1	53.4	54.5	50.8	48.4	49.2
EBIT margin	29.8	30.3	30.8	24.8	23.8	27.5
Profit margin	12.6	13.7	15.8	11.7	11.4	14.7
Return on equity	8.1	8.7	9.6	7.0	6.9	9.4
Return on capital	4.2	4.2	4.2	3.5	3.6	4.6

1 Includes operating leases.
2 Excludes nonrecourse debt.

ESG Credit Risk Considerations

Environmental

There were no environmental factors that had a relevant or significant effect on the credit analysis. DBRS Morningstar does note that some observers have said that the derecho storm, which occurred in May, is potentially symptomatic of more severe weather events associated with climate change; however, DBRS Morningstar currently does not view this to have a rating impact.

Social

There were no social factors that had a relevant or significant effect on the credit analysis. For more details about which social factors could have an effect on the credit, please refer to the checklist below.

Governance

There were no governance factors that had a relevant or significant effect on the credit analysis. For more details about which governance factors could have an effect on the credit analysis, please refer to the checklist below.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at https://www.dbrsmorningstar.com/research/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings.

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		**Overall:**	**N**	**N**
	Emissions, Effluents, and Waste	Do we consider that the costs or risks for the issuer or its clients result, or could result, in changes to an issuerÆs financial, operational, and/or reputational standing?	**N**	**N**
	Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs and/or will such costs increase over time affecting the long term credit profile?	**N**	**N**
	Resource and Energy Management	Does the scarcity of sourcing key resources hinder the production or operations of the issuer, resulting in lower productivity and therefore 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**
	Climate and Weather Risks	In the near term, will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact? In the long term, will the issuer's or client's business activities and infrastructure be materially affected financially by a 2C rise in temperature?	**N**	**N**
Social		**Overall:**	**N**	**N**
	Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services could pose 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 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**
		Human Capital and Human Rights	**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	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could it result, in financial penalties or client attrition to the issuer?	**N**	**N**
	Occupational Health and Safety	Would the failure to address workplace hazards have a negative 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	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**
Governance		**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**
		Are there any political risks that could impact the issuer's financial position or its reputation?	**N**	**N**
		Bribery, Corruption, and Political Risks	**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**
		Corporate / Transaction Governance	**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**
		Are government officials exposed to public scrutiny and held to high ethical standards of conduct?	**N**	**N**
		Institutional Strength, Governance, and Transparency (Governments Only)	**N**	**N**
		Consolidated ESG Criteria Output:	**N**	**N**

* A Relevant Effect means that the impact of the applicable ESG risk factor has not changed the rating or rating trend on the issuer.
A Significant Effect means that the impact of the applicable ESG risk factor has changed the rating or trend on the issuer.
If any factor is proposed to have a Significant or Relevant Effect, this should be reflected in the Press Release.

Application of Multiple Methodologies

Hydro Ottawa is engaged in both regulated and unregulated businesses. The regulated business accounted for approximately 77% of EBIT in 2019, and the unregulated business accounted for the remaining 23% of earnings. Following the completion of the Refurbishment in 2020 and 2021, DBRS Morningstar estimates the unregulated business will contribute between 30% and 35% of EBIT, and the most recent results are consistent with these estimates. As a result of the material sizes and contributions from both businesses, DBRS Morningstar applies the following two methodologies for the Company: (1) the *Regulated Utilities Methodology* for Hydro Ottawa's regulated segment and (2) the *Independent Power Producer Methodology* for the Company's unregulated segment.

Rating History

	Current	2022	2021	2020	2019	2018
Issuer Rating	A (low)	A (low)	A (low)	A (low)	A	A
Senior Unsecured Debt	A (low)	A (low)	A (low)	A (low)	A	A
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	-	-	-

Previous Action

- DBRS Morningstar Confirms Hydro Ottawa Holding Inc. at A (low), Stable Trends," September 22, 2022.

Previous Report

- Hydro Ottawa Holding Inc.: Rating Report, October 19, 2022.

Notes: All figures are in Canadian dollars unless otherwise noted.

For the definition of an Issuer Rating, please refer to the Credit Ratings Global 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.

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 4,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why DBRS Morningstar is the next generation of credit ratings.

Learn more at dbrsmorningstar.com.

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). DBRS Morningstar does not hold an Australian financial services license. DBRS Morningstar credit ratings, and other types of credit opinions and reports, are not intended for Australian residents or entities. DBRS Morningstar does not authorize their distribution to Australian resident individuals or entities, and accepts no responsibility or liability whatsoever for the actions of third parties in this respect. For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: https://www.dbrsmorningstar.com/research/225752/highlights.pdf.

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

© 2023 DBRS Morningstar. All Rights Reserved. The information upon which DBRS Morningstar credit ratings and other types of credit opinions and reports are based is obtained by DBRS Morningstar from sources DBRS Morningstar believes to be reliable. DBRS Morningstar does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS Morningstar credit ratings, other types of credit opinions, reports and any other information provided by DBRS Morningstar are provided "as is" and without representation or warranty of any kind and DBRS Morningstar assumes no obligation to update any such ratings, opinions, reports or other information. DBRS Morningstar hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS Morningstar or its directors, officers, employees, independent contractors, agents, affiliates and representatives (collectively, DBRS Morningstar Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of credit ratings, other types of credit opinions and reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS Morningstar or any DBRS Morningstar Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. IN ANY EVENT, TO THE EXTENT PERMITTED BY LAW, THE AGGREGATE LIABILITY OF DBRS MORNINGSTAR AND THE DBRS MORNINGSTAR REPRESENTATIVES FOR ANY REASON WHATSOEVER SHALL NOT EXCEED THE GREATER OF (A) THE TOTAL AMOUNT PAID BY THE USER FOR SERVICES PROVIDED BY DBRS MORNINGSTAR DURING THE TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO LIABILITY, AND (B) U.S. $100. DBRS Morningstar does not act as a fiduciary or an investment advisor. DBRS Morningstar does not provide investment, financial or other advice. Credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar (a) are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities; (b) do not take into account your personal objectives, financial situations or needs; (c) should be weighed, if at all, solely as one factor in any investment or credit decision; (d) are not intended for use by retail investors; and (e) address only credit risk and do not address other investment risks, such as liquidity risk or market volatility risk. Accordingly, credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar are not a substitute for due care and the study and evaluation of each investment decision, security or credit that one may consider making, purchasing, holding, selling, or providing, as applicable. A report with respect to a DBRS Morningstar credit rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS Morningstar may receive compensation for its credit ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS Morningstar. ALL DBRS MORNINGSTAR CREDIT RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DEFINITIONS, LIMITATIONS, POLICIES AND METHODOLOGIES THAT ARE AVAILABLE ON https://www.dbrsmorningstar.com. Users may, through hypertext or other computer links, gain access to or from websites operated by persons other than DBRS Morningstar. Such hyperlinks or other computer links are provided for convenience only. DBRS Morningstar does not endorse the content, the operator or operations of third party websites. DBRS Morningstar is not responsible for the content or operation of such third party websites and DBRS Morningstar shall have no liability to you or any other person or entity for the use of third party websites.

MORNINGSTAR | DBRS

Rating Report
Hydro Ottawa Holding Inc.

DBRS Morningstar
October 19, 2022

Contents

1 Ratings
1 Rating Update
2 Financial Information
2 Issuer Description
3 Rating Considerations
5 Corporate Structure
6 Earnings and Outlook
7 Financial Profile
8 Liquidity and Credit Facilities
9 Long-Term Debt Maturities
10 Generation Facilities
10 Regulation
12 Assessment of Hydro Ottawa's Regulatory Environment
13 Balance Sheet and Liquidity and Capital Ratios
14 ESG Credit Risk Considerations
16 Application of Multiple Methodologies
16 Rating History
16 Previous Action
16 Previous Report

Victor Leung
Vice President
Project Finance
+1 416 597-7519
victor.leung@dbrsmorningstar.com

Tom Li
Vice President
Utilities
+1 416 597-7378
tom.li@dbrsmorningstar.com

Steven Lin
Assistant Vice President
Utilities
+1 416 597-7596
steven.lin@dbrsmorningstar.com

Ratings

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

Rating Update

On September 22, 2022, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating and Senior Unsecured Debt rating of Hydro Ottawa Holding Inc. (Hydro Ottawa or the Company) at A (low). Concurrently, DBRS Morningstar confirmed the rating of Hydro Ottawa's commercial paper program at R-1 (low). All trends are Stable. The confirmations reflect the continued strength and stability of the Company's regulated electricity distribution operations, its steady performance and demonstrated recovery from the effects of the Coronavirus Disease (COVID-19) pandemic, and its reasonable financial risk profile. These are increasingly offset by its portfolio of nonregulated businesses, primarily power generation assets that DBRS Morningstar views as riskier than the regulated business, and whose contribution to Hydro Ottawa's total EBIT is likely to remain at or above 30% on a continued, structural basis. This sustained increase in EBIT contribution from generation assets was the basis for the downgrades DBRS Morningstar took in 2020. In addition, the Company continues to put increased commercial focus on Envari, Hydro Ottawa's energy services division, and it recently launched Hiboo Networks Inc., a wholesale telecommunications optical fibre business, which, together with the power generation, could further increase the proportion of nonregulated businesses in the revenue mix.

Nevertheless, Hydro Ottawa's overall business risk profile continues to benefit from its stable regulated electricity distribution operations in the City of Ottawa (100% owner of Hydro Ottawa), which was most recently amply demonstrated during the pandemic. Although the Company's management has determined Hydro Ottawa is not eligible for coronavirus-related deferral accounts set up by the Ontario Energy Board to help Ontario utilities recover pandemic-related losses, the impact of this is muted by Hydro Ottawa's resilience to the effects of the pandemic over 2020 and 2021. The largest impacts of the pandemic were an increase in payment arrears at the height of the lockdown, a relatively minor incurrence of just above $4 million in pandemic-related expenses, and a moderate delay of several months to the Hull Energy refurbishment project.

Hydro Ottawa's financial risk profile weakened between 2018 and 2021 because of the Company's large capital expenditure program for maintaining its distribution infrastructure, connecting new customers, and refurbishing generating facilities at Chaudière Hydro North and Hull Energy, which temporarily

reduced revenue from these two sites. With the completion of the refurbishments to Chaudière Hydro North in early 2020 and Hull Energy in mid-2021, full distributions from the projects are now beginning to accrue to the Company. Additionally, the $290.5 million secured notes issued to fund the refurbishments have now become nonrecourse to the Company, and they are secured by the generating assets themselves (although on a consolidated basis, these continue to be recorded on the Company's balance sheet), while Hydro Ottawa's 2021 launch of its commercial paper program is helping to reduce short-term borrowing costs.

The Company's stability is partly offset by its growing portfolio of nonregulated electricity generation assets and its expanding energy services business (and eventually, its telecommunications business). The electricity generation portfolio is largely supported by annually escalated fixed-price power purchase agreements with the Independent Electricity System Operator, but DBRS Morningstar notes this business segment does involve higher volume and operational risk, leading to more volatile earnings and cash flows. Certain generation offtake contracts, notably those in the state of New York, are also subject to a degree of merchant risk. Energy services are characterized by relatively long-term service contracts of several years' duration with strong public-sector counterparties, providing a degree of revenue stability over the term of the contracts; however, to maintain or grow services revenue on a consistent basis, Envari must demonstrate it can secure new contracts as current ones roll off.

DBRS Morningstar will monitor the increasing mix of nonregulated revenue from all sources in its assessment of Hydro Ottawa's business fundamentals. If the nonregulated business' EBIT contribution increases materially above the current level, a negative rating action could occur. Additionally, negative rating actions may occur should the Company's key credit metrics deteriorate to a level no longer commensurate with the current rating category, considering the mix of the regulated and nonregulated businesses. Factors leading to a ratings upgrade are not currently likely.

Financial Information

	12 mos. to June 30	For the year ended December 31					
(CAD millions where applicable)	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**
Consolidated external debt[1]	831	1,032	1,089	1,040	800	731	642
Excluded nonrecourse debt	492	492[3]	201	201	201	201	201
Total debt in capital structure (%)[1, 2]	62.2	67.0	69.4	68.9	63.3	62.5	60.1
Cash flow/Total debt (%)[1, 2]	14.4	11.7	10.0	8.8	13.8	11.2	14.2
EBIT gross interest coverage (times)[1, 2]	2.69	2.21	2.33	2.34	3.60	2.22	2.96

1 Excludes nonrecourse debt ($201 million excluded starting 2016, $63 million excluded starting 2021, $290 million starting Dec. 2021).
2 Includes operating leases.
3 $223 million of the $492 million was released on Dec. 30, 2021.

Issuer Description

Hydro Ottawa is a holding company (wholly owned by the City) that owns the following subsidiaries: (1) Hydro Ottawa Limited (HOL), a regulated electricity distributor (Hydro Ottawa's primary business); (2) Energy Ottawa Inc. (EOI), a nonregulated power-generation company; and (3) Envari Holding Inc., which is involved in energy-management services.

Rating Considerations

Strengths

1. Stability from regulated business

The Company's low-risk regulated distribution business, which operates under a reasonable regulatory framework, contributed approximately 67% of the Company's EBIT in 2021. Earnings and cash flows have also been relatively stable, underpinned by a reasonable allowed return on equity (ROE; 8.34% for 2021 and 2022) and full and timely recovery of purchased power costs.

2. Strong franchise

Hydro Ottawa is one of the largest municipally owned local distribution companies in Ontario, serving the densely populated areas within the City and the Village of Casselman. The majority of the Company's electricity sales are to residential customers; the federal government; and the municipalities, universities, schools, and hospitals (MUSH) sector. DBRS Morningstar notes that the government and MUSH sectors have relatively stable year-over-year demand because they are less sensitive to economic cycles.

3. Long-term contracts for nonregulated power generation

Although Hydro Ottawa's nonregulated power generation business provides opportunities for earnings growth, it also entails higher business risk than the regulated distribution business. However, commodity price risk is mitigated by long-term contracts with creditworthy counterparties, such as the IESO. Both the Chaudière Falls expansion, completed in 2016, as well as the Refurbishments have 40-year contracts with the IESO.

Challenges

1. Increasing exposure to higher-risk nonregulated business

DBRS Morningstar considers Hydro Ottawa's nonregulated businesses as higher risk than its core regulated electricity distribution business. On the generation side, this is largely due to the greater volume risk associated with the generation business. Long-term contracts with offtakers have mitigated commodity price risk, but increasing exposure to this segment could result in greater volatility in the Company's earnings and cash flows. As EBIT contributed by generation has breached the previously noted 20% threshold (above 30% in 2020, up from 7.5% in 2017), DBRS Morningstar introduced the Independent Power Producer Methodology in addition to the *Rating Companies in the Regulated Electric, Natural Gas, and Water Utilities Industry* methodology (the Regulated Utilities Methodology) in its assessment of Hydro Ottawa beginning in 2020. DBRS Morningstar estimates nonregulated operations will contribute around 30% to 35% of future EBIT because Refurbishments were completed in the first half of 2021. Additionally, DBRS Morningstar also notes an increased management attention on the energy services business, with a projected tripling of revenue over the next three years based on recently won multiyear contracts. Although currently a minor portion of revenue and EBIT mix, DBRS Morningstar may put a heavier focus on the effects of this business as its proportionate EBIT contribution increases.

2. Large capex program

The Company is in the middle of major capex programs to enhance the reliability of the system and meet growing demographic demands. The OEB-approved Hydro Ottawa's Custom Incentive Rate-setting (IR) application from 2021 to 2025 includes capex spend averaging just over $100 million per year. DBRS Morningstar expects this will result in Hydro Ottawa continuing to generate modest deficits in free cash flow over the medium term.

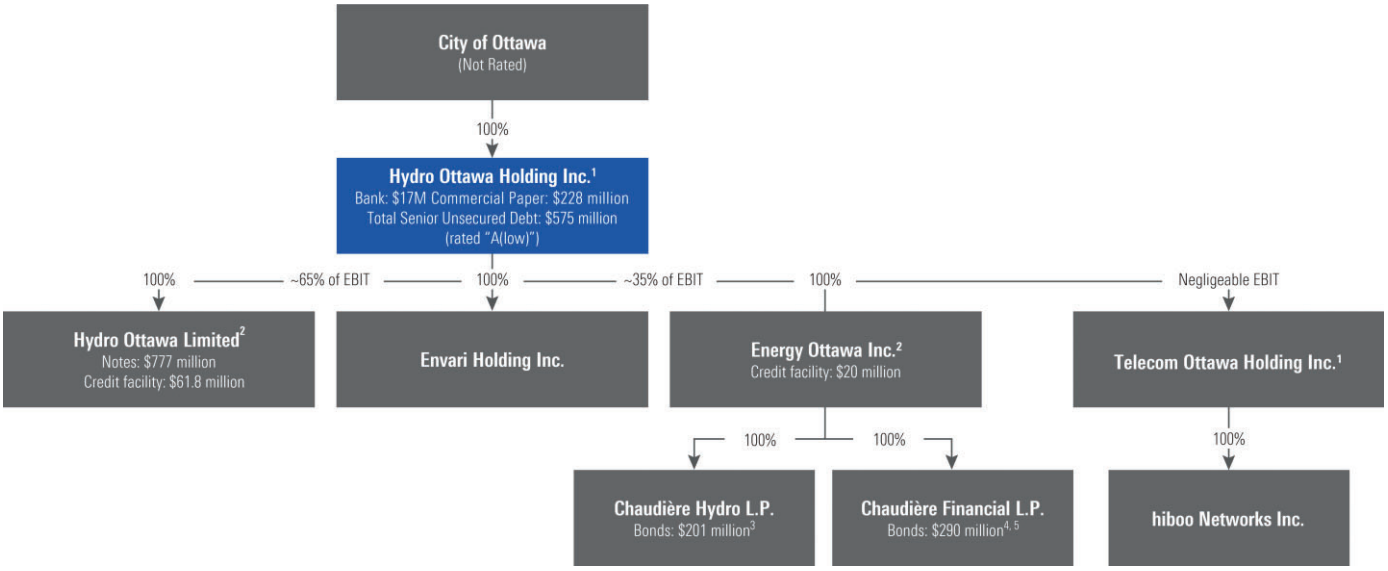
3. Operational risks

DBRS Morningstar considers the nonregulated generation segment as having higher operational risk than the regulated distribution business. Examples of operational risks include mechanical failure of the turbines or flood events that could lead to a shutdown of the generation facilities. Hydro Ottawa has already experienced several such events, including a mechanical failure in 2017 caused by a manufacturing defect leading to significant damage to one of four turbines at the Chaudière Falls Expansion and a 100-year flood event resulting in the prolonged shutdown of two stations on the Ottawa River. Such unplanned outages could significantly reduce generation output and negatively affect the earnings and cash flows of the Company. This risk is, however, partly mitigated by the maintenance of adequate insurance coverage. Hydro Ottawa maintains sufficient and appropriate insurance coverage on all generating facilities and insurance fully compensated for both 2017 events.

4. No access to equity markets

Hydro Ottawa's ownership structure (100% owned by the City) limits its ability to directly access equity markets. As a result, the Company finances any cash flow deficits largely through its revolving credit facilities and debt issuances.

Corporate Structure



1 Total Senior Unsecured Debt is presented at face value.
2 The debt at these subsidiaries is owed to the Company, mostly in the form of promissory notes.
3 The senior secured amortizing bonds were issued for the Chaudière Falls Expansion and are nonrecourse to the Company.
4 The senior secured amortizing bonds were issued by Chaudière Financial L.P. were guaranteed by the Company until the completion of the Refurbishments, which were fully completed by early 2021 and were fully nonrecourse to the Company as of year-end 2021.
5 Bond proceeds are onward lent by Chaudière Financial L.P. to various entities within the Hydro Ottawa corporate family in a series of intercompany loans.
6 The Company established a telecommunications services subsidiary in 2022. EBIT contribution is currently immaterial.
Debt balances as at June 30, 2022.
EBIT proportions represent full-year ended December 31, 2021.

- Hydro Ottawa is wholly owned by the City. All outstanding notes and credit facility at the HOL and EOI level are in the form of intercompany debt owed to the Company.
- The Company incorporated Envari Holding Inc. in 2018 to separate the energy management and infrastructure services EOI previously delivered.
- In May 2019, the Company incorporated Chaudière Financial L.P., a wholly owned subsidiary of EOI, to issue Senior Secured Amortizing Green Bonds to fund the Refurbishments. Bonds were issued with a recourse guarantee from Hydro Ottawa for the duration of the refurbishment phase. Upon completion of the refurbishments by mid-2021, the bonds' recourse to Hydro Ottawa was then fully released as of year-end 2021.
- DBRS Morningstar views the relationship between the Company and the City as strong.
    - While the City has acknowledged its commitment to retaining and supporting the Company in a situation of extraordinary financial distress, DBRS Morningstar continues to view Hydro Ottawa on a stand-alone basis, separate from the City, and has not included any potential support from the City in its assessment of the Company's ratings.

Earnings and Outlook

	12 mos. to June 30	For the year ended December 31					
(CAD millions where applicable)	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**
Total revenues	1,193	1,166	1,271	1,187	1,144	1,166	1,198
Net sales	318	299	283	282	286	257	231
EBITDA	169	163	144	137	141	118	107
EBIT	95	92	70	67	79	63	57
Gross interest expense[1]	34	31	30	24	20	26	20
Net income before nonrecurring items	43	47	33	32	42	36	38
Reported net income	43	47	33	33	42	36	35
Return on equity (%)	8.9	9.6	7.0	6.9	9.4	8.4	8.9

EBIT by subsidiary (estimate)							
(CAD millions)	**LTM**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**
Hydro Ottawa Limited	58	65	59	62	61	59	55
Energy Ottawa Inc.	41	33	25	16	20	5	5
	100	98	83	78	81	64	60
Hydro Ottawa Holding Inc. (nonconsolidated)	(4)	(6)	(13)	(10)	(2)	(1)	(3)
Hydro Ottawa Holding Inc. (consolidated)	95	92	70	67	79	63	57

1 Excludes nonrecourse debt.

2021 Summary

- Effects of the coronavirus pandemic have largely passed, although the risk of fall waves and reintroduction of some form of social distancing or other restrictions remains. Although management has determined that the Company is not eligible for the OEB's pandemic-related deferral account, pandemic-related impact was relatively muted and limited to payments in arrears of approximately 1% of revenue (concentrated primarily in the retail and small/medium-size enterprise sector), a relatively moderate increase of approximately $4 million in pandemic-related expenses, and a moderate delay of several months to the Hull Energy Refurbishment, which was completed in the first half of 2021.
- Net income increased to $47 million from $33 million, attributable to an increase in distribution revenue from regulated increases in rates and growth of customer base, in addition to increased commercial and energy services revenues as economic activity returned. Generation revenue also saw year-over-year improvement as the Hull Energy and Chaudière North facilities resume operations. The Company notes, however, that energy services expenses also increased corresponding to higher revenues, with the largest impact from contracted services and material costs.
- EBIT from nonregulated operations accounted for approximately 33% in 2021 and may increase over 2022. DBRS Morningstar views this as a permanent shift in the earnings composition of the Company and expects future earnings to be more volatile because of this increased exposure. The performance of the nonregulated generation business is typically more volatile because this sector is subject to greater volume risk.

2022 Outlook

- Earnings, including revenue, EBITDA, and EBIT for the last 12 months (LTM) June 30, 2022, are beginning to increase as revenue from the recommissioned hydro facilities at Chaudière Falls start re-

accruing to the project followed the completion of their refurbishments in early 2020 (Chaudière North) and early 2021 (Hull Energy).

- DBRS Morningstar expects earnings in 2022 to increase as higher revenues accrue from increased regulatory rates in the Distribution business, increased energy services revenues as signed contracts are executed upon, and the full year effects of Chaudière North's recommission are realized. This will be offset by considerable costs incurred in the derecho storm of May 2022, which caused localized and significant damage to the Company's distribution network, and the recovery, certain costs of which, while permitted by the regulator, are subject to delayed timing.
- DBRS Morningstar expects EBIT from nonregulated operations to account for approximately 35% to 40% of overall earnings.

Financial Profile

	12 mos. to June 30	For the year ended December 31					
(CAD millions where applicable)	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**
Net income before nonrecurring items	43	47	34	32	42	36	38
Depreciation & amortization	74	71	74	69	62	55	50
Deferred income taxes and other	13	9	1	(2)	8	(3)	3
Cash flow from operations	**130**	**128**	**109**	**100**	**113**	**88**	**90**
Dividends paid	(24)	(20.80)	(22.60)	(22.30)	(22)	(21)	(19)
Capital expenditures	(122)	(148)	(196)	(215)	(222)	(168)	(164)
Free cash flow (bef. working cap. changes)	**(16)**	**(41)**	**(110)**	**(138)**	**(131)**	**(101)**	**(93)**
Changes in working capital	(42)	14	(22)	(18)	(20)	(34)	(6)
Net free cash flow	**(58)**	**(27)**	**(132)**	**(155)**	**(151)**	**(135)**	**(99)**
Acquisitions & long-term investments	1	3	(3)	(3)	(2)	(10)	(41)
Net equity change	0	0	0	0	0	0	0
Net debt change[1]	0	190	0	135	66	77	269
Other financing	24	12	7	7	88	68	(133)
Change in cash[1]	**(34)**	**177**	**(128)**	**(16)**	**0**	**(0)**	**(4)**
Consolidated external debt[2]	1,054	1,099	1,089	1,040	800	731	642
Total debt in capital structure (%)[2, 3]	67.6	68.4	69.4	68.9	63.3	62.5	60.1
Cash flow/Total debt (%)[2, 3]	11.7	10.1	10.0	8.8	13.8	11.2	14.2
EBIT gross interest coverage (times)[2, 3]	2.72	2.36	2.33	2.34	3.60	2.22	2.96
Dividend payout ratio (%)	55.2	44.0	68.2	69.2	51.9	56.6	51.7

1 Adjusted for bank indebtedness.
2 Excludes nonrecourse debt.
3 Includes operating leases.

2021 Summary

- Hydro Ottawa's cash flow-to-debt, EBIT gross interest coverage, and debt-to-capital ratios saw improvements from 2020 as Chaudière North and Hull Energy returned to service and debt issued to finance their refurbishment became nonrecourse to Hydro Ottawa.
    - Accordingly, following several years of key financial metrics closer to the BBB category under the Regulated Utilities Methodology, and in the high BB to low BBB range under the Independent Power Producer Methodology, metrics began to return to the A range and low BBB range, respectively, when nonrecourse debt is excluded. Inclusive of nonrecourse debt, metrics will also improve but at a slower pace.

    - Given the current mix of regulated and nonregulated businesses, DBRS Morningstar continues to view the rating as largely determined by the Regulated Utilities Methodology, albeit pressured by weaker results of the Independent Power Producer Methodology.
- Consolidated cash flow from operations similarly improved with contributions from the generation assets.
- Capex remained elevated because of the continued high level of capex needed (1) in the regulated distribution business to sustain the reliability of the system and (2) to a lesser extent, from the remainder of the Refurbishments.
- Dividends of $23.7 million paid in 2022 based on 2021 results were in line with the Company's dividend policy. Hydro Ottawa pays dividends equal to the greater of $20 million or 60% of HOL's net income.
- The Company continued to generate negative net free cash flow because of the high level of sustaining capex required to renew its asset base.

2022 Outlook

- Consistent with DBRS Morningstar's expectations, Hydro Ottawa's key credit metrics continued to improve in the LTM 2022. Cash flow from operations should increase to a normalized level as the refurbished facilities return to operation. Going forward, however, cash flow from operations may be more volatile as a result of the Company's greater exposure to nonregulated operations, counterbalancing some benefits.
- Hydro Ottawa continues to invest in renewing the infrastructure of the distribution system. Capex is expected to remain at around ~$130 million for 2022 and through 2024.

Liquidity and Credit Facilities

Credit facilities				
(CAD millions - as at December 31, 2021)	**Amount**	**Drawn**	**Available**	**Expiry**
Revolving operating credit line 1	440.0	219.0[1]	221.0	1-Aug-25
Commercial card facility	1.0	0.0	1.0	1-Aug-25
Commercial card facility (USD facility)	0.2	0.0	0.2	1-Aug-25
Total consolidated credit facilities	**441.0**	**219.0**	**222.2**	

1 Includes 190.0 million committed as backstop to outstanding commercial paper and 29.0 million in direct draws.

- Hydro Ottawa put in place a commercial paper program in July 2021 with a maximum availability of $400 million to help optimize short-term borrowing costs. As part of the commercial paper launch, existing credit facilities balances have been rolled into the commercial paper program as shown above. Existing bank credit facilities with a total $440 million are used to backstop the commercial paper program. $190 million of commercial paper was issued as of year-end 2021.
- Hydro Ottawa's liquidity remains reasonable, reflecting stable cash flows and available commercial paper credit facilities.
- DBRS Morningstar believes that the Company's liquidity is sufficient to finance its capex and working capital needs.

- Hydro Ottawa's current facility is made up of the following types of credit availability:
    - A $441 million corporate revolver, due August 1, 2025, to assist in financing day-to-day operations;
    - $1.0 million and USD 0.2 million commercial card facility.
- Hydro Ottawa's intention is to maintain short-term debt outstanding to under $300 million.
- Hydro Ottawa's policy is to ensure maximum same-day draw and availability of its credit line equal to the maximum same-day maturing commercial paper. The corporate revolver is available to support the commercial paper program as necessary.
- The credit facility contains customary covenants and events of default. It also requires the debt-to-capitalization ratio to be at or below 75% on a consolidated basis. The Company was in compliance with its covenants as at June 30, 2022.

Long-Term Debt Maturities

Long-Term Debt Maturity			
(CAD millions - as at December 31, 2021)	**Amount**	**Rate (%)**	**Maturity**
Senior Unsecured Debentures, Series 2006-1	50.0	5.0	Dec. 2036
Senior Unsecured Debentures, Series 2013-1	150.0	4.0	May 2043
Senior Unsecured Debentures, Series 2015-1	200.0	2.6	Feb. 2025
Senior Unsecured Debentures, Series 2015-2	175.0	3.6	Feb. 2045
Notes Payable	15.741	3.91	Feb. 2041
Total recourse debt	**575.0**		
Senior secured amortizing bond	290.5	3.5	Dec. 2059
Senior secured amortizing bond	203.8	4.1	Mar. 2057
Total long-term debt	**1,085.1**		
Less: current portion	1.172		
Less: Unamortized debt-issuance costs	(8.4)		
Total	**1,075.8**		

- The trust indenture for the Series 2006, Series 2013, and Series 2015 debentures contains the following covenants:
    - Any additional indebtedness subject to a 75% capitalization ratio test;
    - A negative pledge clause; and
    - Restrictions on asset sales and amalgamations.
- The Company was in compliance with its covenants as at December 31, 2021.
- In January 2021, Hydro Ottawa entered into a loan and grant agreement with Federation of Canadian Municipalities (FCM) to fund an ongoing green district energy construction project undertaken by a 50% owned and controlled subsidiary.
- In July 2019, Chaudière Financial L.P. (a wholly owned subsidiary of EOI), issued $290.5 million of 3.525% Senior Secured Amortizing Green Bonds due December 31, 2059. The bonds are secured by the assets of the Refurbishments. A guarantee was provided by Hydro Ottawa until the completion of the refurbishments; the full $290.5 million has now been released from recourse to Hydro Ottawa.

Generation Facilities

(as at June 30, 2022)			Capacity	% of Total	Contract
Fuel	**Facility**	**Ownership (%)**	**(MW)**	**Capacity**	**Expiry**
Hydro	Chaudiére #2 Station	100	8	6	2030
	Chaudiére #4 Station	100	8	6	2030
	Grinder Station	100	1	1	2027
	Chaudiére Hydro LP Plant	100	29	23	2057
	Chaudiére Hydro North LP Plant	100	12	9	2060
	Hull Energy	100	27	21	2060
	6 Eastern Ontario assets	100	8	6	2030
	4 New York state assets	100	23	18	
Total Hydro			**116**	**90**	
Landfill Gas	Trail Road Landfill	60	6	5	2027
	Moose Creek Landfill	50	4	3	2033
Total Landfill Gas			**10**	**8**	
Solar	Solar rooftop projects	100	2	2	2036
Total			**128**		

- Hydro Ottawa has PPAs with the IESO for all its generation facilities except for the four New York State assets.
- The Company has completed the refurbishment of the Chaudière North plant and Hull Energy assets, and has PPAs in place with the IESO for the plants. The Chaudière North plant returned to service in February 2020, and the Hull Energy returned to service in the first half of 2021.

Regulation

- HOL (the local distribution company; a regulated subsidiary of Hydro Ottawa) is regulated by the OEB under the Ontario Electricity Act, 1998.
- Hydro Ottawa is currently in year 2 of its 2021–25 Custom Incentive Regulation (Custom IR) rate filing, which was approved in its revised form in November 2020 with rates finalized on January 7, 2021. Pursuant to Ontario Energy Board (OEB) requirements, Hydro Ottawa has filed an update with requests for approval of rates for 2023.
- The 2021–25 Custom IR was initially filed in February 2020, its second such filing based on the Custom IR framework. On November 19, 2020, the OEB issued its decision, largely accepting terms of the revised application submitted in late 2020, while its January 7, 2021, decision finalized the rates to be applied. Key terms of the approved application settlement are shown in the table below, and include approved rate base as listed, an accepted ROE of 8.34% from 2021–23 (with 2024 and 25 to be determined based on OEB's Cost of Capital Parameters to be issued in Q4 2023) and a cost of long-term debt of 3.30%, applicable from 2021–25.

Key Terms of Approved Rate Application

(CAD millions)	2021	2022	2023	2024	2025
Revenue requirement	205.6	220.1	232.9	241.8	248.2
OM&A	93.9	96.3	98.7	101.2	103.7
Capex	163.1	124.1	109.5	116.4	115.3
Rate Base	1,218.7	1,303.9	1,349.6	1,376.8	1,419.8

- Other parameters include the following:
    - Operations, maintenance, and administration expenditures are based on budgeted costs over the five-year period covered by the rate application, and then subsequently translated to a 2021 test year with a Custom Price Escalation Factor (CPEF) applied for the following years. Consistent with the Custom IR approach, the annual adjustment rate is based on a custom index supported by testable empirical evidence and additionally includes explicit financial incentive for cost-control targets.
    - The rate application settlement includes a CPEF factor of 1.89%. This factor is based on an inflation rate as determined and updated annually by the OEB for incentive rate-setting under Price Cap IR and Annual Index plan, based on standard OEB labour/nonlabour weighting factors, plus a growth factor of 0.35%, based on forecast load growth, less a productivity and stretch factor of 0.45%, based on relative benchmarking. DBRS Morningstar notes these proposed factors compare with the 2018–20 CPEF factor of 1.55%, based on an inflation factor of 1.71%, growth factor of 0.14%, and productivity factor of 0.3%.
    - ROE agreed to in the settlement sets the return at 8.34% for 2021—23, based on the OEB's 2021 Cost of Capital Parameters issued in November 2020. ROE for 2024 and 2025 will be established in late 2023 when the OEB issues Cost of Capital parameters for 2024.
    - Both the OEB and HOL agreed to maintain the Capital Variance Account approved in the 2016–20 rate application. The Capital Variance Account tracks variances in actual versus proposed spending and serves to ensure that if projects are delayed, any reduction in revenue requirement will reflect only the period of delay and cease when completed projects have been added to the rate base. The 2021–25 rate maintains the subaccounts tracking spending variance across three capex categories: System Access, System Services and System Renewal, and General Plant. In addition, another subaccount will be created to track System Access, because these requests are generally driven by customer request, and is generally more difficult to predict, with the level of required expenditure beyond HOL's control.
    - HOL has also proposed to maintain the Earnings Sharing Mechanism, whereby excess ROE earnings above a certain threshold (excluding earnings derived from nonregulated activities) would be shared 50/50 between the Company and its ratepayers.
- HOL is allowed to fully recover its purchased power costs (except doubtful accounts on power cost, which are manageable) in a timely fashion, eliminating its exposure to power price risk. DBRS Morningstar views this as a positive factor in the current regulatory system in Ontario.
- The OEB announced in April 2015 its policy to implement revenue decoupling for all local distribution companies in Ontario. Beginning December 2016, HOL phased in a fixed monthly rate for its residential customers over a four-year period. Since 2020, all residential customers have been charged a fixed monthly fee for distribution services.
    - This policy reduces HOL's volume risk, because revenues from residential customers will no longer fluctuate as a result of weather sensitivities.

Assessment of Hydro Ottawa's Regulatory Environment

The chart below reflects DBRS Morningstar's assessment of the current regulatory environment for Hydro Ottawa based on DBRS Morningstar's methodologies.

Criteria	Score	Analysis
1. Deemed Equity	Excellent Good Satisfactory Below Average Poor	The OEB allows HOL to have a deemed equity of 40%, which is consistent with the other electricity distribution companies in Ontario. As a result of the need to maintain the regulatory capital structure, Hydro Ottawa's leverage has been in line with the "A" rating range.
2. Allowed ROE	Excellent Good **Satisfactory** Below Average Poor	HOL has an allowed ROE of 8.34% for 2021–23. The difference in ROE between HOL and other distribution companies is mainly because of the timing of the regulatory filings and the interest environment prevalent at that time.
3. Energy Cost Recovery	**Excellent** Good Satisfactory Below Average Poor	There is no power price risk for HOL because it is not responsible for purchasing power from generation facilities or the wholesale market. Power costs are passed on to rate payers at rates set by the OEB, and HOL collects the payments from its customers on a monthly basis.
4. Capital and Operating Cost Recoveries	Excellent **Good** Satisfactory Below Average Poor	Under Custom IR, the OEB has settled with HOL on the capex plan for 2021–25. Capital costs will be added to the rate base after completion on an annual basis. DBRS Morningstar notes that a Capital Variance Account has been established to track underspending or delays in three capex categories and will be returned to customers at the end of the Custom IR period. Any overspending above the capex plan will not be charged back to customers.
5. COS vs. IRM	Excellent Good **Satisfactory** Below Average Poor	HOL is regulated under Custom IR, which is a hybrid of cost of service (COS) and the incentive rate-setting method (IRM), for a five-year period from 2021–25. The inflation, productivity, and stretch factors are reasonable.
6. Political Interference	Excellent Good Satisfactory **Below Average** 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 (Hydro Ottawa is owned by Ottawa). Further, 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 **Good** Satisfactory Below Average Poor	Minimal stranded costs exist in the Ontario market. DBRS Morningstar notes that the recovery of the costs is also subject to some regulatory lag. Although stranded costs have been fully recovered in the past years, assets could potentially be written down if the OEB does not approve the recovery of the costs.
8. Rate Freeze	Excellent Good **Satisfactory** Below Average Poor	Distribution rates were frozen for a short time in the early 2000s. There have been no subsequent provincewide rate freezes.

Hydro Ottawa Holding Inc.

(CAD millions)	Jun. 30	Dec. 31	Dec. 31	Dec. 31		Jun. 30	Dec. 31	Dec. 31	Dec. 31
Assets	**2022**	**2021**	**2020**	**2019**	**Liabilities & Equity**	**2022**	**2021**	**2020**	**2019**
Cash & equivalents	14	24	37	102	Bank indebtedness	246	219	226	177
Accounts receivable	181	173	207	197	Accounts payable	214	192	203	197
Inventories	1	1	1	1	Current portion L.T.D.	1	1	0	0
Prepaid expenses & other	13	10	16	17	Other current liab.	2	1	0	0
Total current assets	**210**	**207**	**260**	**318**	**Total current liab.**	**463**	**413**	**429**	**374**
Net fixed assets	1,893	1,850	1,754	1,622	Long-term debt	1,076	1,076	1,061	1,061
Future income tax assets	6	7	16	10	Provisions	16	16	18	16
Goodwill & intangibles	160	163	149	125	Deferred income taxes	86	86	75	60
Investments & others	147	135	112	88	Other L.T. liab.	268	264	228	183
					Shareholders' equity	505	507	480	470
Total assets	**2,415**	**2,362**	**2,291**	**2,162**	**Total liab. & SE**	**2,415**	**2,362**	**2,291**	**2,162**

Balance Sheet and Liquidity and Capital Ratios

	12 mos. to Jun. 30	For the year ended December 31					
	2022	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**
Current ratio	0.45	0.50	0.61	0.85	0.51	0.86	1.06
Total debt in capital structure (%)	72.4	71.9	72.8	72.5	68.4	68.0	66.4
Total debt in capital structure (%)[1, 2]	67.6	68.4	69.4	68.9	63.3	62.5	60.1
Cash flow/Total debt (%)	9.8	9.8	8.5	8.1	11.3	9.5	10.7
Cash flow/Total debt (%)[1, 2]	11.7	10.1	10.0	8.8	13.8	11.2	14.2
(Cash flow dividends)/Capex (x)	0.87	0.72	0.44	0.36	0.41	0.40	0.43
Dividend payout ratio (%)	55.2	44.0	68.2	69.2	51.9	56.6	51.7
Coverage ratios (x)							
EBIT gross interest coverage[1]	2.83	2.97	2.32	2.75	3.90	2.42	2.92
EBIT interest coverage[1, 2]	2.72	2.36	2.33	2.34	3.60	2.22	2.96
EBITDA gross interest coverage	5.03	5.26	4.76	5.59	6.99	4.53	5.44
Fixed-charge coverage	2.83	2.97	2.32	2.75	3.90	2.42	2.92
Profitability ratios (%)							
EBITDA margin	53.1	54.5	50.8	48.4	49.2	45.9	46.2
EBIT margin	29.9	30.8	24.8	23.8	27.5	24.6	24.8
Profit margin	13.5	15.8	11.7	11.4	14.7	14.2	16.2
Return on equity	8.9	9.6	7.0	6.9	9.4	8.4	8.9
Return on capital	3.9	3.8	2.9	2.9	3.9	3.8	4.3

1 Excludes nonrecourse debt.
2 Includes operating leases.

ESG Credit Risk Considerations

Environmental

There were no environmental factors that had a relevant or significant effect on the credit analysis. DBRS Morningstar does note that some observers have said that the derecho storm, which occurred in May, is potentially symptomatic of more severe weather events associated with climate change; however, DBRS Morningstar currently does not view this to have a rating impact.

Social

There were no social factors that had a relevant or significant effect on the credit analysis. For more details about which social factors could have an effect on the credit, please refer to the checklist below.

Governance

There were no governance factors that had a relevant or significant effect on the credit analysis. For more details about which governance factors could have an effect on the credit analysis, please refer to the checklist below.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at https://www.dbrsmorningstar.com/research/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings.

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		**Overall:**	**N**	**N**
	Emissions, Effluents, and Waste	Do we consider that the costs or risks for the issuer or its clients result, or could result, in changes to an issuerÆs financial, operational, and/or reputational standing?	**N**	**N**
	Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs and/or will such costs increase over time affecting the long term credit profile?	**N**	**N**
	Resource and Energy Management	Does the scarcity of sourcing key resources hinder the production or operations of the issuer, resulting in lower productivity and therefore 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**
	Climate and Weather Risks	In the near term, will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact? In the long term, will the issuer's or client's business activities and infrastructure be materially affected financially by a 2C rise in temperature?	**N**	**N**
Social		**Overall:**	**N**	**N**
	Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services could pose 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 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**
		Human Capital and Human Rights	**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	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could it result, in financial penalties or client attrition to the issuer?	**N**	**N**
	Occupational Health and Safety	Would the failure to address workplace hazards have a negative 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	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**
Governance		**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**
		Are there any political risks that could impact the issuer's financial position or its reputation?	**N**	**N**
		Bribery, Corruption, and Political Risks	**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**
		Corporate / Transaction Governance	**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**
		Are government officials exposed to public scrutiny and held to high ethical standards of conduct?	**N**	**N**
		Institutional Strength, Governance, and Transparency (Governments Only)	**N**	**N**
		Consolidated ESG Criteria Output:	**N**	**N**

* A Relevant Effect means that the impact of the applicable ESG risk factor has not changed the rating or rating trend on the issuer.
A Significant Effect means that the impact of the applicable ESG risk factor has changed the rating or trend on the issuer.
If any factor is proposed to have a Significant or Relevant Effect, this should be reflected in the Press Release.

Application of Multiple Methodologies

Hydro Ottawa is engaged in both regulated and nonregulated businesses. The regulated business accounted for approximately 77% of EBIT in 2019, and the nonregulated business accounted for the remaining 23% of earnings. Following the completion of the Refurbishment in 2020 and 2021, DBRS Morningstar estimates the nonregulated business will contribute between 30% to 35% of EBIT, and the most recent results are consistent with these estimates. As a result of the material sizes and contributions from both businesses, DBRS Morningstar applies the following two methodologies for the Company: (1) the *Regulated Utilities Methodology* for Hydro Ottawa's regulated segment and (2) the *Independent Power Producer Methodology* for the Company's nonregulated segment.

Rating History

	Current	2021	2020	2019	2018	2017
Issuer Rating	A (low)	A (low)	A (low)	A	A	A
Senior Unsecured Debt	A (low)	A (low)	A (low)	A	A	A
Commercial Paper	R-1 (low)	R-1 (low)	-	-	-	-

Previous Action

- DBRS Morningstar Confirms Hydro Ottawa Holding Inc. at A (low), Stable Trends," September 22, 2021.

Previous Report

- Hydro Ottawa Holding Inc.: Rating Report, October 29, 2021.

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 3,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why DBRS Morningstar is the next generation of credit ratings.

Learn more at dbrsmorningstar.com.

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). DBRS Morningstar does not hold an Australian financial services license. DBRS Morningstar credit ratings, and other types of credit opinions and reports, are not intended for Australian residents or entities. DBRS Morningstar does not authorize their distribution to Australian resident individuals or entities, and accepts no responsibility or liability whatsoever for the actions of third parties in this respect. For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: https://www.dbrsmorningstar.com/research/225752/highlights.pdf.

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

© 2022 DBRS Morningstar. All Rights Reserved. The information upon which DBRS Morningstar credit ratings and other types of credit opinions and reports are based is obtained by DBRS Morningstar from sources DBRS Morningstar believes to be reliable. DBRS Morningstar does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS Morningstar credit ratings, other types of credit opinions, reports and any other information provided by DBRS Morningstar are provided "as is" and without representation or warranty of any kind and DBRS Morningstar assumes no obligation to update any such ratings, opinions, reports or other information. DBRS Morningstar hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS Morningstar or its directors, officers, employees, independent contractors, agents, affiliates and representatives (collectively, DBRS Morningstar Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of credit ratings, other types of credit opinions and reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS Morningstar or any DBRS Morningstar Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. IN ANY EVENT, TO THE EXTENT PERMITTED BY LAW, THE AGGREGATE LIABILITY OF DBRS MORNINGSTAR AND THE DBRS MORNINGSTAR REPRESENTATIVES FOR ANY REASON WHATSOEVER SHALL NOT EXCEED THE GREATER OF (A) THE TOTAL AMOUNT PAID BY THE USER FOR SERVICES PROVIDED BY DBRS MORNINGSTAR DURING THE TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO LIABILITY, AND (B) U.S. $100. DBRS Morningstar does not act as a fiduciary or an investment advisor. DBRS Morningstar does not provide investment, financial or other advice. Credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar (a) are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities; (b) do not take into account your personal objectives, financial situations or needs; (c) should be weighed, if at all, solely as one factor in any investment or credit decision; (d) are not intended for use by retail investors; and (e) address only credit risk and do not address other investment risks, such as liquidity risk or market volatility risk. Accordingly, credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar are not a substitute for due care and the study and evaluation of each investment decision, security or credit that one may consider making, purchasing, holding, selling, or providing, as applicable. A report with respect to a DBRS Morningstar credit rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS Morningstar may receive compensation for its credit ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS Morningstar. ALL DBRS MORNINGSTAR CREDIT RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DEFINITIONS, LIMITATIONS, POLICIES AND METHODOLOGIES THAT ARE AVAILABLE ON https://www.dbrsmorningstar.com. Users may, through hypertext or other computer links, gain access to or from websites operated by persons other than DBRS Morningstar. Such hyperlinks or other computer links are provided for convenience only. DBRS Morningstar does not endorse the content, the operator or operations of third party websites. DBRS Morningstar is not responsible for the content or operation of such third party websites and DBRS Morningstar shall have no liability to you or any other person or entity for the use of third party websites.

MORNINGSTAR | DBRS

Rating Report
Hydro Ottawa Holding Inc.

DBRS Morningstar
September 30, 2020

Contents

1 Ratings
1 Rating Update
2 Financial Information
2 Issuer Description
2 Rating Considerations
5 Corporate Structure
6 Earnings and Outlook
7 Financial Profile
9 Liquidity and Credit Facilities
9 Long-Term Debt Maturities
10 Generation Facilities
10 Regulation
12 Assessment of Hydro Ottawa's Regulatory Environment
13 Application of Multiple Methodologies
14 Rating History
14 Previous Action
14 Previous Report

Victor Leung
+1 416 597-7519
victor.leung@dbrsmorningstar.com

Tom Li
+1 416 597-7378
tom.li@dbrsmorningstar.com

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A (low)	Downgrade	Stable
Senior Unsecured Debt	A (low)	Downgrade	Stable

Rating Update

On September 4, 2020, DBRS Limited (DBRS Morningstar) downgraded the Issuer Rating and Senior Unsecured Debt rating of Hydro Ottawa Holding Inc. (Hydro Ottawa or the Company) from "A" to A (low). Concurrently, DBRS Morningstar also changed the trends to Stable from Negative. The downgrades reflect the significantly higher EBIT proportion that Hydro Ottawa's growing non-regulated generation business contributes to the Company's results following the completion of the 12-megawatt (MW) Chaudière Hydro North LP (Chaudière North) Refurbishment in February 2020, and the anticipated growth of this segment to account for approximately 35% of EBIT once the refurbishment of the 27 MW Hull Energy LP facilities (Hull Energy Refurbishment; together with the Chaudière North Refurbishment, the Refurbishments) is completed. DBRS Morningstar considers the non-regulated business to be higher risk than Hydro Ottawa's regulated distribution business, and views the substantially increased earnings proportion from this segment to be a material and permanent shift in the business mix and risk profile of the Company. In 2019, DBRS Morningstar changed the trend to Negative in anticipation of a likely downgrade. As non-regulated EBIT has been exceeding 20%, DBRS Morningstar also includes the *Rating Companies in the Independent Power Producer Industry* methodology (Independent Power Producer Methodology) in its assessment of Hydro Ottawa.

Despite the growing importance of its generation business, Hydro Ottawa's business risk profile continues to benefit from its stable regulated electricity distribution operations in the City of Ottawa (Ottawa or the City; 100% owner of Hydro Ottawa). This stable and essential nature of the business underpinned Hydro Ottawa's relative resilience to the effects of the Coronavirus Disease (COVID-19) pandemic in the first half of 2020, the largest effects of which to date have been an increase in payment arrears at the height of the pandemic lockdown and a moderate delay of several months in the Hull Energy Refurbishment, originally scheduled for completion by the end of 2020. DBRS Morningstar notes that the amount in arrears has begun to decrease with the easing of lockdown measures and expects deferral accounts approved by the Ontario Energy Board (OEB) to accrue costs or lost revenues related to the pandemic will provide further mitigation. This stability is partly offset by the Company's growing portfolio of non-regulated electricity generation assets. While these are largely supported by long-term contracts with the Independent Electricity System Operator (IESO; rated A (high) with a Stable trend by

DBRS Morningstar), this business segment does involve higher volume and operational risk, leading to more volatile earnings and cash flows.

Hydro Ottawa's financial risk profile weakened beginning in 2018 because of a large capital expenditure (capex) program for maintaining distribution infrastructure, connecting new customers, and the Refurbishments. DBRS Morningstar notes that the Company issued $290.5 million of project-level debt in July 2019 through a financing vehicle to finance the Refurbishments. Pursuant to the terms of this debt, $67 million is due to become non-recourse to the Company later in 2020 following the completion of Chaudière North, while the remaining $223 million is anticipated to become non-recourse in 2021 after completion of Hull Energy Refurbishment. DBRS Morningstar expects the Company's key credit metrics to strengthen as distributions from the Refurbishments will then accrue to the Company and the $290 million of debt will be taken off the balance sheet. However, should the Company's key credit metrics deteriorate to a level no longer commensurate with the current rating category, considering the mix of the regulated and non-regulated businesses, further negative rating actions may occur.

Financial Information

	12 mos. to Jun. 30	For the year ended December 31				
(CAD millions where applicable)	2020	2019	2018	2017	2016	2015
Consolidated external debt [1]	1,040	1,040	800	731	642	573
Total debt in capital structure (%) [1, 2]	68.2	68.9	63.3	62.5	60.1	58.1
Cash flow/Total debt (%) [1, 2]	10.2	8.8	13.8	11.2	14.2	16.0
EBIT gross interest coverage (times) [1, 2]	2.64	2.34	3.60	2.22	2.96	2.82

1 Excludes nonrecourse debt.
2 Includes operating leases.

Issuer Description

Hydro Ottawa is a holding company (wholly owned by the City) that owns the following subsidiaries: (1) Hydro Ottawa Limited (HOL), a regulated electricity distributor (Hydro Ottawa's primary business); (2) Energy Ottawa Inc. (EOI), a non-regulated power generation company; and (3) Envari Holding Inc., which is involved in energy management services.

Rating Considerations

Strengths

1. Stability from regulated business

The Company's low-risk regulated distribution business, which operates under a reasonable regulatory framework, contributed approximately 77% of the Company's EBIT in 2019. Earnings and cash flows have also been relatively stable, underpinned by a reasonable allowed return on equity (ROE; 8.98% for 2019 to 2020) and full and timely recovery of purchased power costs.

2. Strong franchise

Hydro Ottawa is one of the largest municipally owned local distribution companies in Ontario, serving the densely populated areas within the City and the Village of Casselman. The majority of the Company's electricity sales are to residential customers; the federal government; and the municipalities, universities, schools, and hospitals (MUSH) sector. DBRS Morningstar notes that the government and

MUSH sectors have relatively stable year-over-year demand as they are less sensitive to economic cycles.

3. Demonstrated resilience to the coronavirus pandemic

Consistent with the stability derived from its regulated activities, strong franchise, and essential nature of its business, Hydro Ottawa has demonstrated resilience to the effects of the coronavirus. The provincial government mandated an extension of a disconnection moratorium to July 31, 2020, for small commercial customers which has to date mainly affected collections and bad debt, along with a small decrease in reconnection charges. DBRS Morningstar notes that the OEB has allowed utilities to set up deferral accounts to help offset revenue losses caused by the pandemic. Although the OEB has the ability to disallow amounts in the deferral accounts, DBRS Morningstar believes that the majority of such costs will be recoverable.

As of Q2 2020, payments in arrears was approximately 1% of revenue; although this is significantly higher than historical levels, the Company noted that this figure was starting to decrease over the summer months as Ontario gradually lifted its lockdown measures. DBRS Morningstar notes that as of Q2 2020, the Company had $136 million available credit on its $340 million facility, and obtained an additional $200 million on its revolving facility as a precautionary liquidity measure to help manage the uncertainty of the pandemic. This $200 million extension is currently undrawn.

4. Long-term contracts for non-regulated power generation

Although Hydro Ottawa's non-regulated power generation business provides opportunities for earnings growth, it also entails higher business risk than the regulated distribution business. However, commodity price risk is mitigated by long-term contracts with creditworthy counterparties, such as the IESO. Both the Chaudière Falls expansion, completed in 2016, as well as the Refurbishments have 40-year contracts with the IESO.

Challenges

1. Increasing exposure to higher-risk non-regulated business

DBRS Morningstar considers the non-regulated business as higher risk than Hydro Ottawa's core regulated electricity distribution business. This is largely due to the greater volume risk associated with the generation business. Although long-term contracts with offtakers have mitigated commodity price risk, increasing exposure to the non-regulated segment could result in greater volatility in the Company's earnings and cash flows. As EBIT contributed by the non-regulated business has breached the previously noted 20% threshold (23% in 2019, from 7.5% in 2017), DBRS Morningstar introduced the Independent Power Producer Methodology in addition to the *Rating Companies in the Regulated Electric, Natural Gas and Water Utilities Industry* methodology (the Regulated Utilities Methodology) in its assessment of Hydro Ottawa. DBRS Morningstar estimates non-regulated operations will contribute around 30% to 35% of EBIT following the completion of the Refurbishments.

2. *Large capex placing pressure on key credit metrics*

The Company is in the middle of major capex programs to (1) enhance the reliability of the system and meet growing demographic demands and (2) complete the Refurbishments. The OEB approved Hydro Ottawa's Custom Incentive Rate-setting (IR) application in December 2015, pre-approving the Company's five-year capex plan, which includes spending average gross capex of approximately $83 million per year. Hydro Ottawa's rate application for 2021–25 includes requests for gross capex spend averaging almost $100 million per year. DBRS Morningstar expects this will result in Hydro Ottawa continuing to generate free cash flow deficits over the medium term. As a result of the large capex program, cash flow-to-debt and debt-to-capital for the Company have been pressured.

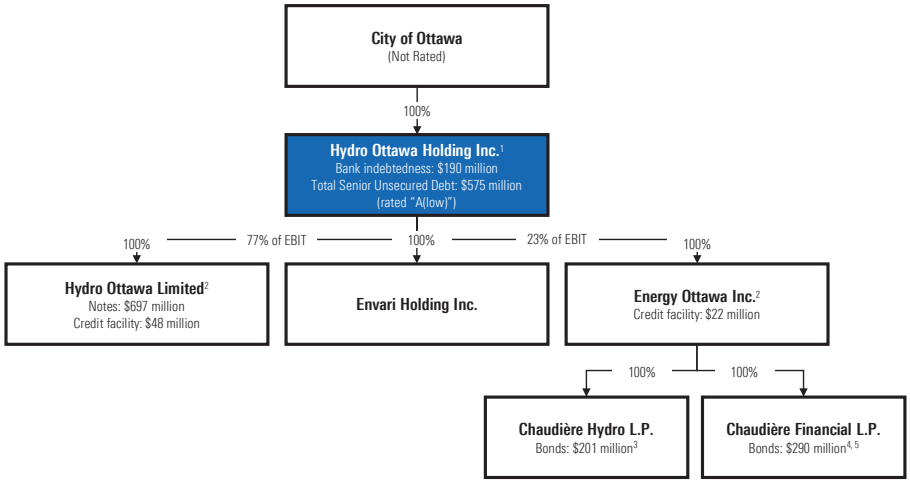
3. Operational risks

DBRS Morningstar considers the non-regulated generation segment as having higher operational risk than the regulated distribution business. Examples of operational risks include mechanical failure of the turbines or flood events that could lead to a shutdown of the generation facilities. Hydro Ottawa has already experienced several such events, including a mechanical failure in 2017 caused by a manufacturing defect leading to significant damage to one of four turbines at the Chaudière Falls Expansion and a 100 year flood event resulting in the prolonged shutdown of two stations on the Ottawa River. DBRS Morningstar notes that unplanned outages could significantly reduce generation output and negatively affect the earnings and cash flows of the Company. Additionally, a prolonged outage could also result in a failure of the Company to meet its power purchase agreement (PPA) commitments. This risk is, however, partly mitigated by the maintenance of adequate insurance coverage. Hydro Ottawa maintains sufficient and appropriate insurance coverage on all generating facilities and was fully compensated for both 2017 events by insurance.

4. No access to equity markets

Hydro Ottawa's ownership structure (100% owned by the City) limits its ability to directly access equity markets. As a result, the Company finances any cash flow deficits largely through its revolving credit facilities and debt issuances.

Corporate Structure



Note:
EBIT proportions represent full-year ending December 31, 2019.
Debt balances as at June 30, 2020.
1 Total Senior Unsecured Debt is presented at face value.
2 The debt at these subsidiaries are owed to the Company, mostly in the form of promissory notes.
3 The senior secured amortizing bonds were issued for the Chaudière Falls Expansion and are nonrecourse to the Company.
4 The senior secured amortizing bonds were issued by Chaudière Financial L.P. guaranteed by the Company until the completion of the Refurbishments after which they become non-recourse to the Company.
5 Bond proceeds are onward lent by Chaudière Financial L.P. to various entities within the Hydro Ottawa corporate family in a series of intercompany loans.

- Hydro Ottawa is wholly owned by the City. All outstanding notes and credit facility at the HOL and EOI level are in the form of intercompany debt owed to the Company.
- The Company incorporated Envari Holding Inc. in 2018 to separate the energy management and infrastructure services EOI previously delivered.
- In May 2019, the Company incorporated Chaudière Financial L.P., a wholly owned subsidiary of EOI, to issue Senior Secured Amortizing Green Bonds to fund the Refurbishments.
    - Hydro Ottawa guarantees the bonds until the recourse release dates are met following the completion of each refurbishment. DBRS Morningstar expects $67 million of these bonds to be released in late 2020, following the completion of the Chaudière North Refurbishment in February 2020, and the remaining $223 million to be released in mid-2021 after Hull Energy LP's anticipated return to service in early 2021.
- DBRS Morningstar views the relationship between the Company and the City as strong.
    - While the City has acknowledged its commitment on retaining and supporting the Company in a situation of extraordinary financial distress, DBRS Morningstar continues to view Hydro Ottawa on a stand-alone basis, separate from the City, and has not included any potential support from the City in its assessment of the Company's ratings.

Earnings and Outlook

	12 mos. to Jun. 30	For the year ended December 31				
(CAD millions where applicable)	2020	2019	2018	2017	2016	2015
Total revenues	1,237	1,187	1,144	1,166	1,198	1,088
Net sales	283	282	286	257	231	223
EBITDA	143	137	141	118	107	100
EBIT	72	67	79	63	57	57
Gross interest expense[1]	27	24	20	26	20	20
Net income before nonrecurring items	36	32	42	36	38	35
Reported net income	36	33	42	36	35	32
Return on equity (%)	7.8	6.9	9.4	8.4	8.9	8.6
Regulated rate base	N/A	1,066	913	870	833	669
Approved regulated return on equity (%)	N/A	8.98	9.19	9.19	9.19	9.42
Actual regulated return on equity (%)	N/A		9.14	10.10	9.80	7.92

EBIT by subsidiary (estimate)						
(CAD millions)	LTM	2019	2018	2017	2016	2015
Hydro Ottawa Limited	63	62	61	59	55	53
Energy Ottawa Inc.	21	16	20	5	5	8
	84	78	81	64	60	61
Hydro Ottawa Holding Inc. (noncons.)	(12)	(10)	(2)	(1)	(3)	(4)
Hydro Ottawa Holding Inc. (consolidated)	72	67	79	63	57	57

1 Excludes nonrecourse debt.

2019 Summary

- EBITDA and EBIT decreased in 2019 as earnings from EOI decreased during the Refurbishments.
- Interest expense increased as $290 million in debt issued in May 2019 for the Refurbishments is recourse to the Company during the Refurbishment phase.
    - Net income before non-recurring items fell significantly largely because of lower revenues from EOI during the Refurbishments as well as higher depreciation from growing rate base. Non-regulated operations accounted for 23% of EBIT in 2019, a decrease from 25.4% in 2018 partly from the units taken offline for refurbishments; nevertheless this remains a significant increase from 7.5% in 2017.
- Reported net income includes $13 million in conservation and demand management (CDM) revenue. DBRS Morningstar notes that CDM expenses are generally equal to revenue, and the effect on net income is generally nil. Therefore, DBRS Morningstar does not anticipate a net income impact as CDM projects are wound down per directives from Ontario.

2020 Summary and Outlook

- Earnings, including revenue, EBITDA, and EBIT for last 12 months (LTM) June 30, 2020, are beginning to increase as the 12 MW Chaudière North facility was recommissioned in February 2020 following the completion of its refurbishment.
    - LTM 2020 earnings from HOL have also increased modestly because of returns from a higher rate base and modest increase in electricity sales.
- The onset of the coronavirus pandemic did not have a material impact on results to date as outlined in previous sections of the report.

- DBRS Morningstar expects earnings in 2020 to increase from higher earnings flowing through from EOI because of the completed Chaudière North Refurbishment combined with increased earnings from HOL's growing rate base.
- DBRS Morningstar expects EBIT from non-regulated operations to account for approximately 30% for the remainder of 2020, and believes that this will increase to approximately 35% following the completion of the Hull Energy Refurbishment in 2021. DBRS Morningstar views this as a permanent shift in the earnings composition of the Company, and expects earnings going forward to be more volatile because of this increased exposure. The performance of the non-regulated generation business is typically more volatile as this sector is subject to greater volume risk.

Financial Profile

(CAD millions where applicable)	12 mos. to Jun. 30	For the year ended December 31				
Net income before nonrecurring items	2020	2019	2018	2017	2016	2015
Depreciation & amortization	36	32	42	36	38	35
Deferred income taxes and other	71	69	62	55	50	43
Cash flow from operations	**0**	**(2)**	**8**	**(3)**	**3**	**14**
Dividends paid	107	100	113	88	90	92
Capital expenditures	(10)	(22.30)	(22)	(21)	(19)	(18)
Free cash flow (bef. working cap. changes)	(223)	(215)	(222)	(168)	(164)	(124)
Changes in working capital	(126)	(138)	(131)	(101)	(93)	(50)
Net free cash flow	**(7)**	**(18)**	**(20)**	**(34)**	**(6)**	**(23)**
Acquisitions & long-term investments	(133)	(155)	(151)	(135)	(99)	(73)
Net equity change	(3)	(3)	(2)	(10)	(41)	(91)
Net debt change [1]	0	0	0	0	0	0
Other financing	135	135	66	77	269	173
Change in cash [1]	**12**	**7**	**88**	**68**	**(133)**	**26**
	12	(16)	0	(0)	(4)	35
Consolidated external debt [2]	1,040	1,040	800	731	642	573
Total debt in capital structure (%) [2, 3]	68.2	68.9	63.3	62.5	60.1	58.1
Cash flow/Total debt (%) [2, 3]	10.2	8.8	13.8	11.2	14.2	16.0
EBIT gross interest coverage (times) [2, 3]	2.64	2.34	3.60	2.22	2.96	2.82
Dividend payout ratio (%)	28.1	69.2	51.9	56.6	51.7	52.3

1 Adjusted for bank indebtedness.
2 Excludes non-recourse debt.
3 Includes operating leases.

2019 Summary

- Hydro Ottawa's cash flow-to-debt, EBIT gross interest coverage, and debt-to-capital ratios all deteriorated in 2019 as the Company issued $290 million of debt to fund the Refurbishments.
    - Consistent with this deterioration, Hydro Ottawa's key metrics for 2019 are closer to the BBB category under the Regulated Utilities Methodology, and in the high BB to low BBB range under the Independent Power Producer Methodology. However, DBRS Morningstar views these credit metrics to be a one-off occurrence and not reflective of normalized results as the debt issued will become non-recourse to Hydro Ottawa once the Hull North Refurbishment is in service.

    - Given the current mix of regulated and non-regulated businesses, DBRS Morningstar continues to view the rating as largely determined by the Regulated Utilities Methodology, albeit pressured by weaker results of the Independent Power Producer Methodology.
- Consolidated cash flow from operations decreased without the contribution from the facilities under refurbishment.
- Capex remained elevated because of continued high level of capex needed (1) in the regulated distribution business to sustain the reliability of the system and (2) for the Refurbishments.
- Dividends of $22.3 million were in line with the Company's dividend policy. Hydro Ottawa pays dividends equal to the greater of $20 million, or 60% of HOL's net income.
- The Company generated a significant negative net free cash flow because of the high level of capex. This was funded primarily through issuance of the $290 million of debt. .

2020 Outlook

- Consistent with DBRS Morningstar's expectations, Hydro Ottawa's key credit metrics began to improve in LTM 2020 as the first of the refurbished facilities at Chaudière Falls has reached completion and is now contributing earnings and cash flow to the Company.
    - DBRS Morningstar expects $67 million of project debt to be released from recourse to Hydro Ottawa by the end of 2020, which should lead to a material improvement in the credit metrics.
    - Cash flow from operations should increase to an normalized level as the refurbished facilities return to operation. Going forward, however, DBRS Morningstar expects cash flow from operations to be more volatile as a result of the Company's greater exposure to non-regulated operations, offsetting some benefits.
- DBRS Morningstar also anticipates elevated capex to continue in 2020 (approximately $250 million of annual spend), as Hydro Ottawa continues to invest in renewing the infrastructure of the distribution system and work on the Refurbishments.
    - DBRS Morningstar expects the Company's key credit metrics to remain pressured in 2020 and 2021 during its large capex program, although pressure in 2021 may be partially alleviated as the refurbishment program comes to completion. Renewal of distribution system infrastructure, however, is expected to continue through to 2025.

Liquidity and Credit Facilities

Credit facilities				
(CAD millions; as at Dec. 31, 2019)	**Amount**	**Drawn**	**Available**	**Expiry**
Revolving operating credit line 1	190.0	25.3	164.7	1-Aug-22
Revolving operating credit line 2	150.0	150.0	0.0	1-Aug-22
Commercial card facility[1]	0.75	0.0	0.8	
Commercial card facility (USD facility)[1]	0.25	0.0	0.3	
Total consolidated credit facilities	341.0	175.3	165.7	

1 No expiry date on commercial card facilities per commitment letter with issuing financial institution

- Hydro Ottawa's liquidity remained reasonable, reflecting stable cash flows and available credit facilities. As at December 31, 2019, the Company had $14.7 million in standby letters of credit outstanding.
- DBRS Morningstar believes that the Company's liquidity is sufficient to finance its capex and working capital needs.
- Hydro Ottawa's current facility is made up of the following types of credit availability:
    - $190 million three-year revolving operating line with two years remaining,
    - $150 million revolving term line to fund operating activities and to refinance debt, and
    - $0.75 million and USD 0.2 million commercial card facility.
- The credit facility contains customary covenants and events of default, including a covenant to maintain the consolidated tangible net worth in excess of $175 million at all times. It also requires the debt-to-capitalization ratio to be at or below 75% on a consolidated basis. The Company was in compliance with its covenants as at June 30, 2020.

Long-Term Debt Maturities

(CAD millions; as at Dec. 31, 2019)	**Amount**	**Rate (%)**	**Maturity**
Senior Unsecured Debentures, Series 2006-1	50.0	5.0	Dec. 2036
Senior Unsecured Debentures, Series 2013-1	150.0	4.0	May 2043
Senior Unsecured Debentures, Series 2015-1	200.0	2.6	Feb. 2025
Senior Unsecured Debentures, Series 2015-2	175.0	3.6	Feb. 2045
Total recourse debt	**575.0**		
Senior secured amortizing bond	290.5	3.5	Dec. 2059
Senior secured amortizing bond	203.8	4.1	Mar. 2057
Total long-term debt	**1,069.3**		
Less: Unamortized debt-issuance costs	(8.6)		
Total	**1,060.7**		

- The trust indenture for the Series 2006, Series 2013, and Series 2015 debentures contains the following covenants:
    - Any additional indebtedness is subject to a 75% capitalization ratio test,
    - A negative pledge clause, and
    - Restrictions on asset sales and amalgamations.
- The Company was in compliance with its covenants as at December 31, 2019.
- In July 2019, Chaudière Financial L.P. (a wholly owned subsidiary of EOI), issued $290.5 million of 3.525% Senior Secured Amortizing Green Bonds due December 31, 2059. The bonds are secured by the assets of the Refurbishments, with a guarantee provided by Hydro Ottawa until the recourse release dates.
    - The Company expects $67 million of recourse debt to be released by the end of 2020.

Generation Facilities

(as at Jun. 30, 2019)			Capacity	% of Total	Contract
Fuel	**Facility**	**Ownership (%)**	**(MW)**	**Capacity**	**Expiry**
Hydro	Chaudière #2 Station	100	8	6	2030
	Chaudière #4 Station	100	8	6	2030
	Grinder Station	100	1	1	2027
	Chaudière Hydro LP Plant	100	29	23	2057
	Chaudière Hydro North LP Plant	100	12	9	2060
	Hull Energy	100	27	21	2060
	6 Eastern Ontario assets	100	8	6	2030
	4 New York state assets	100	23	18	
Total Hydro			**116**	**90**	
Landfill Gas	Trail Road Landfill	60	6	5	2027
	Moose Creek Landfill	50	4	3	2033
Total Landfill Gas			**10**	**8**	
Solar	Solar rooftop projects	100	2	2	2036
Total			**128**		

- Hydro Ottawa has PPAs with the IESO for all its generation facilities except for the four New York State assets.
- The Company is currently refurbishing the Chaudière North plant and Hull Energy assets. Hydro Ottawa has PPAs with the IESO for the plants following the completion of the Refurbishments.
    - The Chaudière North plant returned to service in February 2020, with Hull Energy expected to be in service in the first half of 2021.

Regulation

- HOL (the local distribution company; a regulated subsidiary of Hydro Ottawa) is regulated by the OEB under the Ontario Electricity Act, 1998.
- On February 10, 2020, HOL filed its rate application for January 1, 2021, through December 31, 2025, based on a Custom Incentive Regulation (Custom IR) framework. This application is the second rate application that HOL has filed under the Custom IR framework. Hearings for the application were held via video conferencing rather than in person because of the coronavirus pandemic. A decision is expected by the end of 2020.
    - Proposed rates, capex spend, and rate base for 2021 to 2025 are as follows. DBRS Morningstar notes that once approved, the Company will be required to confirm and update annually:

CAD millions	2021	2022	2023	2024	2025
Revenue requirement	205.6	220.1	232.9	241.8	248.2
OM&A	93.9	96.3	98.7	101.2	103.7
Capex.	163.1	124.1	109.5	116.4	115.3
Rate base	1,218.7	1,303.9	1,349.6	1,376.8	1,419.8

    - Operations, maintenance, and administration expenditures are based on budgeted costs over the five-year period covered by the rate application, and then subsequently translated to a 2021 test year with a Custom Price Escalation Factor (CPEF) applied for the following years. Consistent with the Custom IR approach, the annual adjustment rate is based on a custom

index supported by testable empirical evidence, and additionally includes explicit financial incentive for cost control targets.

- Hydro Ottawa is proposing a CPEF factor of 2.51%. This factor is based on an average inflation rate from 2017 to 2025 of 2.26%, derived from historic inflation rates of applicable cost categories; plus a growth factor of 0.40%, based on forecast load growth; less a productivity and stretch factor of 0.15%, based on relative benchmarking. DBRS Morningstar notes these proposed factors compare with the 2018 to 2020 CPEF factor of 1.55%, based on an inflation factor of 1.71%, growth factor of 0.14%, and productivity factor of 0.3%.
- The rate application uses a forecast ROE of between 8.88% to 9.46% over the five-year period of the application.
- The capex plan averages $100 million per year and addresses requirements to update aging distribution infrastructure as well as set HOL up to handle anticipated technology and usage changes.
- HOL proposes to maintain the Capital Variance Account that was approved in the 2016–20 rate application. The Capital Variance Account tracks variances in actual versus proposed spending, and serves to ensure that if projects are delayed, any reduction in revenue requirement will only reflect the period of delay and cease when completed projects have been added to the rate base. The 2016–20 rate application tracked variances in three capital spend categories: System Access, System Services and System Renewal, and General Plant. For the 2021–25 application, HOL has requested that a special subaccount be created to track System Access, as these requests are generally driven by customer request, and is generally more difficult to predict, with the level of required expenditure beyond HOL's control.
- HOL has also proposed to maintain the Earnings Sharing Mechanism, whereby excess ROE earnings above a certain threshold would be shared 50/50 between the Company and its ratepayers.

- HOL is allowed to fully recover its purchased power costs (except doubtful accounts on power cost, which are manageable) in a timely fashion, eliminating its exposure to power price risk. DBRS Morningstar views this as a positive factor in the current regulatory system in Ontario.
- HOL will continue to operate under the current approved rate regime until the end of 2020. This rate regime, approved in December 2015, was based on HOL's rate application for 2016–20 and was HOL's first application under the Custom IR framework. Key aspects of the approved application initially included a CPEF of 1.91% and 1.55% (2019–20) and approved ROE of 9.19% (2016–18) and 8.98% (2019–20), with the changes in 2019 largely from updated inflation parameters adopted by the OEB. Other notable aspects of the current rate regime include a growth factor of 0.14% and stretch factor of 0.3% (which DBRS Morningstar notes as more conservative than the values proposed in the 2021–25 application); an Efficiency Adjustment Mechanism to handle an event that HOL is moved to a different efficiency cohort; a deferral account related to Hydro Ottawa's new administrative facility; and a Capital Variance Account and Earnings Sharing Mechanism similar to what is proposed in the 2021–25 application.
- The OEB announced in April 2015 its policy to implement revenue decoupling for all local distribution companies in Ontario. Beginning December 2016, HOL phased in a fixed monthly rate for its residential

customers over a four-year period. Since 2020, all residential customers have been charged a fixed monthly fee for distribution services.

- This policy reduces HOL's volume risk, as revenues from residential customers will no longer fluctuate as a result of weather sensitivities.

Assessment of Hydro Ottawa's Regulatory Environment

The chart below reflects DBRS Morningstar's assessment of the current regulatory environment for Hydro Ottawa based on DBRS Morningstar's methodologies.

Criteria	Score	Analysis
(1) Deemed Equity	Excellent Good **Satisfactory** Below Average Poor	The OEB allows HOL to have a deemed equity of 40%, which is consistent with the other electricity distribution companies in Ontario. As a result of the need to maintain the regulatory capital structure, Hydro Ottawa's leverage has been in line with the "A" rating range.
(2) Allowed ROE	Excellent Good **Satisfactory** Below Average Poor	HOL has an allowed ROE of 8.98% for 2019 to 2020. The difference in ROE between HOL and other distribution companies is mainly due to the timing of the regulatory filings and the interest environment prevalent at that time.
(3) Energy Cost Recovery	**Excellent** Good Satisfactory Below Average Poor	There is no power price risk for HOL as it is not responsible for purchasing power from generation facilities or the wholesale market. Power costs are passed on to rate payers at rates set by the OEB, and HOL collects the payments from its customers on a monthly basis.
(4) Capital and Operating Cost Recoveries	Excellent **Good** Satisfactory Below Average Poor	Under Custom IR, the OEB has approved HOL's capex plan for 2016 to 2020. Capital costs will be added to the rate base after completion on an annual basis. DBRS Morningstar notes that a Capital Variance Account has been established to track underspending or delays in three capex categories and will be returned to customers at the end of the Custom IR period. Any overspending above the capex plan will not be charged back to customers.
(5) COS vs. IRM	Excellent Good **Satisfactory** Below Average Poor	HOL is regulated under Custom IR, which is a hybrid of cost of service (COS) and the incentive rate-setting method (IRM), for a five-year period from 2016 to 2020. The inflation, productivity, and stretch factors are reasonable.
(6) Political Interference	Excellent Good Satisfactory **Below Average** 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 (Hydro Ottawa is owned by Ottawa). Further, 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 **Good** Satisfactory Below Average Poor	Minimal stranded costs exist in the Ontario market. DBRS Morningstar notes that the recovery of the costs is also subject to some regulatory lag. Although stranded costs have been fully recovered in the past years, assets could potentially be written down if the OEB does not approve the recovery of the costs.
(8) Rate Freeze	Excellent Good **Satisfactory** Below Average Poor	Distribution rates were frozen for a short time in the early 2000s. There have been no subsequent provincewide rate freezes.

Hydro Ottawa Holding Inc.

(CAD millions)	Jun. 30	Dec. 31	Dec. 31		Jun. 30	Dec. 31	Dec. 31
Assets	**2020**	**2019**	**2018**	**Liabilities & Equity**	**2020**	**2019**	**2018**
Cash & equivalents	65	102	17	Bank indebtedness	190	177	227
Accounts receivable	172	197	179	Accounts payable	180	197	174
Inventories	1	1	1	Current portion L.T.D.	0	0	0
Prepaid expenses & other	22	17	11	Other current liab.	1	0	4
Total current assets	**259**	**318**	**208**	**Total current liab.**	**372**	**374**	**405**
Net fixed assets	1,685	1,622	1,450	Long-term debt	1,061	1,061	773
Future income tax assets	10	10	8	Provisions	16	16	13
Goodwill & intangibles	137	125	124	Deferred income taxes	60	60	45
Investments & others	100	88	65	Other L.T. liab.	199	183	156
				Shareholders' equity	484	470	463
Total assets	**2,191**	**2,162**	**1,856**	**Total liab. & SE**	**2,191**	**2,162**	**1,856**

Balance Sheet & Liquidity & Capital Ratios

	12 mos. to Jun. 30	For the year ended December 31				
	2020	**2019**	**2018**	**2017**	**2016**	**2015**
Current ratio	0.70	0.85	0.51	0.86	1.06	1.13
Total debt in capital structure (%)	72.1	72.5	68.4	68.0	66.4	58.0
Total debt in capital structure (%) [2,3]	68.2	68.9	63.3	62.5	60.1	58.1
Cash flow/Total debt (%)	8.5	8.1	11.3	9.5	10.7	16.0
Cash flow/Total debt (%) [2,3]	10.2	8.8	13.8	11.2	14.2	16.0
(Cash flow-dividends)/Capex (times)	0.43	0.36	0.41	0.40	0.43	0.59
Dividend payout ratio (%)	28.1	69.2	51.9	56.6	51.7	52.3
Coverage Ratios (times)						
EBIT gross interest coverage [2]	2.63	2.75	3.90	2.42	2.92	2.82
EBIT interest coverage [2,3]	2.64	2.34	3.60	2.22	2.96	2.82
EBITDA gross interest coverage	5.22	5.59	6.99	4.53	5.44	4.94
Fixed-charge coverage	2.63	2.75	3.90	2.42	2.92	2.82
Profitability Ratios (%)						
EBITDA margin	50.4	48.4	49.2	45.9	46.2	44.8
EBIT margin	25.4	23.8	27.5	24.6	24.8	25.6
Profit margin	12.6	11.4	14.7	14.2	16.2	15.6
Return on equity	7.8	6.9	9.4	8.4	8.9	8.6
Return on capital	3.5	2.9	3.9	3.8	4.3	5.3

1 2014 to 2020 based on IFRS; 2013 based on CGAAP.

2 Excludes nonrecourse debt.

3 Includes operating leases.

Application of Multiple Methodologies

Hydro Ottawa is engaged in both regulated and non-regulated businesses. The regulated business accounted for approximately 77% of EBIT in 2019, and the non-regulated business accounted for the remaining 23% of earnings. Following the completion of the Refurbishment in 2020 and 2021, DBRS Morningstar estimates the non-regulated business will contribute between 30% to 35% of EBIT. As a result of the material sizes and contributions from both businesses, DBRS Morningstar applies the following two methodologies for the Company: (1) the Regulated Utilities Methodology for Hydro Ottawa's regulated segment and (2) the Independent Power Producer Methodology for the Company's non-regulated segment.

Rating History

	Current	2019	2018	2017	2016	2015
Issuer Rating	A (low)	A	A	A	A	A
Senior Unsecured Debt	A (low)	A	A	A	A	A

Previous Action

- "DBRS Changes Trends on Hydro Ottawa Holding Inc. to Negative, Confirms Ratings at "A"," August 26, 2019.

Previous Report

- Hydro Ottawa Holding Inc.: Rating Report, September 25, 2019.

Notes:
All figures are in Canadian dollars unless otherwise noted.

For the definition of an Issuer Rating, please refer to the Credit Ratings Global 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.

About DBRS Morningstar

DBRS Morningstar is a global credit ratings business with approximately 700 employees in eight offices globally.

On July 2, 2019, Morningstar, Inc. completed its acquisition of DBRS. Combining DBRS' strong market presence in Canada, the U.S., and Europe with Morningstar Credit Ratings' U.S. footprint has expanded global asset class coverage and provided investors with an enhanced platform featuring thought leadership, analysis, and research. DBRS and Morningstar Credit Ratings are committed to empowering investor success, serving the market through leading-edge technology and raising the bar for the industry.

Together as DBRS Morningstar, we are the world's fourth-largest credit ratings agency and a market leader in Canada, the U.S., and Europe in multiple asset classes. We rate more than 2,600 issuers and 54,000 securities worldwide and are driven to bring more clarity, diversity, and responsiveness to the ratings process. Our approach and size provide the agility to respond to customers' needs, while being large enough to provide the necessary expertise and resources.

The DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(CRA, NRSRO affiliate, DRO affiliate). Morningstar Credit Ratings, LLC is a NRSRO affiliate of DBRS, Inc.

For more information on regulatory registrations, recognitions and approvals of the DBRS group of companies and Morningstar Credit Ratings, LLC, please see: http://www.dbrsmorningstar.com/research/highlights.pdf.

The DBRS group and Morningstar Credit Ratings, LLC are wholly-owned subsidiaries of Morningstar, Inc.

© 2020 Morningstar. All rights reserved. The information upon which DBRS ratings and other types of credit opinions and reports are based is obtained by DBRS from sources DBRS believes to be reliable. DBRS does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS ratings, other types of credit opinions, reports and any other information provided by DBRS are provided "as is" and without representation or warranty of any kind. DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS or any DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. No DBRS entity is an investment advisor. DBRS does not provide investment, financial or other advice. Ratings, other types of credit opinions, other analysis and research issued or published by DBRS are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities. A report with respect to a DBRS rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS may receive compensation for its ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. DBRS is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS. ALL DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT http://www.dbrsmorningstar.com/about/disclaimer. ADDITIONAL INFORMATION REGARDING DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON http://www.dbrsmorningstar.com.

MORNINGSTAR | DBRS

Rating Report
Hydro Ottawa Holding Inc.

DBRS Morningstar
October 29, 2021

Contents

1 Ratings
1 Rating Update
2 Financial Information
2 Issuer Description
2 Rating Considerations
5 Corporate Structure
6 Earnings and Outlook
7 Financial Profile
8 Liquidity and Credit Facilities
9 Long-Term Debt Maturities
10 Generation Facilities
10 Regulation
12 Assessment of Hydro Ottawa's Regulatory Environment
13 Balance Sheet and Liquidity and Capital Ratios
14 Application of Multiple Methodologies
14 Rating History
14 Previous Action
14 Previous Report

Victor Leung
+1 416 597-7519
victor.leung@dbrsmorningstar.com

Tom Li
+1 416 597-7378
tom.li@dbrsmorningstar.com

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A (low)	Confirm	Stable
Senior Unsecured Debt	A (low)	Confirm	Stable
Commercial Paper	R-1 (low)	Confirm	Stable

Rating Update

On September 22, 2021, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating and Senior Unsecured Debt rating of Hydro Ottawa Holding Inc. (Hydro Ottawa or the Company) at A (low). Concurrently, DBRS Morningstar confirmed the rating of Hydro Ottawa's commercial paper program at R-1 (low). All trends are Stable. The confirmations reflect the continued strength and stability of the Company's regulated electricity distribution operations, its steady performance and demonstrated resiliency over the course of the Coronavirus Disease (COVID-19) pandemic, and its reasonable financial risk profile. These are partly offset by its portfolio of generation assets that DBRS Morningstar views as riskier than the regulated business, whose contribution to Hydro Ottawa's total EBIT is expected to remain above 30% on a continued, structural basis. DBRS Morningstar notes that this sustained increase in EBIT contribution from generation assets was the basis for the negative rating action that DBRS Morningstar took in 2020. In addition, the increased commercial focus on Envari, Hydro Ottawa's energy services division, also has the potential to introduce a material, nonregulated business to the revenue mix.

Hydro Ottawa's business risk profile continues to benefit from its stable regulated electricity distribution operations in the City of Ottawa (the City; 100% owner of Hydro Ottawa) despite the increased importance of its generation business. The stable and essential nature of this business underpinned Hydro Ottawa's relative resilience to the effects of the coronavirus pandemic over 2020 and 2021, the largest of which were an increase in payment arrears at the height of the pandemic lockdown (but which has since largely levelled off), a relatively moderate increase of approximately $4 million in pandemic-related expenses, and a moderate delay of several months to the Hull Energy Refurbishment, which was completed in the first half of 2021. The Company's stability is partly offset by its growing portfolio of nonregulated electricity generation assets. While these are largely supported by long-term contracts with the Independent Electricity System Operator (IESO; rated A (high) with a Stable trend by DBRS Morningstar), DBRS Morningstar notes that this business segment does involve higher volume and operational risk, leading to more volatile earnings and cash flows. Furthermore, in addition to the IESO contracts, certain generation offtake contracts, notably those situated in New York, are subject to a degree of merchant risk.

Hydro Ottawa's financial risk profile weakened between 2018 and 2020 because of the Company's large capital expenditure (capex) program for maintaining its distribution infrastructure, connecting new customers, and its Refurbishment projects. DBRS Morningstar notes that refurbishment of the generating facilities at Chaudière Falls North was completed in 2020 and at Hull Energy in Q2 2021. With the completion of the Hull project, the $290.5 million project debt issuance is anticipated to become nonrecourse by the end of 2021. DBRS Morningstar expects the Company's key credit metrics to strengthen as distributions from the Refurbishments accrue to the Company. Hydro Ottawa's corporate guarantee on $290.5 million of debt is expected to be released in Q4 2021, while the July 2021 launch of Hydro Ottawa's commercial paper program will reduce short-term borrowing costs. DBRS Morningstar will monitor the increasing mix of nonregulated revenues, primarily from the generation business but also from the energy services business, in its assessment of Hydro Ottawa's business fundamentals. Should the Company's key credit metrics deteriorate to a level no longer commensurate with the current rating category, considering the mix of the regulated and nonregulated businesses, negative rating actions may occur.

Financial Information

	12 mos. to Jun. 30	For the year ended December 31					
(CAD millions where applicable)	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Consolidated external debt[1]	1,082	1,089	1,040	800	731	642	573
Total debt in capital structure (%)[1, 2]	69.1	69.4	68.9	63.3	62.5	60.1	58.1
Cash flow/Total debt (%)[1, 2]	10.6	10.0	8.8	13.8	11.2	14.2	16.0
EBIT gross interest coverage (times)[1, 2]	2.51	2.33	2.34	3.60	2.22	2.96	2.82

1 Excludes nonrecourse debt.
2 Includes operating leases.

Issuer Description

Hydro Ottawa is a holding company (wholly owned by the City) that owns the following subsidiaries: (1) Hydro Ottawa Limited (HOL), a regulated electricity distributor (Hydro Ottawa's primary business); (2) Energy Ottawa Inc. (EOI), a nonregulated power-generation company; and (3) Envari Holding Inc., which is involved in energy-management services.

Rating Considerations

Strengths

1. Stability from regulated business

The Company's low-risk regulated distribution business, which operates under a reasonable regulatory framework, contributed approximately 65% of the Company's EBIT in 2020. Earnings and cash flows have also been relatively stable, underpinned by a reasonable allowed return on equity (ROE; 8.98% for 2019 to 2020) and full and timely recovery of purchased power costs.

2. Strong franchise

Hydro Ottawa is one of the largest municipally owned local distribution companies in Ontario, serving the densely populated areas within the City and the Village of Casselman. The majority of the Company's

electricity sales are to residential customers; the federal government; and the municipalities, universities, schools, and hospitals (MUSH) sector. DBRS Morningstar notes that the government and MUSH sectors have relatively stable year-over-year demand because they are less sensitive to economic cycles.

3. Demonstrated resilience to the coronavirus pandemic

Consistent with the stability derived from its regulated activities, strong franchise, and essential nature of its business, Hydro Ottawa has demonstrated resilience to the effects of the coronavirus. Effects of the pandemic to date have been modest, the largest of which were an increase in payment arrears at the height of the pandemic lockdown (but which has since largely leveled off), a relatively muted increase of approximately $4 million in pandemic-related expenses, and a moderate delay of several months to the Hull Energy Refurbishment, which was completed in the first half of 2021.

4. Long-term contracts for nonregulated power generation

Although Hydro Ottawa's nonregulated power generation business provides opportunities for earnings growth, it also entails higher business risk than the regulated distribution business. However, commodity price risk is mitigated by long-term contracts with creditworthy counterparties, such as the IESO. Both the Chaudière Falls expansion, completed in 2016, as well as the Refurbishments have 40-year contracts with the IESO.

Challenges

1. Increasing exposure to higher-risk nonregulated business

DBRS Morningstar considers Hydro Ottawa's nonregulated businesses as higher risk than its core regulated electricity distribution business. On the generation side, this is largely due to the greater volume risk associated with the generation business. Long-term contracts with offtakers have mitigated commodity price risk, but increasing exposure to this segment could result in greater volatility in the Company's earnings and cash flows. As EBIT contributed by generation has breached the previously noted 20% threshold (above 30% in 2020, up from 7.5% in 2017), DBRS Morningstar introduced the Independent Power Producer Methodology in addition to the *Rating Companies in the Regulated Electric, Natural Gas, and Water Utilities Industry* methodology (the Regulated Utilities Methodology) in its assessment of Hydro Ottawa beginning in 2020. DBRS Morningstar estimates nonregulated operations will contribute around 30% to 35% of future EBIT because Refurbishments were completed in the first half of 2021. Additionally, DBRS Morningstar also notes an increased management attention on the energy services business, with a projected tripling of revenue over the next three years based on recently won multiyear contracts. Although currently a minor portion of revenue and EBIT mix, DBRS Morningstar may put a heavier focus on the effects of this business as its proportionate EBIT contribution increases.

2. *Large capex placing pressure on key credit metrics*

The Company is in the middle of major capex programs to enhance the reliability of the system and meet growing demographic demands. The OEB-approved Hydro Ottawa's Custom Incentive Rate-setting (IR) application in December 2020 includes capex spend averaging just over $100 million per year. DBRS

Morningstar expects this will result in Hydro Ottawa continuing to generate free cash flow deficits over the medium term. As a result of the large capex program, cash flow-to-debt and debt-to-capital for the Company have been pressured.

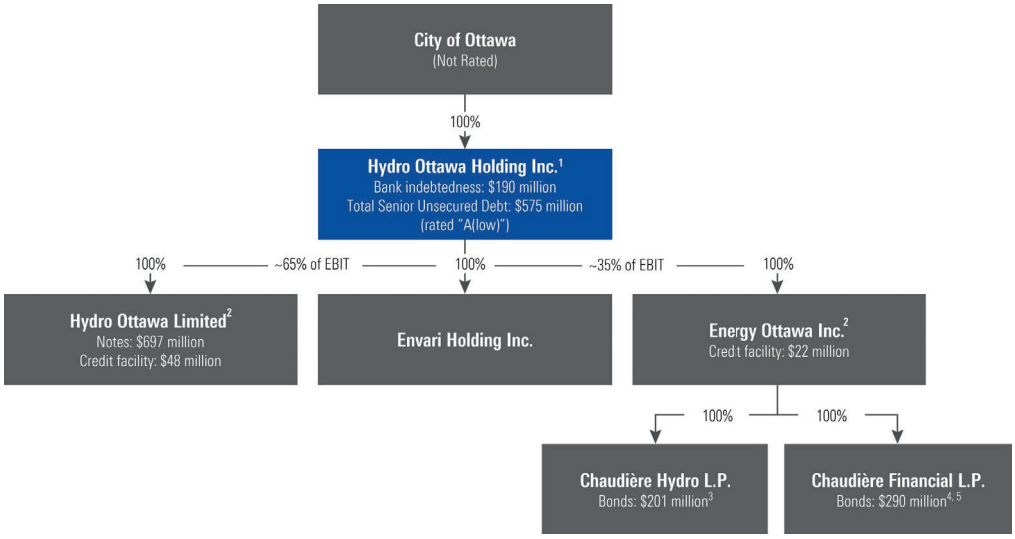
3. Operational risks

DBRS Morningstar considers the nonregulated generation segment as having higher operational risk than the regulated distribution business. Examples of operational risks include mechanical failure of the turbines or flood events that could lead to a shutdown of the generation facilities. Hydro Ottawa has already experienced several such events, including a mechanical failure in 2017 caused by a manufacturing defect leading to significant damage to one of four turbines at the Chaudière Falls Expansion and a 100-year flood event resulting in the prolonged shutdown of two stations on the Ottawa River. Such unplanned outages could significantly reduce generation output and negatively affect the earnings and cash flows of the Company, and a prolonged outage could also result in a failure of the Company to meet its power purchase agreement (PPA) commitments. This risk is, however, partly mitigated by the maintenance of adequate insurance coverage. Hydro Ottawa maintains sufficient and appropriate insurance coverage on all generating facilities and insurance fully compensated for both 2017 events.

4. No access to equity markets

Hydro Ottawa's ownership structure (100% owned by the City) limits its ability to directly access equity markets. As a result, the Company finances any cash flow deficits largely through its revolving credit facilities and debt issuances.

Corporate Structure



1 Total Senior Unsecured Debt is presented at face value.
2 The debt at these subsidiaries is owed to the Company, mostly in the form of promissory notes.
3 The senior secured amortizing bonds were issued for the Chaudière Falls Expansion and are nonrecourse to the Company.
4 The senior secured amortizing bonds were issued by Chaudière Financial L.P. guaranteed by the Company until the completion of the Refurbishments, after which they become nonrecourse to the Company.
5 Bond proceeds are onward lent by Chaudière Financial L.P. to various entities within the Hydro Ottawa corporate family in a series of intercompany loans.
Debt balances as at June 30, 2021.
EBIT proportions represent full-year ending December 31, 2020.

- Hydro Ottawa is wholly owned by the City. All outstanding notes and credit facility at the HOL and EOI level are in the form of intercompany debt owed to the Company.
- The Company incorporated Envari Holding Inc. in 2018 to separate the energy management and infrastructure services EOI previously delivered.
- In May 2019, the Company incorporated Chaudière Financial L.P., a wholly owned subsidiary of EOI, to issue Senior Secured Amortizing Green Bonds to fund the Refurbishments.
    - Hydro Ottawa guarantees the bonds until the recourse release dates are met following the completion of the Chaudière North and Hull Energy refurbishment. DBRS Morningstar expects the Hydro Ottawa guarantee to be released in late 2021.
- DBRS Morningstar views the relationship between the Company and the City as strong.
    - While the City has acknowledged its commitment to retaining and supporting the Company in a situation of extraordinary financial distress, DBRS Morningstar continues to view Hydro Ottawa on a stand-alone basis, separate from the City, and has not included any potential support from the City in its assessment of the Company's ratings.

Earnings and Outlook

	12 mos. to Jun. 30	For the year ended December 31					
(CAD millions where applicable)	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Total revenues	1,229	1,271	1,187	1,144	1,166	1,198	1,088
Net sales	286	283	282	286	257	231	223
EBITDA	151	144	137	141	118	107	100
EBIT	75	70	67	79	63	57	57
Gross interest expense[1]	30	30	24	20	26	20	20
Net income before nonrecurring items	38	33	32	42	36	38	35
Reported net income	38	33	33	42	36	35	32
Return on equity (%)	8.2	7.0	6.9	9.4	8.4	8.9	8.6

EBIT by subsidiary (estimate)							
(CAD millions)	**LTM**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Hydro Ottawa Limited	65	59	62	61	59	55	53
Energy Ottawa Inc.	21	25	16	20	5	5	8
	87	83	78	81	64	60	61
Hydro Ottawa Holding Inc. (nonconsolodated)	(12)	(13)	(10)	(2)	(1)	(3)	(4)
Hydro Ottawa Holding Inc. (consolidated)	75	70	67	79	63	57	57

1 Excludes nonrecourse debt.

2020 Summary

- The continuing effects of the coronavirus pandemic did not have a material impact on 2020 results. Q2 2020 payments in arrears was approximately 1% of revenue; although this was significantly higher than historical levels, this figure, concentrated primarily in the retail and small/medium-size enterprise sector, decreased over the remainder of 2020 as economic activity adapted to operating in a pandemic environment. Other effects included a relatively moderate increase of approximately $4 million in pandemic-related expenses, and a moderate delay of several months to the Hull Energy Refurbishment, which was completed in the first half of 2021.
- EBIT from nonregulated operations accounted for approximately 35% in 2020 and may increase over 2021 following completion of the Hull Energy Refurbishment. DBRS Morningstar views this as a permanent shift in the earnings composition of the Company and expects future earnings to be more volatile because of this increased exposure. The performance of the nonregulated generation business is typically more volatile because this sector is subject to greater volume risk.

2021 Outlook

- Earnings, including revenue, EBITDA, and EBIT for the last 12 months (LTM) June 30, 2021, are beginning to increase as the 12 MW Chaudière North facility was recommissioned in February 2020, followed by the recommissioning of the 27 MW Hull Energy facility in early 2021 following the completion of the refurbishment of both facilities.
- DBRS Morningstar expects earnings in 2021 to increase from higher earnings flowing from EOI as the Hull Energy refurbishment is completed combined with continued increased earnings from HOL's growing rate base.

- DBRS Morningstar expects EBIT from nonregulated operations to account for approximately 35% to 40% of overall earnings following the completion of the Hull Energy Refurbishment in 2021.

Financial Profile

	12 mos. to Jun. 30	For the year ended December 31					
(CAD millions where applicable)	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Net income before nonrecurring items	38	34	32	42	36	38	35
Depreciation & amortization	75	74	69	62	55	50	43
Deferred income taxes and other	1	1	(2)	8	(3)	3	14
Cash flow from operations	**114**	**109**	**100**	**113**	**88**	**90**	**92**
Dividends paid	(18.00)	(22.60)	(22.30)	(22.00)	(21.00)	(19.00)	(18.00)
Capital expenditures	(179)	(196)	(215)	(222)	(168)	(164)	(124)
Free cash flow (bef. working cap. changes)	**(83)**	**(110)**	**(138)**	**(131)**	**(101)**	**(93)**	**(50)**
Changes in working capital	(2)	(22)	(18)	(20)	(34)	(6)	(23)
Net free cash flow	**(85)**	**(132)**	**(155)**	**(151)**	**(135)**	**(99)**	**(73)**
Acquisitions & long-term investments	(4)	(3)	(3)	(2)	(10)	(41)	(91)
Net equity change	0	0	0	0	0	0	0
Net debt change[1]	0	0	135	66	77	269	173
Other financing	(4)	7	7	88	68	(133)	26
Change in cash[1]	**(93)**	**(128)**	**(16)**	**0**	**(0)**	**(4)**	**35**
Consolidated external debt[2]	1,082	1,089	1,040	800	731	642	573
Total debt in capital structure (%)[2, 3]	69.1	69.4	68.9	63.3	62.5	60.1	58.1
Cash flow/Total debt (%)[2, 3]	10.6	10.0	8.8	13.8	11.2	14.2	16.0
EBIT gross interest coverage (times)[2, 3]	2.51	2.33	2.34	3.60	2.22	2.96	2.82
Dividend payout ratio (%)	48.9	68.2	69.2	51.9	56.6	51.7	52.3

1 Adjusted for bank indebtedness.
2 Excludes nonrecourse debt.
3 Includes operating leases.

2020 Summary

- Hydro Ottawa's cash flow-to-debt saw a slight increase, while EBIT gross interest coverage and debt-to-capital ratios was largely constant in 2020.
    - Hydro Ottawa's key metrics for 2020 are closer to the BBB category under the Regulated Utilities Methodology, and in the high BB to low BBB range under the Independent Power Producer Methodology. However, DBRS Morningstar views these credit metrics to be a one-off occurrence and not reflective of normalized results because the debt issued will become nonrecourse to Hydro Ottawa by the end of 2021.
    - Given the current mix of regulated and nonregulated businesses, DBRS Morningstar continues to view the rating as largely determined by the Regulated Utilities Methodology, albeit pressured by weaker results of the Independent Power Producer Methodology.
- Consolidated cash flow from operations improved marginally with the additional contribution from Chaudière Hydro North as the facility came back online following the completion of its refurbishment.
- Capex remained elevated because of the continued high level of capex needed (1) in the regulated distribution business to sustain the reliability of the system and (2) for the Refurbishments.

- Dividends of $20.8 million paid in 2021 based on 2020 results were in line with the Company's dividend policy. Hydro Ottawa pays dividends equal to the greater of $20 million or 60% of HOL's net income.
- The Company generated a significant negative net free cash flow because of the high level of capex, which was funded primarily through remaining proceeds from the 2019 issuance of $290.5 million of nonrecourse project debt.

2021 Outlook

- Consistent with DBRS Morningstar's expectations, Hydro Ottawa's key credit metrics continued to improve in the LTM 2021 because the first of the refurbished facilities at Chaudière Falls has reached completion and is now contributing earnings and cash flow to the Company.
    - DBRS Morningstar expects all $290 million of related project debt to be released from recourse to Hydro Ottawa by the end of 2021, which should lead to a material improvement in the credit metrics.
    - Cash flow from operations should increase to a normalized level as the refurbished facilities return to operation. Going forward, however, cash flow from operations may be more volatile as a result of the Company's greater exposure to nonregulated operations, counterbalancing some benefits.
- Although the Refurbishments are complete, Hydro Ottawa continues to invest in renewing the infrastructure of the distribution system. Capex is expected to remain at almost $200 million for 2021, and then begin to ratchet down over the next few years to the low $100 millions by 2023.
    - As a result, cash flow metrics are likely to continue to be somewhat below rating-level expectations in 2021, partially alleviated as the refurbishment program comes to completion. Renewal of distribution system infrastructure is expected to continue through to 2025.

Liquidity and Credit Facilities

Credit facilities				
(CAD millions - as at December 31, 2020)	**Amount**	**Drawn**	**Available**	**Expiry**
Revolving operating credit line 1	190.0	75.3	114.7	1-Aug-23
Revolving operating credit line 2	150.0	150.0	0.0	1-Aug-23
Commercial card facility	0.75	0.00	0.80	1-Aug-23
Commercial card facility (USD facility)	0.25	0.00	0.30	1-Aug-23
Total consolidated credit facilities	**341.0**	**225.3**	**115.7**	

- Hydro Ottawa put in place a commercial paper program in July 2021 with a maximum availability of $400 million to help optimize short-term borrowing costs. As part of the commercial paper launch, existing credit facilities balances have been rolled into the commercial paper program as shown above. Existing bank credit facilities with a total $440 million are used to backstop the commercial paper program.
- Hydro Ottawa's liquidity remains reasonable, reflecting stable cash flows and available commercial paper credit facilities.
- DBRS Morningstar believes that the Company's liquidity is sufficient to finance its capex and working capital needs.
- Hydro Ottawa's current facility is made up of the following types of credit availability:

  - A $190 million revolving-term line, with two years remaining, to assist in financing day-to-day operations;
  - A $150 million revolving-term line with two years remaining, to assist in refinancing maturing debt and to finance day-to-day operations;.
  - $100 million revolving credit line with two years remaining, to assist in funding of capex.
  - $1.0 million and USD 0.2 million commercial card facility.
- Hydro Ottawa's intention is to refinance short-term commercial paper debt with long-term senior debt issuance to maintain short-term debt outstanding to under $300 million.
- Hydro Ottawa's policy is to ensure maximum same-day draw and availability of credit lines equal to the maximum same-day maturing commercial paper. All three credit lines are available to support the commercial paper program as necessary.
- The credit facility contains customary covenants and events of default. It also requires the debt-to-capitalization ratio to be at or below 75% on a consolidated basis. The Company was in compliance with its covenants as at June 30, 2021.

Long-Term Debt Maturities

Long-Term Debt Maturity			
(CAD millions - as at Dec. 31, 2020)	**Amount**	**Rate (%)**	**Maturity**
Senior Unsecured Debentures, Series 2006-1	50.0	5.0	Dec. 2036
Senior Unsecured Debentures, Series 2013-1	150.0	4.0	May 2043
Senior Unsecured Debentures, Series 2015-1	200.0	2.6	Feb. 2025
Senior Unsecured Debentures, Series 2015-2	175.0	3.6	Feb. 2045
Total recourse debt	**575.0**		
Senior secured amortizing bond	290.5	3.5	Dec. 2059
Senior secured amortizing bond	203.8	4.1	Mar. 2057
Total long-term debt	**1,069.3**		
Less: Unamortized debt-issuance costs	(8.4)		
Total	**1,060.9**		

- The trust indenture for the Series 2006, Series 2013, and Series 2015 debentures contains the following covenants:
  - Any additional indebtedness subject to a 75% capitalization ratio test;
  - A negative pledge clause; and
  - Restrictions on asset sales and amalgamations.
- The Company was in compliance with its covenants as at December 31, 2020.
- In July 2019, Chaudière Financial L.P. (a wholly owned subsidiary of EOI), issued $290.5 million of 3.525% Senior Secured Amortizing Green Bonds due December 31, 2059. The bonds are secured by the assets of the Refurbishments, with a guarantee provided by Hydro Ottawa until the recourse release dates.
  - The Company expects the full amount of $290.5 million of recourse debt to be released by the end of 2021.

Generation Facilities

(as at Jun. 30, 2019)			Capacity	% of Total	Contract
Fuel	**Facility**	**Ownership (%)**	**(MW)**	**Capacity**	**Expiry**
Hydro	Chaudiére #2 Station	100	8	6	2030
	Chaudiére #4 Station	100	8	6	2030
	Grinder Station	100	1	1	2027
	Chaudiére Hydro LP Plant	100	29	23	2057
	Chaudiére Hydro North LP Plant	100	12	9	2060
	Hull Energy	100	27	21	2060
	6 Eastern Ontario assets	100	8	6	2030
	4 New York state assets	100	23	18	
Total Hydro			**116**	**90**	
Landfill Gas	Trail Road Landfill	60	6	5	2027
	Moose Creek Landfill	50	4	3	2033
Total Landfill Gas			**10**	**8**	
Solar	Solar rooftop projects	100	2	2	2036
Total			**128**		

- Hydro Ottawa has PPAs with the IESO for all its generation facilities except for the four New York State assets.
- The Company has completed the refurbishment of the Chaudière North plant and Hull Energy assets, and has PPAs in place with the IESO for the plants. The Chaudière North plant returned to service in February 2020, and the Hull Energy returned to service in the first half of 2021.

Regulation

- HOL (the local distribution company; a regulated subsidiary of Hydro Ottawa) is regulated by the OEB under the Ontario Electricity Act, 1998.
- Hydro Ottawa filed its 2021–25 Custom Incentive Regulation (Custom IR) rate application in February 2020, its second such filing based on the Custom IR framework. On November 19, 2020, the OEB issued its decision, largely accepting terms of the revised application submitted in late 2020, while its January 7, 2021, decision finalized the rates to be applied. Key terms of the approved application settlement are shown in the table below, and include approved rate base as listed, an accepted ROE of 8.34% from 2021–23 (with 2024 and 25 to be determined based on OEB's Cost of Capital Parameters to be issued in Q4 2023) and a cost of long-term debt of 3.30%, applicable from 2021–25.

Key Terms of Approved Rate Application

(CAD millions)	2021	2022	2023	2024	2025
Revenue requirement	205.6	220.1	232.9	241.8	248.2
OM&A	93.9	96.3	98.7	101.2	103.7
Capex	163.1	124.1	109.5	116.4	115.3
Rate Base	1,218.7	1,303.9	1,349.6	1,376.8	1,419.8

Other parameters include the following:

- Operations, maintenance, and administration expenditures are based on budgeted costs over the five-year period covered by the rate application, and then subsequently translated to a 2021 test year with a Custom Price Escalation Factor (CPEF) applied for the following years.

Consistent with the Custom IR approach, the annual adjustment rate is based on a custom index supported by testable empirical evidence and additionally includes explicit financial incentive for cost-control targets.

- The rate application settlement includes a CPEF factor of 1.89%. This factor is based on an inflation rate as determined and updated annually by the OEB for incentive rate-setting under Price Cap IR and Annual Index plan, based on standard OEB labour/nonlabour weighting factors, plus a growth factor of 0.35%, based on forecast load growth, less a productivity and stretch factor of 0.45%, based on relative benchmarking. DBRS Morningstar notes these proposed factors compare with the 2018–20 CPEF factor of 1.55%, based on an inflation factor of 1.71%, growth factor of 0.14%, and productivity factor of 0.3%.
- ROE agreed to in the settlement sets the return at 8.34% for 2021—23, based on the OEB's 2021 Cost of Capital Parameters issued in November 2020. ROE for 2024 and 2025 will be established in late 2023 when the OEB issues Cost of Capital parameters for 2024.
- Both the OEB and HOL agreed to maintain the Capital Variance Account approved in the 2016–20 rate application. The Capital Variance Account tracks variances in actual versus proposed spending and serves to ensure that if projects are delayed, any reduction in revenue requirement will reflect only the period of delay and cease when completed projects have been added to the rate base. The 2021–25 rate maintains the subaccounts tracking spending variance across three capex categories: System Access, System Services and System Renewal, and General Plant. In addition, another subaccount will be created to track System Access, because these requests are generally driven by customer request, and is generally more difficult to predict, with the level of required expenditure beyond HOL's control.
- HOL has also proposed to maintain the Earnings Sharing Mechanism, whereby excess ROE earnings above a certain threshold (excluding earnings derived from nonregulated activities) would be shared 50/50 between the Company and its ratepayers.

- HOL is allowed to fully recover its purchased power costs (except doubtful accounts on power cost, which are manageable) in a timely fashion, eliminating its exposure to power price risk. DBRS Morningstar views this as a positive factor in the current regulatory system in Ontario.
- The OEB announced in April 2015 its policy to implement revenue decoupling for all local distribution companies in Ontario. Beginning December 2016, HOL phased in a fixed monthly rate for its residential customers over a four-year period. Since 2020, all residential customers have been charged a fixed monthly fee for distribution services.
    - This policy reduces HOL's volume risk, because revenues from residential customers will no longer fluctuate as a result of weather sensitivities.

Assessment of Hydro Ottawa's Regulatory Environment

The chart below reflects DBRS Morningstar's assessment of the current regulatory environment for Hydro Ottawa based on DBRS Morningstar's methodologies.

Criteria	Score	Analysis
(1) Deemed Equity	Excellent Good **Satisfactory** Below Average Poor	The OEB allows HOL to have a deemed equity of 40%, which is consistent with the other electricity distribution companies in Ontario. As a result of the need to maintain the regulatory capital structure, Hydro Ottawa's leverage has been in line with the "A" rating range.
(2) Allowed ROE	Excellent Good **Satisfactory** Below Average Poor	HOL has an allowed ROE of 8.34% for 2021–23. The difference in ROE between HOL and other distribution companies is mainly because of the timing of the regulatory filings and the interest environment prevalent at that time.
(3) Energy Cost Recovery	**Excellent** Good Satisfactory Below Average Poor	There is no power price risk for HOL because it is not responsible for purchasing power from generation facilities or the wholesale market. Power costs are passed on to rate payers at rates set by the OEB, and HOL collects the payments from its customers on a monthly basis.
(4) Capital and Operating Cost Recoveries	Excellent **Good** Satisfactory Below Average Poor	Under Custom IR, the OEB has settled with HOL on the capex plan for 2021–25. Capital costs will be added to the rate base after completion on an annual basis. DBRS Morningstar notes that a Capital Variance Account has been established to track underspending or delays in three capex categories and will be returned to customers at the end of the Custom IR period. Any overspending above the capex plan will not be charged back to customers.
(5) COS vs. IRM	Excellent Good **Satisfactory** Below Average Poor	HOL is regulated under Custom IR, which is a hybrid of cost of service (COS) and the incentive rate-setting method (IRM), for a five-year period from 2021–25. The inflation, productivity, and stretch factors are reasonable.
(6) Political Interference	Excellent Good Satisfactory **Below Average** 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 (Hydro Ottawa is owned by Ottawa). Further, 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 **Good** Satisfactory Below Average Poor	Minimal stranded costs exist in the Ontario market. DBRS Morningstar notes that the recovery of the costs is also subject to some regulatory lag. Although stranded costs have been fully recovered in the past years, assets could potentially be written down if the OEB does not approve the recovery of the costs.
(8) Rate Freeze	Excellent Good **Satisfactory** Below Average Poor	Distribution rates were frozen for a short time in the early 2000s. There have been no subsequent provincewide rate freezes.

Hydro Ottawa Holding Inc.

(CAD millions)	Jun. 30	Dec. 31	Dec. 31	Dec. 31		Jun. 30	Dec. 31	Dec. 31	Dec. 31
Assets	**2021**	**2020**	**2019**	**2018**	**Liabilities & Equity**	**2021**	**2020**	**2019**	**2018**
Cash & equivalents	19	37	102	17	Bank indebtedness	214	226	177	227
Accounts receivable	184	207	197	179	Accounts payable	208	203	197	174
Inventories	1	1	1	1	Current portion L.T.D.	0	0	0	0
Prepaid expenses & other	15	16	17	11	Other current liab.	0	0	0	4
Total current assets	**220**	**260**	**318**	**208**	**Total current liab.**	**422**	**429**	**374**	**405**
Net fixed assets	1,801	1,754	1,622	1,450	Long-term debt	1,069	1,061	1,061	773
Future income tax assets	15	16	10	8	Provisions	18	18	16	13
Goodwill & intangibles	167	149	125	124	Deferred income taxes	75	75	60	45
Investments & others	110	112	88	65	Other L.T. liab.	246	228	183	156
					Shareholders' equity	484	480	470	463
Total assets	**2,313**	**2,291**	**2,162**	**1,856**	**Total liab. & SE**	**2,313**	**2,291**	**2,162**	**1,856**

Balance Sheet and Liquidity and Capital Ratios

	12 mos. to Jun. 30	For the year ended December 31					
	2021	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Current ratio	0.52	0.61	0.85	0.51	0.86	1.06	1.13
Total debt in capital structure (%)	72.6	72.8	72.5	68.4	68.0	66.4	58.0
Total debt in capital structure (%)[1, 2]	69.1	69.4	68.9	63.3	62.5	60.1	58.1
Cash flow/Total debt (%)	8.9	8.5	8.1	11.3	9.5	10.7	16.0
Cash flow/Total debt (%)[1, 2]	10.6	10.0	8.8	13.8	11.2	14.2	16.0
(Cash flow dividends)/Capex (x)	0.54	0.44	0.36	0.41	0.40	0.43	0.59
Dividend payout ratio (%)	48.9	68.2	69.2	51.9	56.6	51.7	52.3
Coverage ratios (x)							
EBIT gross interest coverage[1]	2.50	2.32	2.75	3.90	2.42	2.92	2.82
EBIT interest coverage[1, 2]	2.51	2.33	2.34	3.60	2.22	2.96	2.82
EBITDA gross interest coverage	5.01	4.76	5.59	6.99	4.53	5.44	4.94
Fixed-charge coverage	2.50	2.32	2.75	3.90	2.42	2.92	2.82
Profitability ratios							
EBITDA margin (%)	52.6	50.8	48.4	49.2	45.9	46.2	44.8
EBIT margin (%)	26.2	24.8	23.8	27.5	24.6	24.8	25.6
Profit margin (%)	13.1	11.7	11.4	14.7	14.2	16.2	15.6
Return on equity (%)	8.2	7.0	6.9	9.4	8.4	8.9	8.6
Return on capital (%)	4.0	3.3	2.9	3.9	3.8	4.3	5.3

1 Excludes nonrecourse debt.
2 Includes operating leases.

Application of Multiple Methodologies

Hydro Ottawa is engaged in both regulated and nonregulated businesses. The regulated business accounted for approximately 77% of EBIT in 2019, and the nonregulated business accounted for the remaining 23% of earnings. Following the completion of the Refurbishment in 2020 and 2021, DBRS Morningstar estimates the nonregulated business will contribute between 30% to 35% of EBIT. As a result of the material sizes and contributions from both businesses, DBRS Morningstar applies the following two methodologies for the Company: (1) the *Regulated Utilities Methodology* for Hydro Ottawa's regulated segment and (2) the *Independent Power Producer Methodology* for the Company's nonregulated segment.

Rating History

	Current	2020	2019	2018	2017	2016
Issuer Rating	A (low)	A(low)	A	A	A	A
Senior Unsecured Debt	A (low)	A(low)	A	A	A	A

Previous Action

- "DBRS Morningstar Downgrades Hydro Ottawa Holding Inc. to A (low), Changes Trend to Stable," September 4, 2020.

Previous Report

- Hydro Ottawa Holding Inc.: Rating Report, September 30, 2020.

Notes:
All figures are in Canadian dollars unless otherwise noted.

For the definition of an Issuer Rating, please refer to the Credit Ratings Global 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.

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 3,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why DBRS Morningstar is the next generation of credit ratings.

Learn more at dbrsmorningstar.com.

MORNINGSTAR | DBRS

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: https://www.dbrsmorningstar.com/research/225752/highlights.pdf.

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

© 2021 DBRS Morningstar. All Rights Reserved. The information upon which DBRS Morningstar ratings and other types of credit opinions and reports are based is obtained by DBRS Morningstar from sources DBRS Morningstar believes to be reliable. DBRS Morningstar does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS Morningstar ratings, other types of credit opinions, reports and any other information provided by DBRS Morningstar are provided "as is" and without representation or warranty of any kind. DBRS Morningstar hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS Morningstar or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Morningstar Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS Morningstar or any DBRS Morningstar Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. No DBRS Morningstar entity is an investment advisor. DBRS Morningstar does not provide investment, financial or other advice. Ratings, other types of credit opinions, other analysis and research issued or published by DBRS Morningstar are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities. A report with respect to a DBRS Morningstar rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS Morningstar may receive compensation for its ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. DBRS Morningstar is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS Morningstar shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS Morningstar. ALL DBRS MORNINGSTAR RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT https://www.dbrsmorningstar.com/about/disclaimer. ADDITIONAL INFORMATION REGARDING DBRS MORNINGSTAR RATINGS AND OTHER TYPES OF CREDIT OPINIONS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON https://www.dbrsmorningstar.com.

Rating Report

Hydro Ottawa Holding Inc.

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

Victor Leung
+1 416 597 7519
vleung@dbrs.com

DBRS

Insight beyond the rating.

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Trend Change	Negative
Senior Unsecured Debt	A	Trend Change	Negative

Rating Update

On August 26, 2019, DBRS Limited (DBRS) changed the trends on the above-noted ratings of Hydro Ottawa Holding Inc. (Hydro Ottawa or the Company) to Negative from Stable; the ratings were also confirmed at "A." The confirmations reflect the continued strength of the Company's regulated electricity distribution operations. The Negative trends reflect Hydro Ottawa's growing non-regulated electricity generation business (25.7% of 2018 EBIT) which DBRS considers higher risk than the regulated business. As EBIT from investments in the non-regulated segment has significantly exceeded the previously stated 20% threshold, DBRS introduced the *Rating Companies in the Independent Power Producer Industry* methodology in its assessment of Hydro Ottawa.

Hydro Ottawa's business risk profile continues to benefit from its stable regulated electricity distribution business in the City of Ottawa (the City; 100% owner of Hydro Ottawa). However, this is partly offset by the Company's growing portfolio of non-regulated electricity generation assets. Earnings from the non-regulated business increased significantly in 2018 with of a full year's contribution from the 29-megawatt (MW) facility at Chaudière Falls (the Chaudière Falls Expansion; completed in August 2017). While non-regulated earnings are expected to decrease for 2019 during the Chaudière Hydro North and Hull Energy Refurbishments (the Refurbishments; total of 39 MW), DBRS estimates that following the Refurbishments, non-regulated operations will, on average, contribute around 30% to 35% of total annual EBIT. DBRS considers this to be a material and permanent shift in the business mix of the Company going forward, hence the introduction of the additional methodology. While Hydro Ottawa's generation assets are largely supported by long-term contracts with the Independent Electricity System Operator (IESO; rated A (high) with a Stable trend by DBRS), this business segment does involve higher volume and operational risk when compared with the incumbent regulated business and could potentially result in more volatile earnings and cash flows. DBRS will likely downgrade the ratings of Hydro Ottawa by one notch to A (low) and change the trends back to Stable from Negative following the completion of the Refurbishments in mid-2020 as non-regulated operations will then represent a significant portion of the Company's operations.

Hydro Ottawa's financial risk profile weakened in the last 12 months ending June 30, 2019 (LTM 2019), because of the large capex program for maintaining distribution infrastructure, connecting new customers and the Refurbishments. DBRS notes the Company issued around $290.5 million of project-level debt in July 2019 to finance the Refurbishments. This project-level debt will become non-recourse to Hydro Ottawa once it reaches the recourse release dates (expected by year-end 2020) after the completion of each refurbishment. DBRS then expects the Company's key credit metrics to strengthen. However, should the Company's key credit metrics deteriorate to a level no longer commensurate with the current rating category, considering the mix of the regulated and non-regulated businesses, further negative rating actions may occur.

Financial Information

	12 mos. to June 30	For the year ended December 31				
(CAD millions where applicable)	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Consolidated external debt 1	881	800	731	642	573	430
Total debt in capital structure 1, 2	65.9%	63.3%	62.5%	60.1%	58.1%	52.3%
Cash flow/Total debt 1, 2	11.4%	13.8%	11.2%	14.2%	16.0%	19.0%
EBIT gross interest coverage (times) 1, 2	3.18	3.40	2.22	2.96	2.82	2.91

1 Excludes non-recourse debt. **2** Includes operating leases.

Issuer Description

Hydro Ottawa is a holding company (wholly owned by the City) that owns the following subsidiaries: (1) Hydro Ottawa Limited, a regulated electricity distributor (Hydro Ottawa's primary business); (2) Energy Ottawa Inc., a non-regulated power generation company; and (3) Envari Holding Inc., which is involved in energy management services.

Rating Considerations

Strengths

1. Stability from regulated business

Approximately 74% of the Company's EBIT in 2018 was contributed by its low-risk regulated distribution business, which operates under a reasonable regulatory framework. Earnings and cash flows have also been relatively stable, underpinned by a reasonable allowed return on equity (ROE; 8.98% for 2019 to 2020) and full and timely recovery of purchased power costs.

2. Strong franchise

Hydro Ottawa is one of the largest municipally owned local distribution companies in Ontario, serving the densely populated areas within the City and the Village of Casselman. The majority of the Company's electricity sales are to residential customers, the federal government and the municipalities, universities, schools and hospitals sector, which have relatively stable year-over-year demand as they are less sensitive to economic cycles.

3. Long-term contracts for non-regulated power generation

Although Hydro Ottawa's non-regulated power generation business provides opportunities for earnings growth, it also entails higher business risk than the regulated distribution business. However, commodity price risk is mitigated by long-term contracts with creditworthy counterparties, such as the IESO. Both the expansion at Chaudière Falls and the Chaudière Hydro North and Hull Energy Refurbishments have 40-year contracts with the IESO.

Challenges

1. Increasing exposure to higher-risk non-regulated business

DBRS considers the non-regulated business as higher risk than Hydro Ottawa's core regulated electricity distribution business. This is largely due to the greater volume risk associated with the generation business. Although commodity price risk has been mitigated through long-term contracts, increasing exposure to the non-regulated segment could result in greater volatility in the Company's earnings and cash flows. As EBIT contributed by the non-regulated business has breached the previously noted 20% threshold (25.7% in 2018, from 7.5% in 2017), DBRS has introduced the *Rating Companies in the Independent Power Producer Industry* methodology in addition to the *Rating Companies in the Regulated Electric, Natural Gas and Water Utilities Industry* methodology in its assessment of Hydro Ottawa. DBRS estimates non-regulated operations will contribute around 30% to 35% of EBIT following the completion of the Refurbishments in 2020.

2. Large capex placing pressure on key credit metrics

The Company is in the midst of major capex programs to (1) enhance the reliability of the system and meet growing demographic demands and (2) complete the Refurbishments. The Ontario Energy Board (OEB) approved Hydro Ottawa's Custom Incentive Rate-setting (IR) application in December 2015, pre-approving the Company's five-year capex plan, which includes spending average gross capex of approximately $83 million per year. This is expected to result in Hydro Ottawa continuing to generate free cash flow deficits over the medium term. As a result of the large capex program, cash flow-to-debt and debt-to-capital for the Company have been pressured.

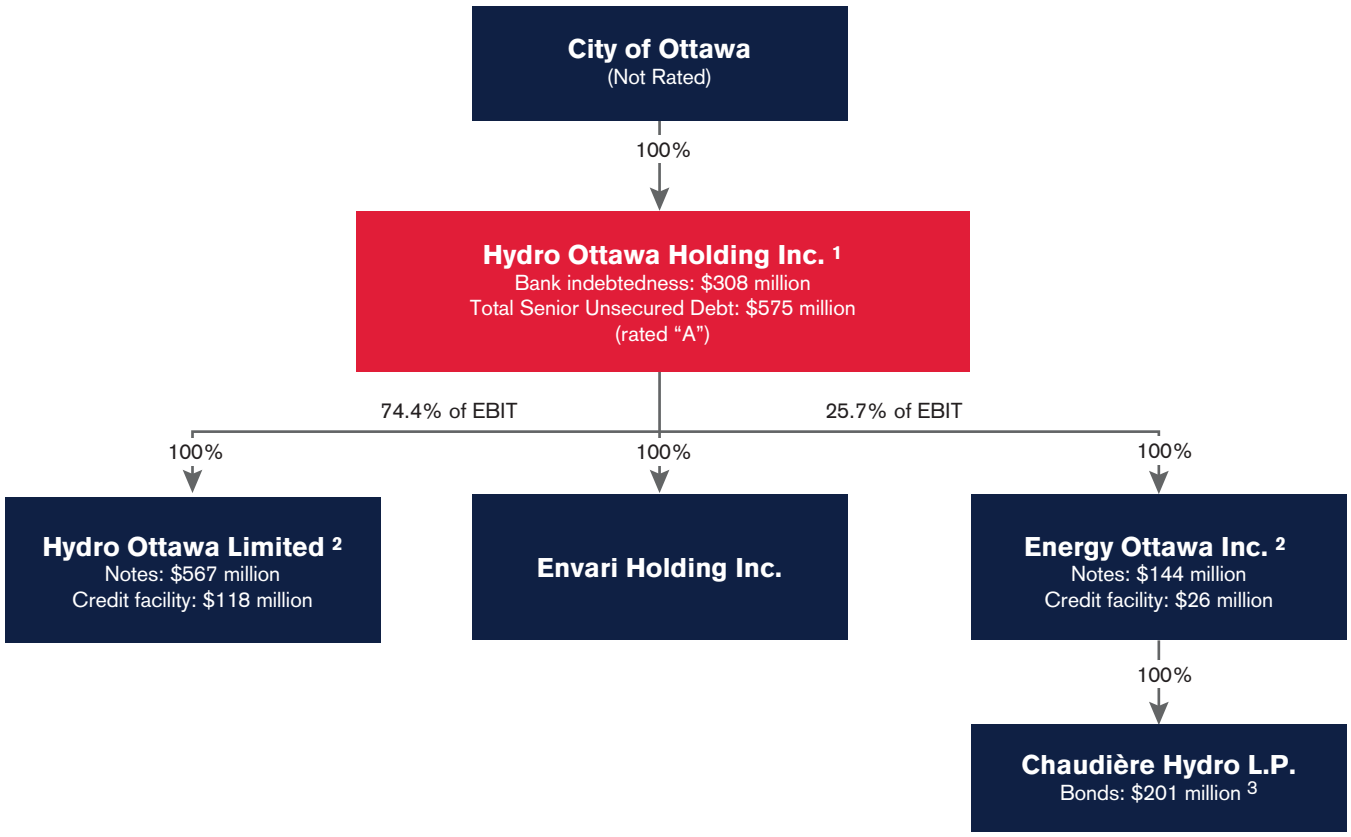
3. Operational risks

DBRS considers the non-regulated generation segment as having higher operational risk than the regulated distribution business. Examples of operational risks include mechanical failure of the turbines or flood events that could lead to a shutdown of the generation facilities. DBRS notes that unplanned outages could significantly reduce generation output and negatively affect the earnings and cash flows of the Company. Additionally, a prolonged outage could also result in a failure of the Company to meet its power purchase agreement (PPA) commitments. This risk is, however, partly mitigated by the maintenance of adequate insurance coverage.

4. No access to equity markets

Hydro Ottawa's ownership structure (100% owned by the City) limits its ability to directly access the equity markets. As a result, the Company's cash flow deficits are being financed largely through its revolving credit facilities and debt issuances.

Corporate Structure



As at June 30, 2019.
1 Total Senior Unsecured Debt is presented at face value.
2 The debt at these subsidiaries are owed to the Company, mostly in the form of promissory notes.
3 The senior secured amortizing bonds were issued for the Chaudière Falls Expansion and are non-recourse to the Company.

- Hydro Ottawa is wholly owned by the City. All outstanding notes and credit facility at the Hydro Ottawa Limited (HOL) and Energy Ottawa Inc. (EOI) level are in the form of inter-company debt owed to the Company.
- The Company incorporated Envari Holding Inc. in 2018 to separate energy management and infrastructure services previously delivered by EOI.
- In May 2019, the Company incorporated Chaudière Financial L.P., a wholly owned subsidiary of EOI, to issue Senior Secured Amortizing Green Bonds to fund the Refurbishments.
  - The bonds are guaranteed by Hydro Ottawa until the recourse release dates are met (expected in late 2019 and 2020) following the completion of each refurbishment.
- DBRS views the relationship between the Company and the City as strong.
  - While the City has acknowledged its commitment on retaining and supporting the Company in a situation of extraordinary financial distress, DBRS continues to view Hydro Ottawa on a stand-alone basis, separate from the City, and has not included any potential support from the City in its assessment of the Company's ratings.

Earnings and Outlook

	12 mos. to June 30	For the year ended December 31				
(CAD millions where applicable)	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Total revenues	1,149	1,140	1,166	1,198	1,088	1,021
Net sales	281	282	257	231	223	212
EBITDA	134	137	118	107	100	93
EBIT	71	75	63	57	57	54
Gross interest expense 1	20	20	26	20	20	19
Net income before non-recurring items	31	39	36	38	35	36
Reported net income	34	42	36	35	32	30
Return on equity	6.9%	8.7%	8.4%	8.9%	8.6%	9.0%
Regulated rate base	936	913	870	833	669	669
Approved regulated return on equity	N/A	9.19%	9.19%	9.19%	9.42%	9.42%
Actual regulated return on equity	N/A	9.14%	10.10%	9.80%	7.92%	8.06%

EBIT by Subsidiary (estimate)

(CAD millions)	**LTM**	**2018**	**2017**	**2016**	**2015**	**2014**
Hydro Ottawa Limited	56	57	59	55	53	49
Energy Ottawa Inc.	19	20	5	5	8	7
	75	**77**	**64**	**60**	**61**	**57**
Hydro Ottawa Holding Inc. (non-cons.)	(5)	(2)	(1)	(3)	(4)	(2)
Hydro Ottawa Holding Inc. (consolidated)	**71**	**75**	**63**	**57**	**57**	**54**

1 Excludes non-recourse debt.

2018 Summary

- EBITDA and EBIT increased in 2018 largely because of a full year's contribution from the Chaudière Falls Expansion, which began commercial operations in August 2017.
  - While one unit at the Chaudière Falls Expansion was out of service in 2018, Hydro Ottawa received insurance proceeds for lost generation revenues.
  - EBIT for HOL decreased modestly because of higher depreciation from the growing asset base.
- Interest expense decreased as DBRS excluded from gross interest expense interest on the non-recourse debt issued for the Chaudière Falls Expansion.
- Net income before non-recurring items increased largely because of stronger contributions from non-regulated operations.
  - Non-regulated operations accounted for 25.7% of EBIT in 2018, a significant increase from 7.5% in 2017.
- Reported net income included a $4.1 million one-time conservation and demand management payment received.

2019 Summary and Outlook

- Earnings decreased for LTM 2019 because of modestly lower earnings from both regulated and non-regulated operations, and higher income taxes.
  - Earnings from EOI was lower as two plants are out of service during the Refurbishment.
- DBRS expects earnings in 2019 to decrease as higher regulated earnings from the growing rate base will likely be offset by lower earnings from the non-regulated segment with the two plants out of service during the Refurbishments.
- While EBIT from regulated operations is expected to increase in 2019, DBRS expects non-regulated operations to contribute around 30% to 35% of EBIT beginning 2020 following the completion of Refurbishments.
  - The Negative trend reflects DBRS's expectation that Hydro Ottawa's earnings will be more volatile going forward as a result of the Company's greater exposure to non-regulated operations. Earnings from the non-regulated generation business are typically more volatile as this sector is subject to greater volume risk.

Financial Profile

	12 mos. to June 30	For the year ended December 31				
(CAD millions where applicable)	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Net income before non-recurring items	31	39	36	38	35	36
Depreciation & amortization	63	62	55	50	43	39
Deferred income taxes and other	8	11	(3)	3	14	7
Cash flow from operations	**102**	**113**	**88**	**90**	**92**	**82**
Dividends paid	(22)	(22)	(21)	(19)	(18)	(19)
Capital expenditures	(240)	(222)	(168)	(164)	(124)	(103)
Free cash flow (bef. working cap. changes)	**(160)**	**(131)**	**(101)**	**(93)**	**(50)**	**(40)**
Changes in working capital	(36)	(20)	(34)	(6)	(23)	44
Net free cash flow	**(197)**	**(151)**	**(135)**	**(99)**	**(73)**	**4**
Acquisitions & long-term investments	(3)	(2)	(10)	(41)	(91)	(3)
Net equity change	0	0	0	0	0	0
Net debt change 1	194	66	77	269	173	20
Other financing	6	88	68	(133)	26	(21)
Change in cash 1	**0**	**0**	**(0)**	**(4)**	**35**	**0**
Consolidated external debt 2	881	800	731	642	573	430
Total debt in capital structure 2, 3	65.9%	63.3%	62.5%	60.1%	58.1%	52.3%
Cash flow/Total debt 2, 3	11.4%	13.8%	11.2%	14.2%	16.0%	19.0%
EBIT gross interest coverage (times) 2, 3	3.18	3.40	2.22	2.96	2.82	2.91
Dividend payout ratio	71.4%	55.9%	56.6%	51.7%	52.3%	54.1%

1 Adjusted for bank indebtedness. 2 Excludes non-recourse debt. 3 Includes operating leases.

2018 Summary

- Hydro Ottawa's cash flow-to-debt and EBIT gross interest coverage ratios improved because of the higher earnings and cash flows. However, the debt-to-capital ratio weakened as the Company funded the Refurbishments by drawing on its credit facilities.
  - While Hydro Ottawa's key credit metrics are in line with the "A" rating category under the Regulated Utilities methodology, they are in the BBB category under the *Rating Companies in the Independent Power Producer Industry* methodology. Overall, considering the mix of regulated and non-regulated businesses, credit metrics remain in line with the "A" rating category, albeit weaker for the current ratings.
- Cash flow from operations increased significantly because of a full year's contribution from the Chaudière Falls Expansion.
- Capex remained elevated because of continued high level of capex needed (1) in the regulated distribution business to sustain the reliability of the system and (2) for the Refurbishments.
- Dividends of $21.9 million were in line with the Company's dividend policy. Hydro Ottawa pays dividends equal to the greater of $20 million, or 60% of HOL's net income.
- The Company generated a significant negative net free cash flow because of the high level of capex. This was funded through the release of restricted cash from the Chaudière Falls Expansion bond issuance and by drawing on the credit facilities.

2019 Outlook

- Hydro Ottawa's key credit metrics weakened for LTM 2019 because of the higher debt load to finance the Refurbishments.
  - In July 2019, the Company issued $290.5 million of Senior Secured Amortizing Green Bonds to finance the Refurbishments. The bonds will be recourse to Hydro Ottawa until the recourse release date following completion of each refurbishment ($67 million expected to be released by the end of 2019 and $223 million by the end of 2020).
- Cash flow from operations decreased, tracking the lower net income for the period.
  - Going forward, DBRS expects cash flow from operations to be slightly more volatile as a result of the Company's greater exposure to non-regulated operations.
- DBRS also anticipates elevated capex to continue in 2019 (approximately $250 million), as Hydro Ottawa continues to invest in renewing the infrastructure of the distribution system and work on the Refurbishments.
  - DBRS expects the Company's key credit metrics to remain pressured in 2019 and 2020 during its large capex program.

Liquidity and Credit Facilities

Credit facilities

(CAD millions - as at December 31, 2018)	Amount	Drawn/LoC	Available	Expiry
Revolving operating credit line 1	190.0	90.1	99.9	1-Aug-21
Revolving operating credit line 2	150.0	150.0	0.0	1-Aug-21
Commercial card facility	0.75	0.0	0.8	1-Aug-21
Commercial card facilitiy (USD facility)	0.25	0.0	0.3	1-Aug-19
Total consolidated credit facilities	**341.0**	**240.1**	**100.9**	

- Hydro Ottawa's liquidity remained reasonable, reflecting stable cash flows and available credit facilities. As at March 31, 2019, the Company had $14.7 million in standby letters of credit outstanding.
- DBRS believes that the Company's liquidity is sufficient to finance its capex and working capital needs.
- Hydro Ottawa renewed its credit facility in 2018. The current facility is made up of the following five types of credit availability:
  - $190 million three-year revolving operating line with two years remaining;
  - $150 million revolving term line to fund operating activities and to refinance debt; and
  - $0.75 million and USD 0.2 million commercial card facility.
- The credit facility contains customary covenants and events of default, including a covenant to maintain the consolidated tangible net worth in excess of $175 million at all times. It also requires the debt-to-capitalization ratio to be at or below 75% on a consolidated basis. The Company was in compliance with its covenants as at March 31, 2019.

Long-Term Debt Maturities

Long-Term Debt Maturity

(CAD millions - as at December 31, 2018)	Amount	Rate	Maturity
Senior Unsecured Debentures, Series 2006-1	50.0	5.0%	Dec. 2036
Senior Unsecured Debentures, Series 2013-1	150.0	4.0%	May 2043
Senior Unsecured Debentures, Series 2015-1	200.0	2.6%	Feb. 2025
Senior Unsecured Debentures, Series 2015-2	175.0	3.6%	Feb. 2045
Total recourse debt	**575.0**		
Senior secured amortizing bond	203.8	4.1%	Mar. 2057
Total long-term debt	**778.8**		
Less: Unamortized debt-issuance costs	(5.4)		
Total	**773.4**		

- The trust indenture contains the following covenants for the Series 2006, Series 2013 and Series 2015 debentures:
  - Any additional indebtedness is subject to a 75% capitalization ratio test;
  - Negative pledge clause; and
  - Restrictions on asset sales and amalgamations.
- The Company was in compliance with its covenants as at March 31, 2018.
- In July 2019, Chaudière Financial L.P. (a wholly owned subsidiary of EOI), issued $290.5 million of 3.525% Senior Secured Amortizing Green Bonds due December 31, 2059. The bonds are secured by the assets of the Refurbishments, with a guarantee provided by Hydro Ottawa until the recourse release dates.
  - The Company expects the release recourse dates to be met for $67 million of the bonds by the end of 2019, and the remaining by the end of 2020.

Generation Facilities

(as at June 30, 2019)			Capacity	% of Total	Contract
Fuel	**Facility**	**Ownership**	**(MW)**	**Capacity**	**Expiry**
Hydro	Chaudiére #2 Station	100%	8	6%	2030
	Chaudiére #4 Station	100%	8	6%	2030
	Grinder Station	100%	1	1%	2027
	Chaudiére Hydro LP Plant	100%	29	23%	2057
	Chaudiére Hydro North LP Plant	100%	12	9%	2060
	Hull Energy	100%	27	21%	2060
	6 Eastern Ontario assets	100%	8	6%	2030
	4 New York state assets	100%	23	18%	
Total Hydro			**116**	**90%**	
Landfill Gas	Trail Road Landfill	60%	6	5%	2027
	Moose Creek Landfill	50%	4	3%	2033
Total Landfill Gas			**10**	**8%**	
Solar	Solar rooftop projects	100%	**2**	**2%**	2036
Total			**128**		

- Hydro Ottawa has PPAs with the IESO for all its generation facilities except for the four New York State assets.
- The Company is currently refurbishing the Chaudière Hydro North LP Plant and Hull Energy assets. Hydro Ottawa has signed a PPA with the IESO for the plants following the completion of the Refurbishments.
  - The Chaudière Hydro North LP Plant is expected to return to service by the end of 2019, with Hull Energy expected to be in service in 2020.

Regulation

- HOL (the local distribution company; a regulated subsidiary of Hydro Ottawa) is regulated by the OEB under the *Ontario Electricity Act, 1998*.
- As part of Ontario's Renewed Regulatory Framework for Electricity Distributions, HOL applied under Custom IR in April 2015 for rates from 2016 through 2020. In December 2015, the OEB approved a settlement agreement that included the following:
  - Final rates for 2016. The OEB was satisfied with the HOL's proposed 2017 to 2020 rates, but the Company will be required to confirm annually if an update is required, including for the items below:

(CAD millions)	2016	2017	2018	2019	2020
Revenue requirement	175.3	183.1	192.6	200.5	205.2
OM&A	83.1	84.7	86.3	88.0	89.6
Capex	73.8	81.9	89.2	63.6	108.7
Rate base	833.1	869.7	912.8	936.1	973.8

  - Operating, Maintenance and Administration (OM&A) for 2017 and beyond were calculated using an escalation factor of 1.91%, based on an inflation factor of 2.07%, plus a growth factor of 0.14% and less a productivity and stretch factor of 0.3%. The OM&A escalation factor was revised in 2018 for 2019 and 2020 at 1.55%, based on an inflation factor of 1.71%, plus a growth factor of 0.14% and less a productivity and stretch factor of 0.3%.
  - ROE of 9.19% for 2016 to 2018 was approved. ROE for 2019 and 2020 was updated in 2018 to 8.98%.
  - HOL will adopt an Efficiency Adjustment Mechanism deferral account to capture any changes in the revenue requirement if the Company is moved to a lower efficiency cohort (i.e., one with a higher productivity and stretch factor than Hydro Ottawa's 2014 cohort of 0.3%). Conversely, a move to a higher-efficiency cohort will have no impact on the Company's revenue requirement.
  - A deferral account to capture the revenue requirement impact of up to $66 million in capex of the proposed new operating centres and administrative facilities. A separate deferral account will also be set up to capture the revenue requirements impacts of capex that exceed the approved $66 million, with the recoverability subject to a prudence review following the Custom IR period.
  - A Capital Variance Account to track variances in actual and forecast in-service additions for three categories (system renewal and system service, system access and general plant). Any underspending or delayed capex will be captured in the account to be disposed of at the end of the Custom IR period. The Company will also not be able to charge back any overspending above the approved in-service additions plan to customers.
  - An Earnings Sharing Mechanism where any earnings above HOL's approved ROE will be shared on a 50/50 basis between the Company and its ratepayers.
- In August 2018, the Company filed its application with the OEB for approval of rates effective January 1, 2019. The OEB issued its decisions in December 2018, approving a 1.55% increase in base rates and the refund to customers of a $8 million balance in the Company's deferral and variance accounts.
- HOL is allowed to fully recover its purchased power costs (except doubtful accounts on power cost, which are manageable) in a timely fashion, eliminating its exposure to power price risk. DBRS views this as a positive factor in the current regulatory system in Ontario.
- The OEB announced in April 2015 its policy to implement revenue decoupling for all local distribution companies in Ontario. Beginning December 2016, HOL will phase in a fixed monthly rate for its residential customers. Over the four-year period, the fixed portion of the monthly rate will increase gradually, so by 2019 all residential customers will be charged a fixed monthly fee for distribution services.
  - This policy is expected to reduce volume risk faced by HOL, as revenues from residential customers will no longer fluctuate as a result of weather sensitivities.

Assessment of Hydro Ottawa's Regulatory Environment

The chart below reflects DBRS's assessment of the current regulatory environment for Hydro Ottawa based on DBRS's methodologies.

Criteria	Score	Analysis
1. Deemed Equity	Excellent Good **Satisfactory** Below Average Poor	The OEB allows HOL to have a deemed equity of 40%, which is consistent with the other electricity distribution companies in Ontario. As a result of the need to maintain the regulatory capital structure, Hydro Ottawa's leverage has been in line with the "A" rating range.
2. Allowed ROE	Excellent Good **Satisfactory** Below Average Poor	HOL has an allowed ROE of 8.98% for 2019 to 2020. The difference in ROE between HOL and other distribution companies is mainly due to the timing of the regulatory filings and the interest environment prevalent at that time.
3. Energy Cost Recovery	**Excellent** Good Satisfactory Below Average Poor	There is no power price risk for HOL as it is not responsible for purchasing power from generation facilities or the wholesale market. Power costs are passed on to rate payers at rates set by the OEB, and HOL collects the payments from its customers on a monthly basis.
4. Capital and Operating Cost Recoveries	Excellent **Good** Satisfactory Below Average Poor	Under Custom IR, the OEB has approved HOL's capex plan for 2016 to 2020. Capital costs will be added to the rate base after completion on an annual basis. DBRS notes that a Capital Variance Account has been established to track underspending or delays in three capex categories and will be returned to customers at the end of the Custom IR period. Any overspending above the capex plan will not be charged back to customers.
5. COS vs. IRM	Excellent Good **Satisfactory** Below Average Poor	HOL is regulated under Custom IR, which is a hybrid of cost of service (COS) and the incentive rate-setting method (IRM), for a five-year period from 2016 to 2020. The inflation, productivity and stretch factors are reasonable.
6. Political Interference	Excellent Good Satisfactory **Below Average** 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 (Hydro Ottawa is owned by the City of Ottawa). Further, 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 **Good** Satisfactory Below Average Poor	Minimal stranded costs exist in the Ontario market. DBRS notes that the recovery of the costs is also subject to some regulatory lag. Although stranded costs have been fully recovered in the past years, assets could potentially be written down if the OEB does not approve the recovery of the costs.
8. Rate Freeze	Excellent Good **Satisfactory** Below Average Poor	Distribution rates were frozen for a short time in the early 2000s. There have been no subsequent province-wide rate freezes.

Hydro Ottawa Holding Inc.

(CAD millions)	June 30	December 31			June 30	December 31	
Assets	**2019**	**2018**	**2017**	**Liabilities & Equity**	**2019**	**2018**	**2017**
Cash & equivalents	15	17	14	Bank indebtedness	308	227	158
Accounts receivable	172	179	193	Accounts payable	189	174	170
Inventories	2	1	2	Current portion L.T.D.	0	0	0
Prepaid expenses & other	16	11	76	Other current liab.	1	4	0
Total current assets	**205**	**208**	**284**	**Total current liab.**	**498**	**405**	**328**
Net fixed assets	1,543	1,450	1,261	Long-term debt	773	773	773
Future income tax assets	8	8	5	Provisions	14	13	14
Goodwill & intangibles	122	124	130	Deferred income taxes	44	45	30
Investments & others	74	65	51	Other L.T. liab.	167	156	148
				Shareholders' equity	456	463	438
Total assets	**1,952**	**1,856**	**1,732**	**Total liab. & SE**	**1,952**	**1,856**	**1,732**

Balance Sheet & Liquidity & Capital Ratios	12 mos. to June 30	For the year ended December 31				
	2019	**2018**	**2017**	**2016**	**2015**	**2014**
Current ratio	0.41	0.51	0.86	1.06	1.13	0.42
Total debt in capital structure	70.3%	68.4%	68.0%	66.4%	58.0%	52.2%
Total debt in capital structure 1, 2	65.9%	63.3%	62.5%	60.1%	58.1%	52.3%
Cash flow/Total debt	9.5%	11.3%	9.5%	10.7%	16.0%	19.0%
Cash flow/Total debt 1, 2	11.4%	13.8%	11.2%	14.2%	16.0%	19.0%
(Cash flow-dividends)/Capex (times)	0.33	0.41	0.40	0.43	0.59	0.61
Dividend payout ratio	71.4%	55.9%	56.6%	51.7%	52.3%	54.1%
Coverage Ratios (times)						
EBIT gross interest coverage 1	3.46	3.70	2.42	2.92	2.82	2.91
EBIT gross interest coverage 1, 2	3.18	3.40	2.22	2.96	2.82	2.91
EBITDA gross interest coverage	6.53	6.79	4.53	5.44	4.94	4.99
Fixed-charge coverage	3.46	3.70	2.42	2.92	2.82	2.91
Profitability Ratios						
EBITDA margin	47.6%	48.4%	45.9%	46.2%	44.8%	43.8%
EBIT margin	25.2%	26.4%	24.6%	24.8%	25.6%	25.6%
Profit margin	11.1%	13.9%	14.2%	16.2%	15.6%	16.8%
Return on equity	6.9%	8.7%	8.4%	8.9%	8.6%	9.0%
Return on capital	3.1%	3.7%	3.8%	4.3%	5.3%	5.8%

1 Excludes non-recourse debt. 2 Includes operating leases.

Application of Multiple Methodologies

Hydro Ottawa is engaged in both regulated and non-regulated businesses. The regulated business accounted for approximately 74% of EBIT in 2018, and the non-regulated business accounted for the remaining 26% of earnings. Following the completion of the Refurbishment in 2020, DBRS estimates the non-regulated business will contribute between 30% to 35% of EBIT. As a result of the material sizes and contributions from both businesses, DBRS applies the following two methodologies for the Company: (1) the *Rating Companies in the Regulated Electric, Natural Gas and Water Utilities Industry* methodology for the Hydro Ottawa's regulated segment, and (2) the *Rating Companies in the Independent Power Producer Industry* methodology for the Company's non-regulated segment.

Rating History

	Current	2018	2017	2016	2015	2014
Issuer Rating	A	A	A	A	A	A
Senior Unsecured Debt	A	A	A	A	A	A

Previous Action

- "DBRS Confirms Hydro Ottawa Holding Inc. at "A" with Stable Trends," July 31, 2018.

Previous Report

- Hydro Ottawa Holding Inc.: Rating Report, August 20, 2018.

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.

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.

The DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(CRA, NRSRO affiliate, DRO affiliate). For more information on regulatory registrations, recognitions and approvals, please see: http://www.dbrs.com/research/highlights.pdf.

© 2019, DBRS. All rights reserved. The information upon which DBRS ratings and other types of credit opinions and reports are based is obtained by DBRS from sources DBRS believes to be reliable. DBRS does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS ratings, other types of credit opinions, reports and any other information provided by DBRS are provided "as is" and without representation or warranty of any kind. DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS or any DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. Ratings, other types of credit opinions, other analysis and research issued or published by DBRS are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment advice or recommendations to purchase, sell or hold any securities. A report with respect to a DBRS rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS may receive compensation for its ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. DBRS is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS. ALL DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT http://www.dbrs.com/about/disclaimer. ADDITIONAL INFORMATION REGARDING DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON http://www.dbrs.com.

S&P Global
Ratings

RatingsDirect®

Hydro Ottawa Holding Inc.

Primary Credit Analyst:
Andrew Ng, Toronto + 1 (416) 507 2545; andrew.ng@spglobal.com

Secondary Contact:
Mayur Deval, Toronto (1) 416-507-3271; mayur.deval@spglobal.com

Table Of Contents

Credit Highlights

Outlook

Our Base-Case Scenario

Company Description

Business Risk

Financial Risk

Liquidity

Other Credit Considerations

Government Influence

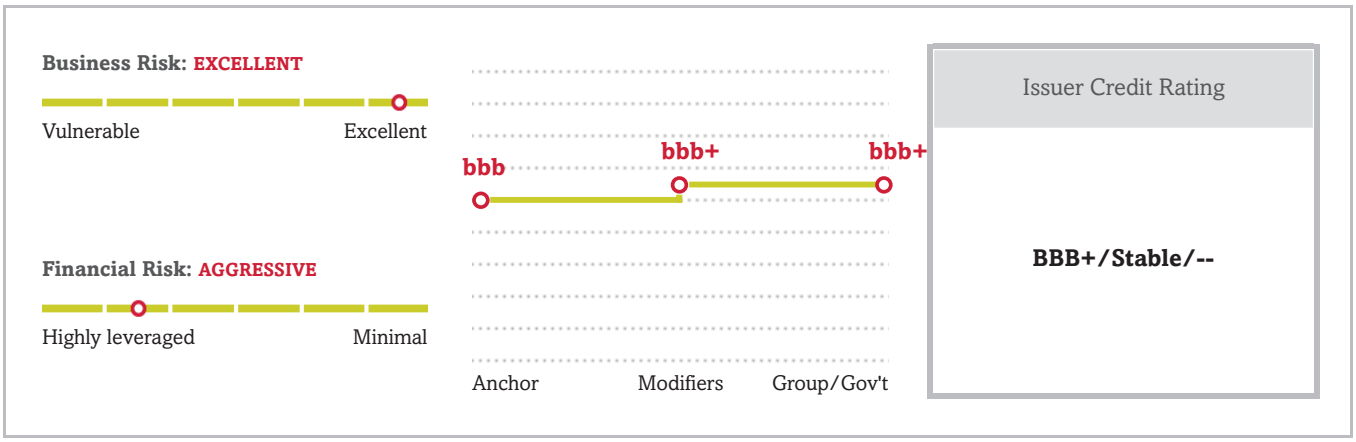
Issue Ratings - Subordination Risk Analysis

Reconciliation

Ratings Score Snapshot

Related Criteria

Hydro Ottawa Holding Inc.



Credit Highlights

Overview

Key strengths	Key risks
Relatively strong regulatory structure supports stable cash flows for its low-risk electricity distribution business.	Large capital program to execute for 2019, which will pressure credit metrics in the near term.
Diverse customer base comprising mainly residential customers, small businesses, and entities in the municipalities, universities, schools, and hospitals (MUSH) sector.	Will file a new rate application for 2021-2025, that includes the recovery of increased capital relating to the new building facility, subject to regulatory approval
Unregulated generation business features long-term contracts, favorable rates, and credible counterparties that provide a stable cash flow stream.	Lacks operational diversity because it only operates in the City of Ottawa, which makes the company reliant on its regulator, the Ontario Energy Board (OEB), to sustain its credit quality.

Unregulated cash flow is backed by quality contracts. Hydro Ottawa Holding Inc. (HOHI) generates about 20% of its cash flow from its unregulated generation. Although we view unregulated power generation as higher risk, this segment features long-term contracts, favorable terms, and creditworthy counterparties that partially mitigate risk and provide HOHI with stable cash flows.

The company has large capital spending plans over our outlook period. HOHI continues to execute its large capital program of about C$260 million through 2019, which includes the refurbishment of two hydro facilities and the construction of a new headquarters. This capital spending will pressure the company's credit metrics through 2020.

HOHI lacks geographic and regulatory diversity. HOHI serves the City of Ottawa, which is the capital of Canada, and has a diverse customer base that mainly consists of residential customers, small businesses, and entities in the MUSH sector. We consider the province of Ontario to be a relatively strong regulatory jurisdiction, which supports our excellent assessment of the company's business risk. However, compared with other utilities, HOHI lacks geographic and regulatory diversity, making it reliant on the OEB to sustain its credit quality.

Outlook: Stable

The stable outlook on HOHI reflects the predictable and stable cash flow we expect the company to generate from its low-risk, regulated distribution business over our two-year outlook horizon. The outlook also reflects the stable cash flow from the utility's unregulated renewable power generation operations, which are backed by strong purchase power agreements (PPAs). For fiscal year 2019, we expect HOHI's credit metrics to remain weak, with funds from operations (FFO) to debt of about 9.5%, because of delays in the refurbishment of its hydro assets due to weather and its large capital programs. We expect the company's credit metrics to recover in 2020-2021 with FFO to debt of about 10.5%-11.0%.

Downside scenario

We could lower our rating on HOHI over the next 12-24 months if the company's credit metrics deteriorate and its FFO to debt falls below 10% with no prospects for improvement. This could occur if the utility experiences any material adverse regulatory decisions, substantial delays, or cost overruns related to the refurbishment of its hydro assets or if it undertakes additional acquisitions that it funds with a material level of debt. Alternatively, additional growth in HOHI's unregulated power business could weaken the company's business risk profile, potentially leading us to lower our rating. However, we do not expect this to occur during our outlook period.

Upside scenario

Although unlikely, we could raise our rating on HOHI over the next 12-24 months if the utility improves its financial position, causing its FFO to debt to approach 15%. This could occur if the company earns better-than-forecast returns or deleverages its balance sheet. Alternatively, we could raise our rating if HOHI's share of sustained, unregulated cash flow relative to its regulated cash flow decreases.

Our Base-Case Scenario

Assumptions	Key Metrics

- OEB, the company's regulator, will remain relatively stable and HOHI will not experience any material, adverse regulatory decisions;
- HOHI will continue to earn close to its allowed return on equity based on its deemed capital structure;
- No material delays or cost overruns on its hydro asset refurbishment projects;
- New customer growth of about 1% annually during our outlook period;
- Capital spending of about C$260 million in 2019 and C$140 million in 2020; and
- Dividend payments of about C$21 million per year.

	2018A	2019E	2020E
FFO to debt (%)	10.9	9.5	10.5
FFO interest cash coverage (x)	4.45	4.3	4.3

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

Company Description

HOHI is wholly owned by the City of Ottawa and governed by an independent board of directors appointed by its shareholder. The company's core businesses are electricity distribution, renewable energy generation, and energy conservation and management services. HOHI owns and operates three subsidiary companies.

Hydro Ottawa Ltd. (HOL) is a regulated electricity distribution company operating in the City of Ottawa. It is the third-largest municipally owned electrical utility in Ontario serving approximately 340,000 customers.

Portage Power (PP), formerly known as Energy Ottawa, is the largest municipally owned producer of green power in Ontario. PP has installed capacity of about 128 megawatts (MW) and owns and operates six run-of-the-river hydroelectric generators at Chaudiere Falls. In addition, the company also holds interests in two landfill gas-to-energy joint ventures.

Envari Holdings Inc. (EHI) is a provider of commercial energy management services. EHI delivers energy solutions for its large commercial, industrial, municipal, and utility clients.

Business Risk: Excellent

Our assessment of HOHI's business risk profile largely reflects its low-risk electricity distribution operations and our view of its management of regulatory risk.

The utility continues to operate under a supportive regulatory regime. The OEB, the regulator for the Province of Ontario, continues to provide a transparent, consistent, and independently operated regulatory framework that

supports a stable and predictable cash flow model, which we view as a key credit strength. The regulatory framework also limits the utility's exposure to commodity risk and the associated cash flow volatility because the tariff structure allows it to recover the full cost of purchased power from its customers. The tariff structure also allows the operator to recover prudently spent operating costs, capital expenditure, or other unexpected material losses in a timely manner.

Further supporting our excellent business risk profile assessment is the utility's diverse customer base with no significant concentration risk. Residential customers, small businesses, and the MUSH sector account for majority of the company's customers. In our view, this customer profile is less sensitive to macroeconomic stress and business cycles.

Even though HOHI generates a material portion of its cash flows (about 20%) from unregulated power (renewable energy generation), which has much higher industry risk due to fluctuations in energy price, the utility is able to mitigate this risk through long-term PPA contracts with attractive terms. Most of HOHI's PPA contracts are long-term with an average length of at least 10 years. Some are also indexed to inflation, which provide the company with a steady, predictable, and stable cash flow stream. Moreover, HOHI's counterparty in these PPA contracts is the Independent Electricity Systems Operator (IESO), an agent of the Government of Ontario, which partially mitigates its counterparty concentration risk exposure. Furthermore, HOHI owns all of the hydro-generation assets at the Chaurdiere Falls in the Ottawa-Hull region, which gives the company full access to, and control of, the river and allows it to better coordinate and operate the assets to optimize its cash flows.

Peer comparison

Table 1

Peer Comparison

Industry sector: electric

	Hydro Ottawa Holding Inc.	Alectra Inc.	Toronto Hydro Corp.	ENMAX Corp.	Ontario Power Generation Inc.
Ratings as of Sept. 25, 2019	BBB+/Stable/--	A/Stable/--	A/Stable/--	BBB+/Negative/--	BBB+/Negative/A-2
	--Fiscal year ended Dec. 31, 2018--				
(Mil. C$)					
Revenue	1,138.6	3,452.0	3,472.7	2,378.8	5,474.0
EBITDA	143.0	363.5	530.2	588.6	2,019.0
FFO	108.6	296.7	408.5	398.6	1,530.4
Interest expense	33.9	71.8	90.8	127.8	277.7
Cash interest paid	31.5	65.8	79.1	117.0	286.6
Cash flow from operations	133.7	235.7	514.2	514.9	1,510.4
Capital expenditure	241.5	425.0	490.6	312.2	1,635.0
FOCF	(107.9)	(189.3)	23.6	202.7	(124.6)
DCF	(129.8)	(263.3)	(70.3)	162.7	(425.6)
Cash and short-term investments	16.7	16.0	0.0	89.0	349.0
Debt	996.8	2,016.3	2,365.1	2,507.8	11,437.4
Equity	462.9	1,689.0	1,833.5	2,261.3	13,127.0

Table 1

Peer Comparison (cont.)

Industry sector: electric

	Hydro Ottawa Holding Inc.	Alectra Inc.	Toronto Hydro Corp.	ENMAX Corp.	Ontario Power Generation Inc.
Adjusted ratios					
EBITDA margin (%)	12.6	10.5	15.3	24.7	36.9
Return on capital (%)	5.9	6.2	7.0	5.7	5.2
EBITDA interest coverage (x)	4.2	5.1	5.8	4.6	7.3
FFO cash interest coverage (x)	4.4	5.5	6.2	4.4	6.3
Debt/EBITDA (x)	7.0	5.5	4.5	4.3	5.7
FFO/debt (%)	10.9	14.7	17.3	15.9	13.4
Cash flow from operations/debt (%)	13.4	11.7	21.7	20.5	13.2
FOCF/debt (%)	(10.8)	(9.4)	1.0	8.1	(1.1)
DCF/debt (%)	(13.0)	(13.1)	(3.0)	6.5	(3.7)

FFO--Funds from operations. FOCF--Free operating cash flow. DCF--Discretionary cash flow.

Financial Risk: Aggressive

We evaluate HOHI's financial risk profile using our medial volatility financial benchmark tables rather than the tables we use for a typical corporate issuer, which reflects the company's lower-risk regulated business model and its management of regulatory risk.

For 2019, we expect HOHI's credit metrics to be weak because its capital programs will be larger than expected due to the timing of capital programs and increased costs. In addition, the company temporarily shut down some hydro assets and delayed its hydro refurbishment projects due to weather conditions in early 2019. We now expect that HOHI will complete the refurbishments in the first half of 2020 rather than by year-end 2019. We also expect the utility to file for recovery of the increased capital costs in its next rate application. Under our base-case scenario, which assumes capital spending of about C$260 million in 2019 and C$135 million in 2020 and dividends of about C$22 million in each year, we expect HOHI to have FFO to debt of about 9.5% in 2019. In 2020, we expect the company's FFO to debt to improve to about 10.5%.

Financial summary

Table 2

Financial Summary

Industry sector: electric

	--Fiscal year ended Dec. 31--				
	2018	2017	2016	2015	2014
(Mil. C$)					
Revenue	1,138.6	1,151.5	1,202.4	1,112.1	1,012.3

Table 2

Financial Summary (cont.)

Industry sector: electric

	--Fiscal year ended Dec. 31--				
	2018	**2017**	**2016**	**2015**	**2014**
EBITDA	143.0	124.5	110.9	121.5	93.5
FFO	108.6	87.1	87.2	105.1	73.5
Interest expense	33.9	31.2	24.4	21.5	19.3
Cash interest paid	31.5	31.4	20.8	19.3	18.8
Cash flow from operations	133.7	74.3	92.2	72.9	90.0
Capital expenditure	241.5	180.2	181.9	126.9	100.3
FOCF	(107.9)	(106.0)	(89.7)	(54.0)	(10.3)
DCF	(129.8)	(126.6)	(109.1)	(72.2)	(29.6)
Cash and short-term investments	16.7	0.9	1.0	4.0	0.0
Gross available cash	16.7	0.9	1.0	4.0	0.0
Debt	996.8	930.5	852.9	578.3	429.6
Equity	462.9	438.1	426.8	413.4	398.1
Adjusted ratios					
EBITDA margin (%)	12.6	10.8	9.2	10.9	9.2
Return on capital (%)	5.9	5.4	5.5	8.8	6.6
EBITDA interest coverage (x)	4.2	4.0	4.5	5.7	4.8
FFO cash interest coverage (x)	4.4	3.8	5.2	6.4	4.9
Debt/EBITDA (x)	7.0	7.5	7.7	4.8	4.6
FFO/debt (%)	10.9	9.4	10.2	18.2	17.1
Cash flow from operations/debt (%)	13.4	8.0	10.8	12.6	21.0
FOCF/debt (%)	(10.8)	(11.4)	(10.5)	(9.3)	(2.4)
DCF/debt (%)	(13.0)	(13.6)	(12.8)	(12.5)	(6.9)

FFO--Funds from operations. FOCF--Free operating cash flow. DCF--Discretionary cash flow.

Liquidity: Adequate

We assess HOHI's liquidity as adequate. We expect the company's liquidity sources to be more than 1.1x its uses over the next 12 months and anticipate that its net sources would remain positive even if its EBITDA declined by 10%. In our view, HOHI has sound relationships with its banks and a generally satisfactory standing in the credit markets. In the unlikely event of liquidity distress, we expect the company to scale back on its capital spending to preserve its credit metrics.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash of about C$20 million as of March 31, 2019; • Cash FFO of about C$130 million; and • Availability under its undrawn committed facilities of about C$70 million as of March 31, 2019.	• Debt maturities of about C$150 million, including short-term debt; • Capital spending of about C$260 million; and • Dividends of about C$21 million over the next 12 months.

Debt maturities

HOHI has no long-term debt maturing between 2019 and 2023.

Other Credit Considerations

Overall, we assess HOHI's business risk profile as being at the stronger half of the excellent range compared with those of its peers. Specifically, the utility's PPA contracts in its unregulated business feature above-market rates, long maturities, and some are indexed to inflation. Furthermore, under the PPAs there is no obligation to deliver electricity and no minimum production requirements.

Government Influence

Our view of the relationship between HOHI and the City of Ottawa, its municipal owner, remains the same. We believe there is a low likelihood that Ottawa will provide extraordinary and timely support to HOHI during periods of financial distress. Although the utility is important to the city, given that it operates the city's electricity distribution network and is solely owned by the city of Ottawa, the province--not the city--maintains oversight of electricity regulation, including tariff setting. In addition, an investor-owned entity could undertake HOHI's role, if necessary. Furthermore, the city does not have any formal policy or track record of providing financial relief or support to the utility. For these reasons, we view the likelihood of extraordinary government support as low, which does not affect our rating on HOHI.

Issue Ratings - Subordination Risk Analysis

Capital structure

HOHI's capital structure consists of about C$575 million of senior unsecured debt at the corporate level and about C$500 million of senior secured amortizing debt at the project level.

Analytical conclusions

We rate HOHI's senior unsecured debt 'BBB+', the same level as our issuer credit rating, because its ratio of priority debt to total debt is less than 50%, which is consistent with our criteria.

Reconciliation

Table 3

Reconciliation Of Hydro Ottawa Holding Inc. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. C$)

	--Fiscal year ended Dec. 31, 2018--							
Hydro Ottawa Holding Inc. reported amounts								
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Capital expenditure**
	1,000.2	463.0	135.0	72.8	30.4	143.0	139.0	244.2
S&P Global Ratings' adjustments								
Cash taxes paid	--	--	--	--	--	(2.9)	--	--
Cash taxes paid: Other	--	--	--	--	--	--	--	--
Cash interest paid	--	--	--	--	--	(28.7)	--	--
Operating leases	3.4	--	0.2	0.2	0.2	(0.2)	(0.0)	--
Postretirement benefit obligations/deferred compensation	9.9	--	--	--	0.7	--	--	--
Accessible cash and liquid investments	(16.7)	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	2.6	(2.6)	(2.6)	(2.6)
Nonoperating income (expense)	--	--	--	2.1	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	(2.6)	--
Noncontrolling interest/minority interest	--	(0.1)	--	--	--	--	--	--
EBITDA: Other	--	--	7.8	7.8	--	--	--	--
Total adjustments	(3.5)	(0.1)	8.0	10.1	3.5	(34.4)	(5.3)	(2.6)
S&P Global Ratings' adjusted amounts								
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Capital expenditure**
	996.8	462.9	143.0	82.9	33.9	108.6	133.7	241.5

Ratings Score Snapshot

Issuer Credit Rating

BBB+/Stable/--

Business risk: Excellent

- **Country risk:** Very low

- **Industry risk:** Low
- **Competitive position:** Excellent

Financial risk: Aggressive

- **Cash flow/Leverage:** Aggressive

Anchor: bbb

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 : bbb+

- **Group credit profile:** bbb+
- **Related government rating:** AA
- **Likelihood of government support:** Low (no impact)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- 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, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

Business Risk Profile	Financial 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 September 25, 2019)*

Hydro Ottawa Holding Inc.	
Issuer Credit Rating	BBB+/Stable/--
Senior Unsecured	BBB+
Issuer Credit Ratings History	
25-Aug-2016	BBB+/Stable/--
22-Jun-2016	A-/Watch Neg/--
30-Jul-2015	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.

Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

S&P Global
Ratings

RatingsDirect®

Research Update:

Hydro Ottawa Holding Inc. 'BBB+' Ratings Withdrawn At The Company's Request

January 13, 2020

Rating Action Rationale

On Jan. 13, 2020, S&P Global Ratings withdrew its 'BBB+' long-term issuer credit rating on Ottawa-based utility holding company Hydro Ottawa Holding Inc. (HOHI). At the same time, we withdrew our 'BBB+' issue-level rating on the company's senior unsecured debt. We withdrew the ratings at HOHI's request.

At the time of the withdrawal, the outlook was stable.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- 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
- Criteria | Corporates | Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, 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

PRIMARY CREDIT ANALYST

Andrew Ng
Toronto
+ 1 (416) 507 2545
andrew.ng
@spglobal.com

SECONDARY CONTACT

Mayur Deval
Toronto
(1) 416-507-3271
mayur.deval
@spglobal.com

- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Withdrawn

	To	From
Hydro Ottawa Holding Inc.		
Issuer Credit Rating	NR/--	BBB+/Stable/--
Senior Unsecured	NR	BBB+

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

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

Rating Report

Toronto Hydro Corporation

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

Ram Vadali
+1 416 597 7526
rvadali@dbrs.com

Guru Durairaj
+1 416 597 7357
gdurairaj@dbrs.com

DBRS

Insight beyond the rating.

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable
Senior Unsecured Debentures & MTNs	A	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating Update

On April 26, 2019, DBRS Limited (DBRS) confirmed Toronto Hydro Corporation's (THC or the Company) Issuer Rating and Senior Unsecured Debentures & MTNs rating at "A" and Commercial Paper rating at R-1 (low). All trends are Stable. The ratings reflect THC's low-risk electricity distribution business, underpinned by a transparent and supportive regulatory framework that serves an economically strong franchise area and provides relatively predictable earnings.

The business risk assessment of THC continues to be based on a transparent and supportive regulatory regime in Ontario. The Company is allowed to recover prudently incurred costs in a timely manner and earn an adequate return on equity (ROE; 9.30% for 2015 to 2019). THC is now in the final year of its five-year Custom Incentive Rate-setting (CIR) plan approved by the Ontario Energy Board (OEB), which has provided the Company with funding certainty for its ongoing large capex program ($2.35 billion over the five-year period). In August 2018, THC filed its 2020 to 2024 CIR application, which is largely a continuation of the framework of the current CIR plan. The filing requested $4.3 billion in operating and capital costs for the term, including $844 million in the 2020 test year. A decision is expected at the end of 2019 or early 2020.

THC's key credit metrics as at December 31, 2018, were largely steady from 2017 and remain within range for the current ratings. The Company's significant capex program, however, is expected to continue to affect key financial metrics as additional debt is issued to fund the program. Capex for THC has largely been non-discretionary as it is focused on meeting growing customer demand, proactively addressing infrastructure renewal requirements and maintaining the reliability of the distribution grid. The Company has applied for average capex of around $560 million per year in its CIR application, an increase from the $470 million per year for 2015 to 2019. Although THC's operating cash flow is expected to grow in line with the rate base, the significant capex program and dividend policy will likely result in free cash flow deficits that will be funded with debt. DBRS notes that a ratings upgrade for THC is unlikely in the near term because of the large capex program. However, the ratings could be adversely affected should the Company fail to maintain cash flow-to-debt and debt-to-capital at or near 15% and 60%, respectively, in the medium term.

Financial Information

	For the year ended December 31				
($ millions where applicable)	**2018**	**2017**	**2016**	**2015**	**2014**
Cash flow/total debt 1	15.8%	16.7%	15.9%	15.2%	14.9%
Total debt in capital structure 1	54.1%	55.6%	62.4%	62.8%	61.1%
EBIT gross interest coverage (times) 1	2.68	2.78	2.70	2.37	2.62

1 Including operating leases.

Issuer Description

THC is a holding company with the following subsidiaries: Toronto Hydro-Electric System Limited (THESL), which distributes electricity and engages in conservation and demand management activities, and Toronto Hydro Energy Services Inc., which provides street lighting services. The Company's sole shareholder is the City of Toronto (Toronto or the City; rated AA with a Stable trend by DBRS).

Rating Considerations

Strengths

1. Reasonable regulatory environment

Nearly all of THC's earnings are contributed by its low-risk distribution business that operates under a reasonable and supportive regulatory environment. The Company operates under a five-year CIR framework that grants preapproved capex for a five-year period and allows THC to generate relatively stable earnings and cash flow. THC is currently in the final year of its most recent CIR (2015 to 2019), with an approved ROE of 9.30%. The Company's deemed capital structure (debt-to-equity of 60%:40%) has remained unchanged for several years. In August 2018, THC submitted its 2020 to 2024 CIR application to the OEB. Hearings are currently under way for the application. DBRS views the regulatory framework in Ontario as consistent with and supportive of regulated distribution operators.

2. Strong and growing franchise area

THC operates in Toronto, which is one of the largest metropolitan cities in North America and has reasonable growth in population. The Company is one of the largest municipally owned local distribution companies (LDCs) in Canada, providing approximately 19% of the electricity consumed in Ontario, and serves a customer base of approximately 772,000 customers. THC's customer base grew marginally by 0.6% in 2018. The Company's electricity throughput is predominantly distributed to residential and general service customers, who account for 93% of THC's revenue. This reduces the Company's exposure to cyclicality.

3. Reasonable financial profile

THC's credit metrics, including cash flow-to-total debt of 15.8%, total debt-to-capital of 54.1% and EBIT interest coverage of 2.68 times for 2018, have remained reasonable for the "A" rating category.

Challenges

1. Balance sheet pressure as a result of high capex

The Company is executing a substantial capex program of approximately $2.35 billion for the 2015 to 2019 period to replace its aging electricity infrastructure, which is expected to result in consistent free cash flow deficits in the medium term. Furthermore, its projected capex for 2020 and 2021 call for an additional $1.3 billion in infrastructure renewal and new capex spend. Historically, THC has depended entirely on debt to fund its cash flow deficits, causing leverage to peak at 62.8% for 2015. Although an equity injection from the City alleviated the pressure on leverage in 2017, DBRS expects leverage metrics to weaken over the next two to three years after factoring in the higher dividend policy implemented in 2017.

2. Limited access to equity market

The Company's ownership structure (100% owned by the City) limits its ability to access the equity markets. As a result, cash flow deficits from the large capex program are funded largely through debt.

3. Earnings sensitive to volume

Earnings and cash flow for electricity distribution companies are partially dependent on the volume of electricity sold, given that rates typically include a variable charge component. Seasonality, economic cyclicality and weather variability have a direct impact on the volume of electricity sold and, therefore, on revenue earned from electricity sales. However, this sensitivity is expected to be reduced through the introduction of a fixed charge for residential customers that will reduce weather sensitivities and volume risk for all Ontario-based LDCs. The Company is phasing in a higher fixed monthly rate and lower volumetric rate for its residential customers over the 2017 to 2020 period.

Earnings and Outlook

	For the year ended December 31				
($ millions where applicable)	2018	2017	2016	2015	2014
Net revenue	774	761	726	665	639
EBITDA	466	468	449	390	371
EBIT	228	244	237	196	186
Gross interest expense	85	88	87	81	70
Earning before taxes	153	166	163	125	124
Net income before non-recurring items	147	140	142	124	111
Reported net income	167	157	151	127	112
Achieved regulated ROE	N/A	9.08%	12.18%	10.71%	7.41%
Allowed ROE	9.30%	9.30%	9.30%	9.30%	9.58%
Rate Base	4,211	3,851	3,550	3,213	2,755

2018 Summary

- THC continued to generate stable and predictable earnings that are supported by its stable regulated operations.
- EBITDA decreased modestly because of an increase in operating expenses to cover storm damage over the year.
- EBIT decreased in 2018 because of higher depreciation from the growing rate base.
- Reported net income of $167 million includes a $108 million gain on the sale of property, which was fully offset as the amount was deferred into a regulatory account for future refunds to customers.

2019 Outlook

- EBIT for 2019 is expected to grow modestly in line with annual rate adjustments.

Financial Profile

	For the year ended December 31				
($ millions where applicable)	2018	2017	2016	2015	2014
Net income before non-recurring items	147	140	142	124	111
Depreciation & amortization	238	224	212	194	185
Deferred income taxes and other	(45)	3	20	22	(3)
Cash Flow from Operations	**340**	**368**	**374**	**340**	**292**
Dividends paid	(94)	(75)	(63)	(56)	(61)
Capital expenditures	(388)	(483)	(507)	(539)	(544)
Free Cash Flow (bef. Working Cap. Changes)	**(141)**	**(190)**	**(196)**	**(255)**	**(313)**
Changes in non-cash work. cap. items	(1)	62	(15)	24	38
Changes in regulatory assets & liabilities	50	13	77	(52)	(67)
Net Free Cash Flow	**(92)**	**(115)**	**(134)**	**(283)**	**(341)**
Acquisitions & long-term investments	0	0	0	0	0
Short-term investments	0	0	0	0	0
Proceeds on asset sales	117	13	2	14	2
Net equity change	0	250	0	0	0
Net debt change	(47)	(151)	127	266	343
Other	22	3	5	2	(3)
Change in Cash	**0**	**0**	**(0)**	**0**	**(0)**
Total debt	2,161	2,205	2,353	2,223	1,955
Cash and cash equivalents	0	0	0	0	0
Total debt in capital structure 1	54.1%	55.6%	62.4%	62.8%	61.1%
Cash flow/total debt 1	15.8%	16.7%	15.9%	15.2%	14.9%
EBIT gross interest coverage (times) 1	2.68	2.78	2.70	2.37	2.62
DBRS-adjusted dividend payout ratio	63.7%	53.4%	44.6%	45.6%	54.8%

1 Including operating leases.

2018 Summary

- THC's key credit metrics were relatively stable in 2018 and remained firmly within the current rating category. The debt-to-capital ratio had strengthened in 2017 following the equity injection from the City.
- Cash flow from operations decreased by almost $30 million from 2017 because of lower revenues from distribution charges from the OEB-approved rate rider to return the gain on the sale of property to ratepayers and the movement in deferred tax balances.
- Gross capex was $494 million (net $388 million after capital contributions from customers) compared with $533 million in 2017. This decrease is largely because of the completion of the facilities consolidation program in 2017.
- THC paid dividends of $94 million in 2018, in line with its distribution policy of 60% of consolidated net income after net movements in regulatory balances.
- The Company generated a net free cash flow deficit in 2018, which was more than offset by proceeds of $117 million from the sale of property. THC also repaid $46 million of commercial paper during the year.

2019 Outlook

- Operating cash flow is expected to be higher compared with 2018 in line with higher distribution revenues.
- The Company has forecast capex of $556 million in 2019 (net capex of $426 million).
- Dividends are expected to remain at the same relative level as 2018.
- THC's high capex needs and dividends are expected to generate cash flow deficits that are projected to be funded by debt. Leverage is likely to be modestly higher than 2018 levels; however, it is expected to remain within the regulatory capital structure (60% debt: 40% equity). DBRS expects the Company's cash flow-to-debt and EBIT-to-interest coverage ratios to remain commensurate with the current ratings in 2019.

Liquidity and Long-Term Debt Maturities

Liquidity

For the year ended December 31, 2018 ($ millions)

	Amount	Drawn/CPs/LOCs	Available	Expiry
Cash & cash equivalents	-	-	-	-
Revolving credit facility	800.0	113.0	687.0	Oct 10, 2023
Prudential facility	75.0	33.3	41.7	Demand
Working capital facility	20.0	12.6	7.4	Demand
		Total	**736.1**	

- The Company's liquidity profile remains adequate to cover near- to medium-term obligations, with approximately $736.1 million of available facilities.
- THC has a $600 million CP program. The CP program is backstopped by the $800 million revolving credit facility with a maturity date of October 10, 2023. As at December 31, 2018, $113 million was drawn under this facility for CP issuance.
- The Company also has a $75 million Prudential Facility (demand facility) for the purpose of issuing letters of credit mainly to support prudential requirements with the Independent Electricity System Operator (rated A (high) with a Stable trend by DBRS) and a $20 million Working Capital Facility.

Debentures

	Maturity	Outstanding ($ Millions)
Series 3 – 4.49%	Nov. 12, 2019	250
Series 6 – 5.54%	May 21, 2040	200
Series 7 – 3.54%	Nov. 18, 2021	300
Series 8 – 2.91%	Apr. 10, 2023	250
Series 9 – 3.96%	Apr. 9, 2063	245
Series 10 – 4.08%	Sep. 16, 2044	200
Series 11 – 3.55%	Jul. 28, 2045	200
Series 12 – 2.52%	Aug. 25, 2026	200
Series 13 – 3.485%	Feb. 28, 2048	200
Total Debentures		**2,045**
Less: unamortized debt issuance costs		(10)
Less: current portion of debentures		(250)
Long-Term Portion of Debentures		**1,785**

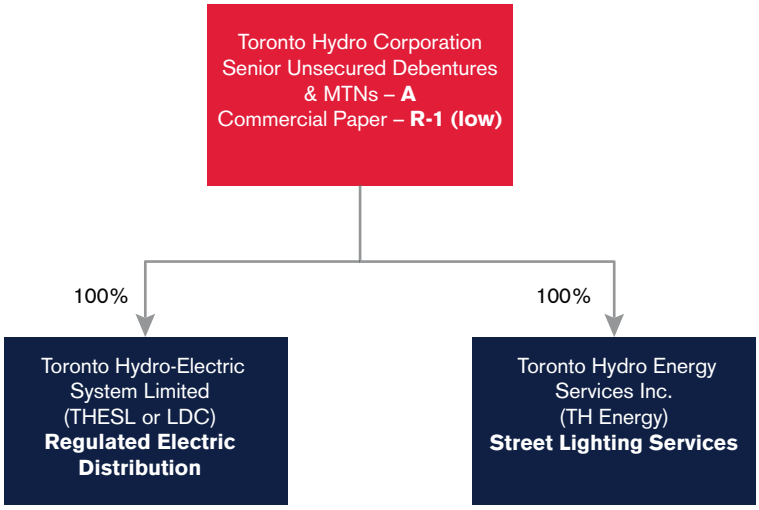
Debt Maturity Schedule

Debentures Maturities

	2019	2020	2021	2022	2023	2024+	Total
Debentures ($ millions)	250	-	300	-	250	1,245	**2,045**
% of total	12%	0%	15%	0%	12%	61%	**100%**

- Debt maturities are reasonably staggered and manageable, and THC continues to have adequate access to debt capital markets. Debentures of $250 million mature in November of 2019 and are expected to be refinanced.
- The Company filed a base shelf prospectus on May 8, 2017, for issue of debentures up to $1.0 billion.
- On November 14, 2017, $250.0 million of THC's Series 2 debentures matured and were repaid with proceeds from the issue of $200 million of 3.485% senior unsecured debentures due February 28, 2048.

Corporate Structure



- THC is a holding company with the following subsidiaries operating in the Toronto area:
  - THESL is one of the largest municipal electricity distribution utilities in Canada (99% of revenue).
  - Toronto Hydro Energy Services Inc., which has a contractual relationship with the City, owns and operates street lighting services (1% of revenue).
- The Company serves approximately 772,000 customers.
- A large portion of the energy produced in Ontario is generated by Ontario Power Generation Inc. (rated A (low) with a Stable trend by DBRS), then transmitted to THC's networks by Hydro One Inc. (rated A (high) with a Stable trend by DBRS). THC distributes the power to its customers via overhead and underground power lines; has a peak load of approximately 4,400 megawatts; and distributes 19% of the electricity distributed in Ontario.

Regulation

- THESL is regulated by the OEB and operates under a supportive regulatory environment. The Company has a good track record of prudently managing its regulatory risk.
- The CIR framework approved by the OEB for THESL is a hybrid between cost of service (COS) and an incentive rate mechanism (IRM) for a five-year term. The rate setting for the term is based on THESL's forecasts and OEB's incentive rate analysis using productivity benchmarking. CIR is suited to distributors with large, broad, multi-year investment needs over a five-year period or more and to distributors that require certainty of funding several years in advance.
- THESL operates with a deemed capital structure of 60% debt (56% long term and 4% short term), 40% equity and an allowed ROE of 9.30% from 2015 to 2019.
- The Company is in the final year of the rate application filed with the OEB in July 2014 and approved by the OEB on December 29, 2015. The approved final rate order on March 1, 2016, included the following provisions:
  - THESL's rates were set on a five-year CIR basis effective May 1, 2015, to December 31, 2019.
  - Total capex of approximately $2.35 billion was approved for the 2015 to 2019 period.
  - THESL had filed annual mechanistic IRM applications to finalize the rates approved on an interim basis as part of the 2015 to 2019 CIR application. The OEB has approved those annual rates consistent with the Company's applications and in accordance with the approved 2015 to 2019 CIR framework.
  - THESL is required to share non-capital-related earnings in excess of 100 basis points (bps) over the allowed ROE (9.3%) equally between the Company and its customers.
  - A regulatory review may be initiated by THESL or the OEB (off-ramp) should actual ROE vary from the allowed ROE by 300 bps (either positive or negative).
- In August 2018, THESL submitted its 2020 to 2024 rate application to the OEB, requesting approval of a rate-setting formula similar to the current CIR plan and rates effective January 1, 2020.
  - The Company is requesting maintaining the capital structure at the current deemed equity of 60%, with a placeholder ROE of 8.82% to be updated once the OEB-prescribed 2020 ROE is available.
  - 2020 test-year rate base of $4.6 billion.
  - Capital envelope of around $2.8 billion over the five-year period.
- Interrogatories were submitted in January 2019, with a technical conference held in February 2019 and oral hearings scheduled for the middle of the year. A decision is expected either at the end of 2019 or early 2020.

Regulation (CONTINUED)

The chart below reflects DBRS's assessment of the regulatory environment for THESL.

Criteria	Score	Analysis
1. Deemed Equity Ratio	Excellent Good **Satisfactory** Below Average Poor	The OEB allows THESL to have a deemed equity of 40%, which is consistent with other electricity distribution companies in Ontario.
2. Allowed ROE	Excellent **Good** Satisfactory Below Average Poor	THESL has an allowed ROE of 9.30% for 2015 to 2019, which is in line with the other distribution companies in Ontario. Any difference in ROE between the Company and other distribution companies is mainly because of the timing of the regulatory filings and the interest environment prevalent at that time.
3. Energy Cost Recovery	**Excellent** Good Satisfactory Below Average Poor	There is no power price risk for THC, 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 the Company collects the payments from its customers on a monthly basis.
4. Capital and Operating Cost Recoveries	Excellent **Good** Satisfactory Below Average Poor	Under CIR, the capex program for THESL is pre-approved for a five-year period by the OEB and recovered through distribution rates. Beginning 2015, the portion of THESL's rates that are fixed versus variable has increased, with all residential customers to be charged a fully fixed monthly fee for distribution services by 2020, significantly reducing volume risk.
5. COS versus IRM	Excellent Good **Satisfactory** Below Average Poor	THESL operates under CIR, which is a hybrid of COS and IRM. The CIR is for a five-year term from 2015 to 2019. DBRS considers the productivity and inflation factors as reasonable.
6. Political Interference	Excellent Good Satisfactory **Below Average** 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 (THC is owned by the City). Furthermore, stakeholders, such as the Independent Electricity System Operator, is also government owned. As a result, the government has direct and indirect influence on Ontario's electricity industry.
7. Stranded Cost Recovery	Excellent **Good** 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 **Satisfactory** Below Average Poor	From 2002 to 2005, as a result of rising rates during Ontario's utility deregulation phase, a province-wide distribution rate freeze was imposed. There have been no subsequent province-wide rate freezes.

Toronto Hydro Corporation

($ millions)	December 31				December 31		
Assets	**2018**	**2017**	**2016**	**Liabilities & Equity**	**2018**	**2017**	**2016**
Cash & equivalents	0	0	0	Bank indebtedness	126	171	268
Accounts receivable	216	218	230	Accounts payable	525	516	504
Inventories	8	9	10	Current portion L.T.D.	250	0	250
Unbilled revenue	283	278	321	Customer advanced deposits	48	49	39
Prepaid expenses & other	11	21	14	Deferred revenue	13	11	5
				Other current liab.	14	24	17
Total Current Assets	**517**	**527**	**574**	**Total Current Liab.**	**975**	**771**	**1,083**
Net fixed assets	4,392	4,143	3,907	Long-term debt	1,785	2,034	1,835
Future income tax assets	0	57	64	Deferred income taxes	3	68	83
Goodwill & intangibles	319	296	218	Provisions	276	313	281
Regulatory assets	118	173	173	Regulatory liabilities	35	51	65
Investments & others	13	30	19	Other L.T. liab.	452	229	179
				Shareholders' equity	1,834	1,760	1,429
Total Assets	**5,360**	**5,226**	**4,954**	**Total Liab. & SE**	**5,360**	**5,226**	**4,954**

	For the year ended December 31				
Balance Sheet & Liquidity & Capital Ratios	**2018**	**2017**	**2016**	**2015**	**2014**
Current ratio	0.53	0.68	0.53	0.62	0.62
Total debt in capital structure	54.1%	55.6%	62.2%	62.4%	60.6%
Total debt in capital structure 1	54.1%	55.6%	62.4%	62.8%	61.1%
Cash flow/total debt	15.8%	16.7%	15.9%	15.3%	14.9%
Cash flow/total debt 1	15.8%	16.7%	15.9%	15.2%	14.9%
(Cash flow–dividends)/capex (times)	0.64	0.61	0.61	0.53	0.43
DBRS-adjusted dividend payout ratio	63.7%	53.4%	44.6%	45.6%	54.8%
Coverage Ratios (Times)					
EBIT gross interest coverage	2.68	2.78	2.72	2.40	2.67
EBITDA gross interest coverage	5.49	5.34	5.16	4.79	5.33
Fixed-charges coverage	2.68	2.78	2.70	2.37	2.62
EBIT gross interest coverage 1	2.68	2.78	2.70	2.37	2.62
Profitability Ratios					
EBITDA margin	60.3%	61.5%	61.8%	58.7%	58.0%
EBIT margin	29.4%	32.0%	32.6%	29.4%	29.1%
Profit margin	19.0%	18.4%	19.6%	18.6%	17.3%
Return on equity	8.2%	8.8%	10.3%	9.5%	8.7%
Return on capital	5.7%	6.3%	6.4%	5.7%	5.7%

1 Including operating leases.

Rating History

	Current	2018	2017	2016	2015	2014
Issuer Rating	A	A	A	A	A	A (high)
Senior Unsecured Debentures & MTNs	A	A	A	A	A	A (high)
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Previous Action

- Confirmed, April 23, 2018

Related Research

- "DBRS Confirms Ratings of Toronto Hydro Corporation with Stable Trends," April 23, 2018.

Commercial Paper Limit

- $600 million.

Previous Report

- Toronto Hydro Corporation: Rating Report, April 27, 2018.

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.

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.

The DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(CRA, NRSRO affiliate, DRO affiliate). For more information on regulatory registrations, recognitions and approvals, please see: http://www.dbrs.com/research/highlights.pdf.

© 2019, DBRS. All rights reserved. The information upon which DBRS ratings and other types of credit opinions and reports are based is obtained by DBRS from sources DBRS believes to be reliable. DBRS does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS ratings, other types of credit opinions, reports and any other information provided by DBRS are provided "as is" and without representation or warranty of any kind. DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS or any DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. Ratings, other types of credit opinions, other analysis and research issued or published by DBRS are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment advice or recommendations to purchase, sell or hold any securities. A report with respect to a DBRS rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS may receive compensation for its ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. DBRS is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS. ALL DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT http://www.dbrs.com/about/disclaimer. ADDITIONAL INFORMATION REGARDING DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON http://www.dbrs.com.

MORNINGSTAR | DBRS

Rating Report
Toronto Hydro Corporation

DBRS Morningstar
May 5, 2020

Contents

1 Ratings
1 Rating Update
2 Financial Information
2 Issuer Description
2 Rating Considerations
4 Corporate Structure
5 Earnings and Outlook
6 Financial Profile
7 Liquidity and Long-term Debt Maturities
9 Regulation
12 Rating History
12 Previous Actions
12 Previous Report

Commercial Paper Limit
$600 Million

Tom Li
+1 416 597-7378
tom.li@dbrsmorningstar.com

Ram Vadali
+1 416 597-7526
ram.vadali@dbrsmorningstar.com

Guru Durairaj
+1 416 597-7357
guru.durairaj@dbrsmorningstar.com

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable
Senior Unsecured Debentures & MTNs	A	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating Update

On April 28, 2020, DBRS Limited (DBRS Morningstar) confirmed Toronto Hydro Corporation's (THC or the Company) Issuer Rating and Senior Unsecured Debentures & MTNs rating at "A" and the Commercial Paper (CP) rating at R-1 (low), all with Stable trends. The ratings are based on THC's regulated electricity distribution business, which generates a steady stream of earnings and cash flows.

In December 2019, the Ontario Energy Board (OEB) issued its decision on THC's 2020 to 2024 Custom Incentive Rate-setting (Custom IR) plan. The mechanism of the approved plan is largely a continuation of the 2015 to 2019 Custom IR plan, with rates to increase annually by inflation less productivity, stretch, and growth factors plus a capital factor that will allow the Company to recover and earn a return on its large capital expenditures (capex) program in a timely manner. DBRS Morningstar notes the approval will provide stability for THC as well as certainty of funding for its capex program ($2.9 billion over the five-year term).

THC's financial risk assessment remained reasonable, with key credit metrics supportive of the "A" rating. As a result of the large capex program for the maintenance and refurbishment of aging infrastructure, the Company is expected to continue generating net free cash flow deficits over the medium term. As these deficits will likely be funded through debt, DBRS Morningstar expects THC's key credit metrics to weaken modestly year-over-year but remain within the "A" rating category. DBRS Morningstar had expected earnings and cash flow to be steady in 2020, with the higher rate base partly offset by the lower approved return on equity (ROE; 8.52% for 2020 to 2024 versus 9.30% for 2015 to 2019). However, as a result of the ongoing Coronavirus Disease (COVID-19) pandemic, results for 2020 will likely be moderately weaker. Although income from residential customers should remain in line with expectations as distribution rates for this customer class are decoupled, income from commercial and industrial customers will likely be negatively affected by the lower throughput. This impact should be partly offset by deferral accounts for costs or lost revenues arising from the coronavirus pandemic authorized by the OEB for all local distribution companies (LDCs); recovery of any amounts will be subject to OEB approval though. Overall, DBRS Morningstar expects THC's key credit metrics in 2020 to

remain in line with the current ratings. A positive rating action is unlikely in the medium term, given the uncertainty about the coronavirus pandemic and the ongoing large capex program. A negative rating action could occur if the Company's cash flow-to-debt ratio weakens to a level no longer commensurate with the current rating category (below 12.5%) and the debt-to-capital ratio exceeds 60% over a sustained period.

Financial Information

	For the year ended December 31				
	2019	**2018**	**2017**	**2016**	**2015**
Cash flow/Total debt (%)[1]	17.6	17.9	16.7	15.9	14.0
Total debt in capital structure (%)[1]	55.1	54.1	55.6	62.4	62.8
EBIT gross interest coverage (times)[1]	3.10	3.27	2.75	2.69	2.34
Net income before non-recurring items	153	165	140	142	124
Cash flow from operations	409	387	368	374	312

1 Adjusted for operating leases.

Issuer Description

THC is a holding company with the following subsidiaries: Toronto Hydro-Electric System Limited (THESL), the regulated electricity distributor, and Toronto Hydro Energy Services Inc., which provides street lighting services. The Company's sole shareholder is the City of Toronto (Toronto or the City; rated AA with a Stable trend by DBRS Morningstar).

Rating Considerations

Strengths

1. Reasonable regulatory environment

Nearly all of THC's earnings are contributed by its low-risk distribution business that operates under a reasonable and supportive regulatory environment. The Company operates under a five-year Custom IR framework that preapproves capex for the term and allows THC to generate relatively stable earnings and cash flow. In December 2019, the OEB approved the Company's 2020 to 2024 Custom IR application, with mechanisms largely in line with the 2015 to 2019 Custom IR framework. THC's deemed capital structure (deemed equity of 40%) has remained unchanged for several years.

2. Strong and growing franchise area

THC operates in Toronto, which is one of the largest metropolitan cities in North America and has reasonable growth in population. The Company is one of the largest municipally owned LDCs in Canada, providing approximately 18% of the electricity consumed in Ontario, and serves a customer base of approximately 778,000 customers. THC's electricity throughput is predominantly distributed to residential and general service customers who account for 96% of the Company's distribution revenues, reducing its exposure to cyclicality.

3. Reasonable financial profile

THC's credit metrics, including cash flow-to-total debt of 17.6%, total debt-to-capital of 55.1% and EBIT interest coverage of 3.10 times for 2019, have remained reasonable for the "A" rating category.

Challenges

1. Balance sheet pressure as a result of high capex

The Company is executing a substantial capex program of approximately $2.9 billion for the 2020 to 2024 period to replace its aging electricity infrastructure, which is expected to result in consistent free cash flow deficits for the medium term. Historically, THC has depended entirely on debt to fund its cash flow deficits, causing leverage to peak at 62.8% for 2015. Although an equity injection from the City alleviated this pressure in 2017, leverage will likely rise over the next few years after factoring in the higher dividend policy implemented in 2017. DBRS Morningstar expects the Company's key credit metrics to remain supportive of the current ratings though.

2. Limited access to equity market

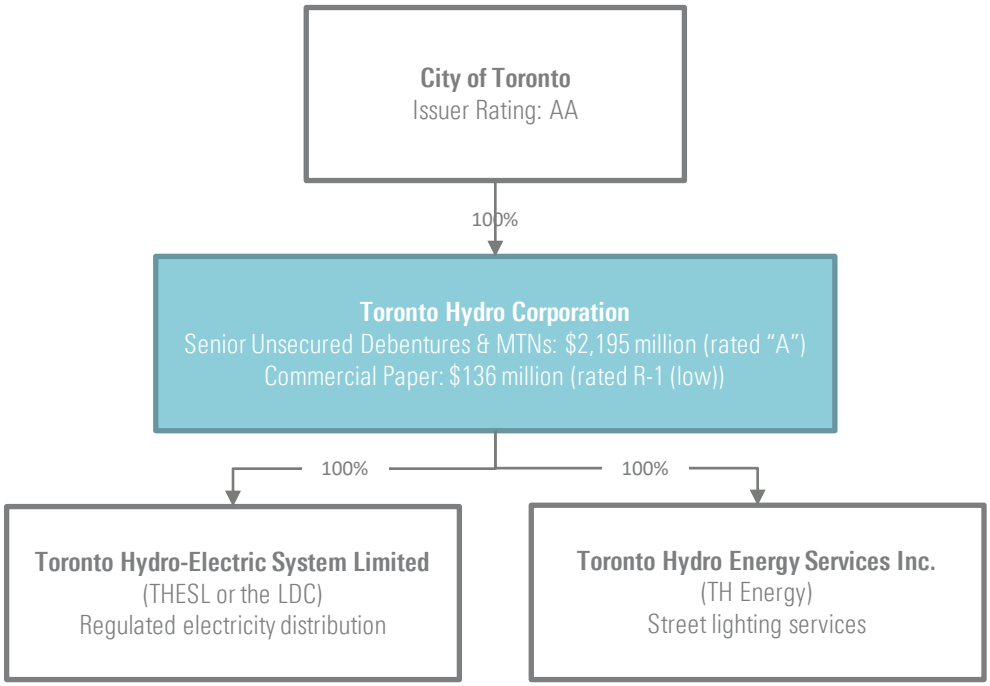
The Company's ownership structure (100% owned by the City) limits its ability to access the equity markets. As a result, cash flow deficits from the large capex program are funded largely through debt.

3. Earnings sensitive to volume

Earnings and cash flow for LDCs are partially dependent on the volume of electricity sold, given that rates typically include a variable charge component. Seasonality, economic cyclicality, and weather variability have a direct impact on the volume of electricity sold and, therefore, on distribution revenues. While volume risk has been largely eliminated for residential customers through a fixed charge, distribution rates for commercial and industrial customers (56% of revenues) continue to be based on fixed and volumetric components.

Corporate Structure

Simplified Organizational Structure



As at December 31, 2019.

Source: THC.

- THC is a holding company with the following subsidiaries operating in the Toronto area:
  - THESL is one of the largest municipal electricity distribution utilities in Canada (99% of revenue); and
  - Toronto Hydro Energy Services Inc., which has a contractual relationship with the City, owns and operates street lighting services (1% of revenue).
- The Company serves approximately 778,000 customers and distributed 18% of electricity in Ontario for 2019.

Earnings and Outlook

	For the year ended December 31				
(CAD millions where applicable)	**2019**	**2018**	**2017**	**2016**	**2015**
Net revenue	831	820	761	726	665
EBITDA	522	513	468	449	390
EBIT	267	275	244	237	196
Gross interest expense	86	84	89	88	83
Net income before non-recurring items	153	165	140	142	124
Reported net income	154	167	157	151	127
Return on equity (%)	8.2	9.2	8.8	10.3	9.5
Achieved regulated ROE (%)	N/A	9.33	9.08	12.18	10.71
Allowed ROE (%)	9.30	9.30	9.30	9.30	9.30
Rate base	4,380	4,123	3,851	3,550	3,213

2019 Summary

- Earnings for THC remained relatively stable in 2019, reflecting the regulated nature of its business.
- EBITDA increased modestly because of higher electricity rates effective January 1, 2019.
    - This was partly offset by lower consumption from less favourable weather and higher post-employment benefit past service costs.
    - EBIT decreased modestly because of higher depreciation from the increasing asset base.
- Net income before non-recurring items was lower because of higher interest expense from the increase in debt.

2020 Outlook

- DBRS Morningstar, in general, expects earnings for the Company to be relatively stable going forward.
    - Earnings should increase modestly annually in line with growth in the rate base.
    - DBRS Morningstar had expected 2020 earnings to remain in line with 2019 results, with the higher rate base offset by a decrease in the allowed ROE (8.52% for 2020 compared with 9.30% for 2019).
- As a result of the coronavirus pandemic, earnings for 2020 will likely be weaker than expected.
    - While revenues from residential customers should remain steady as distribution rates are decoupled, revenues from commercial and industrial customers will likely be lower.
    - DBRS Morningstar notes the OEB has approved for all LDCs to establish deferral accounts for the coronavirus pandemic, including one for lost revenues arising from the pandemic. Recovery of any amounts deferred will be subject to OEB approval though.

Financial Profile

	For the year ended December 31				
(CAD millions where applicable)	**2019**	**2018**	**2017**	**2016**	**2015**
Net income before non-recurring items	153	165	140	142	124
Depreciation & amortization	256	238	224	212	194
Deferred income taxes and other	1	(16)	3	20	(6)
Cash flow from operations	**409**	**387**	**368**	**374**	**312**
Dividends paid	(100)	(94)	(75)	(63)	(56)
Capital expenditures	(444)	(388)	(483)	(507)	(539)
Free cash flow (bef. working cap. changes)	**(135)**	**(94)**	**(190)**	**(196)**	**(284)**
Changes in non-cash work. cap. items	(77)	(1)	62	(15)	24
Changes in regulatory assets & liabilities	62	3	13	77	(23)
Net free cash flow	**(149)**	**(92)**	**(115)**	**(134)**	**(283)**
Acquisitions & long-term investments	0	0	0	0	0
Proceeds on asset sales	2	117	13	2	14
Net equity change	0	0	250	0	0
Net debt change	173	(48)	(151)	127	266
Other	(14)	22	3	5	2
Change in cash	**12**	**(1)**	**(0)**	**(0)**	**0**
Total debt	2,320	2,161	2,205	2,353	2,223
Total debt in capital structure (%)[1]	55.1	54.1	55.6	62.4	62.8
Cash flow/Total debt (%)[1]	17.6	17.9	16.7	15.9	14.0
EBIT gross interest coverage (times)[1]	3.10	3.27	2.75	2.69	2.34
DBRS-adjusted dividend payout ratio (%)	65.7	56.8	53.4	44.6	45.5

1 Adjusted for operating leases.

2019 Summary

- THC's key credit metrics for 2019 were largely in line with 2018.
    - All three metrics weakened modestly because of the higher debt load but remained commensurate with the current rating category.
- Cash flow from operations increased slightly for the year.
- Gross capex of $571 million remained elevated, with the increase largely related to customer-initiated plant relocations (such as for public transit expansion projects), new customer connections, and overhead infrastructure.
- THC paid dividends of $100 million in 2019, in line with its distribution policy of 60% of consolidated net income after net movements in regulatory balances.
- The Company funded its net free cash flow deficit through a $400 million senior unsecured debentures issuance, with $250 million used to refinance a maturing debenture.

2020 Outlook

- Similar to earnings, operating cash flows in 2020 will likely be negatively impacted by the coronavirus pandemic.

- Overall, DBRS Morningstar expects operating cash flow to be in line with 2019 results, with expected increase in cash flow from growth in the rate base offset by the impact of the pandemic.
- While collections from customers may be affected and lead to higher bad debts for the year, DBRS Morningstar expects these amounts to be deferred and eventually be recovered from customers.

- The Company has planned gross capex of $529 million for the year, with net capex in line with 2019.
- Dividends are expected to remain at the same level as 2019.
- Combined with the high capex and dividend requirements, THC is expected to continue generating net cash flow deficits in the medium-term that will likely be funded by debt.
    - As a result, DBRS Morningstar expects leverage for the Company will increase modestly but remain within the regulatory capital structure of 60% debt.
    - Additionally, DBRS Morningstar expects the cash flow-to-debt and EBIT-to-interest coverage ratios to remain commensurate with the "A" rating.

Liquidity and Long-term Debt Maturities

Liquidity

(CAD millions - as at December 31, 2019)	Amount	Drawn/CPs/LOCs	Available	Expiry
Cash & cash equivalents	0	0	**0**	-
Revolving credit facility	800	136	**664**	Oct 10, 2024
Prudential facility	75	33	**42**	Demand
Working capital facility	20	1	**19**	Demand
Total	**895**	**170**	**725**	

- THC's liquidity profile remains adequate to cover near- to medium-term obligations, with approximately $725 million of available facilities.
- THC has a $600 million CP program backstopped by the $800 million revolving credit facility with a maturity date of October 10, 2024.
    - As at December 31, 2019, the Company had $136 million of CPs outstanding.
- THC also has a $75 million Prudential Facility (demand facility) for the purpose of issuing letters of credit mainly to support prudential requirements with the Independent Electricity System Operator (rated A (high) with a Stable trend by DBRS Morningstar) and a $20 million Working Capital Facility.

Long-term Debt

Debentures

(CAD millions - as at December 31, 2019)	Maturity	Outstanding
Series 6 - 5.54%	May 21, 2040	200
Series 7 - 3.54%	Nov. 18, 2021	300
Series 8 - 2.91%	Apr. 10, 2023	250
Series 9 - 3.96%	Apr. 9, 2063	245
Series 10 - 4.08%	Sep. 16, 2044	200
Series 11 - 3.55%	Jul. 28, 2045	200
Series 12 - 2.52%	Aug. 25, 2026	200
Series 13 - 3.485%	Feb. 28, 2048	200
Series 14 - 2.43%	Dec. 11, 2029	200
Series 15 - 2.99%	Dec. 10, 2049	200
Total debentures		**2,195**
Less: Unamortized debt issuance costs		(12)
Less: Current portion of debentures		0
Long-term portion of debentures		**2,183**

Long-term Debt Maturities

(CAD millions - as at December 31, 2019)	2020	2021	2022	2023	2024	2025+	Total
Debentures	0	300	0	250	0	1,645	**2,195**
% of total	0	14	0	11	0	75	**100**

- Debt maturities are reasonably staggered and manageable and THC continues to have adequate access to debt capital markets.
- The Company filed a base shelf prospectus on July 30, 2019, for issue of debentures up to $1.0 billion.
- In November 2019, the Company issued $200 million of senior unsecured debentures maturing 2029, and $200 million of senior unsecured debentures maturing 2049.
    - Proceeds from the issuances were partly used to refinance a $250 million senior unsecured debentures maturity.

Regulation

- THESL is regulated by the OEB under a Custom IR framework. The Company has a good track record of prudently managing its regulatory risk.
    - DBRS Morningstar considers the regulatory regime under the OEB as supportive.
- The five-year Custom IR framework approved by the OEB for THESL is a hybrid between cost of service (COS) and an incentive rate mechanism (IRM).
    - The rate setting for the term is based on THESL's forecasts and OEB's incentive rate analysis using productivity benchmarking.
    - Custom IR is suited to distributors with large, broad, multi-year investment needs over a five-year period or more, and to distributors that require certainty of funding several years in advance.
- In December 29, 2015, the OEB approved THESL's Custom IR application for rates effective May 1, 2015, to December 31, 2019.
    - Rates will increase annually by an inflation factor (as updated annually by the OEB), a capital factor (based on the approved capex program), less the productivity and stretch factors (respectively, 0% and 0.6%), and a growth factor (based on changes in load and customer count).
    - The OEB approved a deemed capital structure of 60% debt (56% long-term and 4% short-term), 40% equity, and an allowed ROE of 9.30% from 2015 to 2019.
    - Total approved capex of approximately $2.35 billion for the 2015 to 2019 period.
    - THESL must file annual mechanistic IRM applications to finalize the rates approved on an interim basis as part of the application. The OEB has approved those annual rates consistent with the Company's applications and in accordance with the approved 2015 to 2019 Custom IR framework.
    - THESL is required to share non-capital-related earnings in excess of 100 basis points (bps) over the allowed ROE equally between the Company and its customers.
    - A regulatory review may be initiated by THESL or the OEB (off-ramp) should actual ROE vary from the allowed ROE by 300 bps (either positive or negative).
- In December 19, 2019, the OEB approved THESL's Custom IR application for rates effective January 1, 2020, to December 31, 2024.
    - The application was largely a continuation of the previous Custom IR regime.
    - The OEB approved a deemed capital structure of 60% debt (56% long-term and 4% short-term), 40% equity, and an allowed ROE of 8.52%.
    - Total approved capex of approximately $2.9 billion for the 2020 to 2024 period.

Assessment of Regulatory Framework

Criteria	Score	Analysis
1. Deemed Equity	Excellent Good **Satisfactory** Below Average Poor	The OEB allows THESL to have a deemed equity of 40%, which is consistent with other electricity distribution companies in Ontario.
2. Allowed ROE	Excellent Good **Satisfactory** Below Average Poor	THESL has an allowed ROE of 8.52% for 2020 to 2024, which is in line with the other distribution companies in Ontario. Any difference in ROE between the Company and other distribution companies is mainly because of the timing of the regulatory filings and the interest environment prevalent at that time.
3. Energy Cost Recovery	**Excellent** Good Satisfactory Below Average Poor	There is no power price risk for THC, 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 the Company collects the payments from its customers on a monthly basis.
4. Capital and Operating Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Under Custom IR, the capex program for THESL is pre-approved for a five-year period by the OEB and recovered through distribution rates. Additionally, beginning 2020 all residential customers are charged a fully fixed monthly fee for distribution services, significantly reducing volume risk.
5. COS versus IRM	Excellent Good **Satisfactory** Below Average Poor	THESL operates under Custom IR, which is a hybrid of COS and IRM. The Custom IR is for a five-year term from 2020 to 2024. DBRS Morningstar considers the productivity and inflation factors as reasonable.
6. Political Interference	Excellent Good Satisfactory **Below Average** Poor	The Government of Ontario plays a significant role in the electricity sector in Ontario, given that most of the utilities are government owned (THC is owned by the City). Furthermore, stakeholders, such as the Independent Electricity System Operator , are also government owned. As a result, the government has direct and indirect influence on Ontario's electricity industry.
7. Stranded Cost Recovery	Excellent **Good** 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 **Satisfactory** Below Average Poor	From 2002 to 2005, as a result of rising rates during Ontario's utility deregulation phase, a province-wide distribution rate freeze was imposed. There have been no subsequent province-wide rate freezes.

Balance Sheet

(CAD millions)	Dec. 31	Dec. 31	Dec. 31		Dec. 31	Dec. 31	Dec. 31
Assets	**2019**	**2018**	**2017**	**Liabilities & Equity**	**2019**	**2018**	**2017**
Cash & equivalents	0	0	0	Short-term debt	137	126	171
Accounts receivable	248	216	218	Accounts payable	505	525	516
Inventories	8	8	9	Current portion L.T.D.	0	250	0
Unbilled revenue	294	283	278	Customer advanced deposits	49	48	49
Prepaid expenses & other	15	11	21	Other current liabilities.	23	27	34
Total Current Assets	**564**	**517**	**527**	**Total Current Liabilities.**	**714**	**975**	**771**
Net fixed assets	4,701	4,392	4,143	Long-term debt	2,183	1,785	2,034
Future income tax assets	0	0	57	Deferred income taxes	23	0	68
Goodwill & intangibles	340	319	296	Regulatory liabilities	0	191	218
Regulatory assets	165	126	200	Other long-term liabilities	971	575	375
Investments & others	9	6	3	Shareholders' equity	1,888	1,834	1,760
Total Assets	**5,779**	**5,360**	**5,226**	**Total Liabilities. & Equity**	**5,779**	**5,360**	**5,226**

Ratios

	For the year ended December 31				
Balance Sheet & Liquidity & Capital Ratios	**2019**	**2018**	**2017**	**2016**	**2015**
Current ratio	0.79	0.53	0.68	0.53	0.62
Total debt in capital structure (%)	55.1	54.1	55.6	62.2	62.4
Total debt in capital structure (%)[1]	55.1	54.1	55.6	62.4	62.8
Cash flow/Total debt (%)	17.6	17.9	16.7	15.9	14.0
Cash flow/Total debt (%)[1]	17.6	17.9	16.7	15.9	14.0
(Cash flow-dividends)/Capex (times)	0.70	0.76	0.61	0.61	0.47
DBRS-adjusted dividend payout ratio (%)	65.7	56.8	53.4	44.6	45.5
Coverage Ratios (times)					
EBIT gross interest coverage	3.10	3.27	2.75	2.71	2.37
EBIT gross interest coverage[1]	3.10	3.27	2.75	2.69	2.34
EBITDA gross interest coverage	6.07	6.11	5.29	5.13	4.73
Fixed-charges coverage	3.10	3.27	2.75	2.69	2.34
Profitability Ratios					
EBITDA margin (%)	62.8	62.5	61.5	61.8	58.7
EBIT margin (%)	32.1	33.5	32.0	32.6	29.5
Profit margin (%)	18.4	20.2	18.4	19.6	18.6
Return on equity (%)	8.2	9.2	8.8	10.3	9.5
Return on capital (%)	6.5	6.9	6.3	6.4	5.7

1 Adjusted for operating leases.

Rating History

	Current	2019	2018	2017	2016	2015
Issuer Rating	A	A	A	A	A	A
Senior Unsecured Debentures & MTNs	A	A	A	A	A	A
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Previous Actions

- DBRS Confirms Ratings of Toronto Hydro Corporation with Stable Trends, April 26, 2019.

Previous Report

- Toronto Hydro Corporation: Rating Report, May 2, 2019.

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.

About DBRS Morningstar

DBRS Morningstar is a global credit ratings business with approximately 700 employees in eight offices globally.

On July 2, 2019, Morningstar, Inc. completed its acquisition of DBRS. Combining DBRS' strong market presence in Canada, the U.S., and Europe with Morningstar Credit Ratings' U.S. footprint has expanded global asset class coverage and provided investors with an enhanced platform featuring thought leadership, analysis, and research. DBRS and Morningstar Credit Ratings are committed to empowering investor success, serving the market through leading-edge technology and raising the bar for the industry.

Together as DBRS Morningstar, we are the world's fourth-largest credit ratings agency and a market leader in Canada, the U.S., and Europe in multiple asset classes. We rate more than 2,600 issuers and 54,000 securities worldwide and are driven to bring more clarity, diversity, and responsiveness to the ratings process. Our approach and size provide the agility to respond to customers' needs, while being large enough to provide the necessary expertise and resources.

The DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(CRA, NRSRO affiliate, DRO affiliate). Morningstar Credit Ratings, LLC is a NRSRO affiliate of DBRS, Inc.

For more information on regulatory registrations, recognitions and approvals of the DBRS group of companies and Morningstar Credit Ratings, LLC, please see: http://www.dbrsmorningstar.com/research/highlights.pdf.

The DBRS group and Morningstar Credit Ratings, LLC are wholly-owned subsidiaries of Morningstar, Inc.

© 2020 Morningstar. All rights reserved. The information upon which DBRS ratings and other types of credit opinions and reports are based is obtained by DBRS from sources DBRS believes to be reliable. DBRS does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS ratings, other types of credit opinions, reports and any other information provided by DBRS are provided "as is" and without representation or warranty of any kind. DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS or any DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. No DBRS entity is an investment advisor. DBRS does not provide investment, financial or other advice. Ratings, other types of credit opinions, other analysis and research issued or published by DBRS are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities. A report with respect to a DBRS rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS may receive compensation for its ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. DBRS is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS. ALL DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT http://www.dbrsmorningstar.com/about/disclaimer. ADDITIONAL INFORMATION REGARDING DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON http://www.dbrsmorningstar.com.

MORNINGSTAR | DBRS

Rating Report
Toronto Hydro Corporation

DBRS Morningstar
May 7, 2021

Contents

1 Ratings
1 Rating Update
2 Financial Information
2 Issuer Description
2 Rating Considerations
3 Corporate Structure
4 Earnings and Outlook
5 Financial Profile
6 Liquidity and Long-Term Debt Maturities
8 Regulation
11 Rating History
11 Commercial Paper Limit
11 Previous Actions
11 Previous Report

Tom Li
+1 416 597-7378
tom.li@dbrsmorningstar.com

Ram Vadali
+1 416 597-7526
ram.vadali@dbrsmorningstar.com

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable
Senior Unsecured Debentures & MTNs	A	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating Update

On April 29, 2021, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating and Senior Unsecured Debentures & MTNs rating of Toronto Hydro Corporation (THC or the Company) at "A," and the Commercial Paper (CP) rating at R-1 (low). All trends are Stable. The confirmations reflect the stability of THC's regulated electricity distribution operations under the Ontario Energy Board (OEB) and key credit metrics that remained supportive of the "A" ratings despite pressure from the ongoing Coronavirus Disease (COVID-19) pandemic.

There have been no material changes to THC's business risk assessment since last review. In 2020, the Company entered the first year of its renewed Custom Incentive Rate-setting (IR) regime. This framework is largely a continuation of the previous regime and provides certainty of recovery for THC's large capital expenditures (capex) program ($2.9 billion over the five-year term). Given the current reasonable regulatory framework, DBRS Morningstar does not foresee any material changes to the Company's business risk assessment for the medium term.

THC's earnings and cash flow decreased in 2020 largely because of the impact from the ongoing pandemic. Lower electricity throughput and peak demand from general service and industrial customers, which includes commercial customers, translated to a $37.5 million decrease in distribution revenue. Additionally, the Company also recorded a $17.2 million increase in bad debt expense because of higher delinquencies. While bad debt expenses are expected to return to a more normal level in 2021, DBRS Morningstar expects distribution revenue to remain slightly pressured as the City of Toronto (Toronto or the City; rated AA with a Stable trend by DBRS Morningstar) remains in a lockdown situation for at least parts of Q1 and Q2 2021. While THC's key credit metrics weakened in 2020 because of the pandemic and a higher debt load to fund the significant capex program, the overall metrics remained supportive of the current ratings. DBRS Morningstar expects THC's key credit metrics to remain in line with the "A" ratings. However, a negative rating action may occur should the Company's key credit metrics weaken to a level no longer commensurate with the "A" rating category, such as if, over a sustained period, the cash flow-to-debt ratio falls below 12.5% and the debt-to-capital ratio exceeds 60%.

Financial Information

	For the year ended December 31				
	2020	**2019**	**2018**	**2017**	**2016**
Cash flow/Total debt (%)[1]	14.5	17.6	17.9	16.7	15.9
Total debt in capital structure (%)[1]	57.1	55.1	54.1	55.6	62.4
EBIT gross interest coverage (times)[1]	2.64	3.10	3.27	2.75	2.69

1 Adjusted for operating leases.

Issuer Description

THC is a holding company with the following subsidiaries: Toronto Hydro-Electric System Limited (THESL), the regulated electricity distributor, and Toronto Hydro Energy Services Inc., which provides street lighting services. The Company's sole shareholder is the City.

Rating Considerations

Strengths

1. Reasonable regulatory environment

Nearly all of THC's earnings are contributed by its low-risk distribution business that operates under a reasonable and supportive regulatory environment. The Company operates under a five-year Custom IR framework that preapproves capex for the term and allows THC to generate relatively stable earnings and cash flow. In December 2019, the OEB approved the Company's 2020 to 2024 Custom IR application, with mechanisms largely in line with the 2015 to 2019 Custom IR framework. THC's deemed capital structure (deemed equity of 40%) has remained unchanged for several years.

2. Strong and growing franchise area

THC operates in Toronto, which is one of the largest metropolitan cities in North America and has reasonable growth in population. The Company is one of the largest municipally owned local distribution companies (LDCs) in Canada, providing approximately 18% of the electricity consumed in Ontario, and serves a customer base of approximately 781,000 customers. THC's electricity throughput is predominantly distributed to residential and general service customers who account for 95% of the Company's distribution revenue, reducing its exposure to cyclicality.

3. Reasonable financial profile

THC's credit metrics, including cash flow-to-total debt of 14.5%, total debt-to-capital of 57.1%, and EBIT interest coverage of 2.64 times (x) for 2020, have remained reasonable for the "A" rating category.

Challenges

1. Balance sheet pressure as a result of high capex

The Company is executing a substantial capex program of approximately $2.9 billion for the 2020 to 2024 period to replace its aging electricity infrastructure, which is expected to result in consistent free cash flow deficits for the medium term. Historically, THC has depended entirely on debt to fund its cash flow deficits, causing leverage to peak at 62.8% for 2015. Although an equity injection from the City alleviated this pressure in 2017, leverage will likely rise over the next few years after factoring in the higher

dividend policy implemented in 2017. DBRS Morningstar expects the Company's key credit metrics to remain supportive of the current ratings though.

2. Limited access to equity market

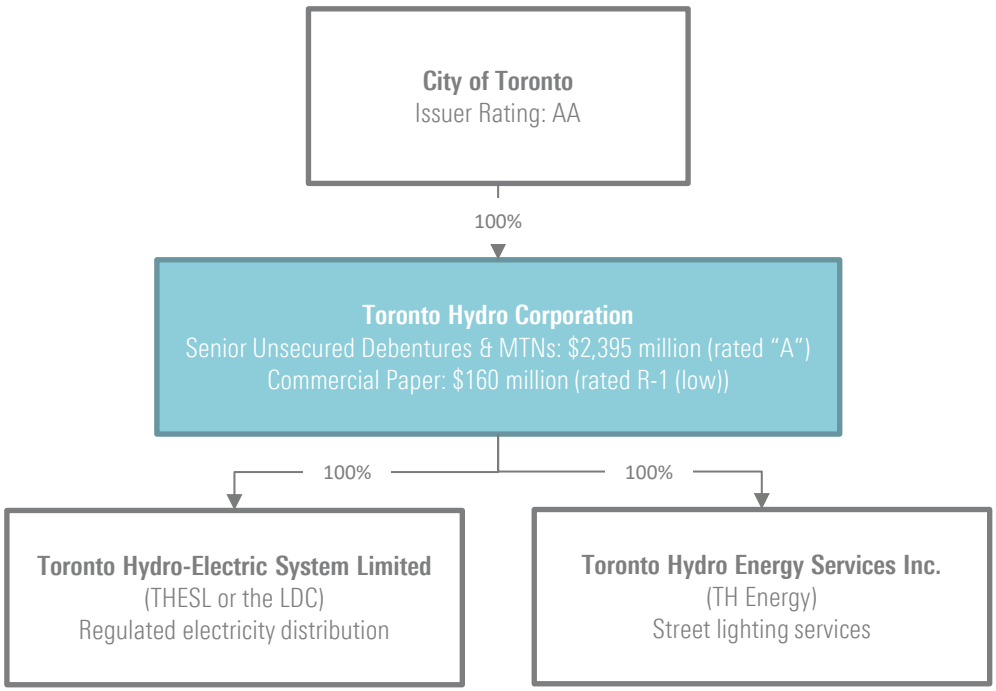
The Company's ownership structure (100% owned by the City) limits its ability to access the equity markets. As a result, cash flow deficits from the large capex program are funded largely through debt.

3. Earnings sensitive to volume

Earnings and cash flow for LDCs are partially dependent on the volume of electricity sold, given that rates typically include a variable charge component. Seasonality, economic cyclicality, and weather variability have a direct impact on the volume of electricity sold and, therefore, on distribution revenue. While volume risk has been largely eliminated for residential customers through a fixed charge, distribution rates for commercial and industrial customers (71% of revenue) continue to be based on fixed and volumetric components.

Corporate Structure

Simplified Organizational Structure



As at December 31, 2020.
Source: THC.

- THC is a holding company with the following subsidiaries operating in the Toronto area:
    - THESL is one of the largest municipal electricity distribution utilities in Canada (99% of revenue); and

- Toronto Hydro Energy Services Inc., which has a contractual relationship with the City, owns and operates street lighting services (1% of revenue).

- The Company serves approximately 781,000 customers and distributed 18% of electricity in Ontario for 2020.

Earnings and Outlook

	For the year ended December 31				
(CAD millions where applicable)	**2020**	**2019**	**2018**	**2017**	**2016**
Net revenue	798	831	820	761	726
EBITDA	493	522	513	468	449
EBIT	219	267	275	244	237
Gross interest expense	83	86	84	89	88
Net income before nonrecurring items	137	153	165	140	142
Reported net income	117	154	167	157	151
Return on equity (%)	7.2	8.2	9.2	8.8	10.3
Achieved regulated ROE (%)	n/a	8.44	9.33	9.08	12.18
Allowed ROE (%)	8.52	9.30	9.30	9.30	9.30
Rate base	4,534	4,380	4,123	3,851	3,550

2020 Summary

- EBITDA decreased in 2020 largely because of the ongoing pandemic, with lower commercial electricity consumption resulting in a $37.5 million decrease in distribution revenue.
    - EBIT also decreased because of higher depreciation from the growing rate base.
    - Net income before non-recurring items fell moderately because of the above-mentioned items, partly offset by lower interest expense because of lower rates associated with CPs, and lower income taxes because of the lower income.
- Reported net income included $17.2 million of incremental bad debt expense and $3.9 million of operating costs to implement safety features as a result of the pandemic.

2021 Outlook

- DBRS Morningstar expects earnings in 2021 to remain pressured because of the ongoing pandemic.
    - Distribution revenue is expected to remain weaker than historical levels because of lower commercial throughputs.
    - This will be partly offset by the annual mechanisms of the Custom IR decision, with rates to grow in line with the rate base.
    - Revenue from residential customers should remain steady as distribution rates are decoupled.

Financial Profile

	For the year ended December 31				
(CAD millions where applicable)	**2020**	**2019**	**2018**	**2017**	**2016**
Net income before nonrecurring items	137	153	165	140	142
Depreciation and amortization	274	256	238	224	212
Deferred income taxes and other	(41)	1	(16)	3	20
Cash flow from operations	**370**	**409**	**387**	**368**	**374**
Dividends paid	(93)	(100)	(94)	(75)	(63)
Capital expenditures	(529)	(444)	(388)	(483)	(507)
Free cash flow (bef. working cap. changes)	**(251)**	**(135)**	**(94)**	**(190)**	**(196)**
Changes in noncash work. cap. items	46	(77)	(1)	62	(15)
Changes in regulatory assets and liabilities	(19)	62	3	13	77
Net free cash flow	**(224)**	**(149)**	**(92)**	**(115)**	**(134)**
Acquisitions and long-term investments	0	0	0	0	0
Proceeds on asset sales	1	2	117	13	2
Net equity change	0	0	0	250	0
Net debt change	229	161	(47)	(151)	127
Other	(6)	(14)	22	3	5
Change in cash	**0**	**(0)**	**0**	**(0)**	**(0)**
Total debt	2,548	2,320	2,161	2,205	2,353
Total debt in capital structure (%)[1]	57.1	55.1	54.1	55.6	62.4
Cash flow/Total debt (%)[1]	14.5	17.6	17.9	16.7	15.9
EBIT gross interest coverage (x)[1]	2.64	3.10	3.27	2.75	2.69
DBRS Morningstar-adjusted dividend payout ratio (%)	67.5	65.7	56.8	53.4	44.6

1 Adjusted for operating leases.

2020 Summary

- THC's key credit metrics weakened because of the lower earnings and cash flows for the year from the pandemic, as well as higher debt load to fund the capex program.
    - Overall, the Company's key credit metrics remained in line with the "A" rating.
- Cash flow from operations decreased because of the lower earnings for the year.
- Gross capex of $680 million remained elevated, with the increase largely related to customer-initiated plant relocations (such as for public transit expansion projects), new customer connections, and overhead infrastructure.
- THC paid dividends of $93 million in 2020, in line with its distribution policy of 60% of consolidated net income after net movements in regulatory balances.
- The Company funded its net free cash flow deficit through a $200 million senior unsecured debentures issuance.

2021 Outlook

- DBRS Morningstar expects cash flow from operations to increase moderately, benefitting higher distribution rates, partly offset by lower commercial throughputs because of the pandemic.

- The Company has planned gross capex of $619 million for the year.
- Dividends are expected to decline because of the lower net income in 2020.
- Combined with the high capex and dividend requirements, THC is expected to continue generating net cash flow deficits in the medium-term that will likely be funded by debt.
    - As a result, DBRS Morningstar expects leverage for the Company will increase modestly but remain within the regulatory capital structure of 60% debt.
    - Additionally, DBRS Morningstar expects the cash flow-to-debt and EBIT-to-interest coverage ratios to remain commensurate with the "A" rating.

Liquidity and Long-Term Debt Maturities

Liquidity

(CAD millions - as at December 31, 2020)	Amount	Drawn/CPs/LOCs	Available	Expiry
Cash and cash equivalents	0	0	**0**	-
Revolving credit facility	800	160	**640**	Oct. 10, 2024
Prudential facility	75	33	**42**	Demand
Working capital facility	20	6	**14**	Demand
Total	**895**	**199**	**696**	

- THC's liquidity profile remains adequate to cover near- to medium-term obligations, with approximately $696 million of available facilities.
- THC has a $750 million CP program backstopped by the $800 million revolving credit facility with a maturity date of October 10, 2024.
    - As at December 31, 2020, the Company had $160 million of CPs outstanding.
- THC also has a $75 million Prudential Facility (demand facility) for the purpose of issuing letters of credit mainly to support prudential requirements with the Independent Electricity System Operator (rated A (high) with a Stable trend by DBRS Morningstar) and a $20 million Working Capital Facility.

Long-Term Debt

Debentures

(CAD millions - as at December 31, 2020)	Maturity	Outstanding
Series 6 - 5.54%	May 21, 2040	200
Series 7 - 3.54%	November 18, 2021	300
Series 8 - 2.91%	April 10, 2023	250
Series 9 - 3.96%	April 9, 2063	245
Series 10 - 4.08%	September 16, 2044	200
Series 11 - 3.55%	July 28, 2045	200
Series 12 - 2.52%	August 25, 2026	200
Series 13 - 3.485%	February 28, 2048	200
Series 14 - 2.43%	December 11, 2029	200
Series 15 - 2.99%	December 10, 2049	200
Series 16 - 1.50%	October 15, 2030	200
Total debentures		**2,395**
Less: Unamortized debt issuance costs		(13)
Less: Current portion of debentures		(300)
Long-term portion of debentures		**2,082**

Long-Term Debt Maturities

(CAD millions - as at December 31, 2020)	2021	2022	2023	2024	2025	2026+	Total
Debentures	300	-	250	-	-	1,845	**2,395**
% of total	13	0	10	0	0	77	**100**

- Debt maturities are reasonably staggered and manageable and THC continues to have adequate access to debt capital markets.
- The Company filed a base shelf prospectus on July 30, 2019, for issue of debentures up to $1.0 billion.
- In October 2020, the Company issued $200 million of senior unsecured debentures maturing in 2030.

Regulation

- THESL is regulated by the OEB under a Custom IR framework. The Company has a good track record of prudently managing its regulatory risk.
    - DBRS Morningstar considers the regulatory regime under the OEB as supportive.
- The five-year Custom IR framework approved by the OEB for THESL is a hybrid between cost of service (COS) and an incentive rate mechanism (IRM).
    - The rate setting for the term is based on THESL's forecasts and OEB's incentive rate analysis using productivity benchmarking.
    - Custom IR is suited to distributors with large, broad, multiyear investment needs over a five-year period or more, and to distributors that require certainty of funding several years in advance.
- In December 19, 2019, the OEB approved THESL's Custom IR application for rates effective January 1, 2020, to December 31, 2024.
    - The application was largely a continuation of the previous Custom IR regime, where rates will increase annually by an inflation factor (as updated annually by the OEB), a capital factor (based on the approved capex program), less the productivity and stretch factors (respectively, 0% and 0.6%), and a growth factor (based on changes in load and customer count).
    - The OEB approved a deemed capital structure of 60% debt (56% long-term and 4% short-term), 40% equity, and an allowed ROE of 8.52%.
    - Total approved capex of approximately $2.9 billion for the 2020 to 2024 period.
    - THESL must file annual mechanistic IRM applications to finalize the rates approved on an interim basis as part of the application. The OEB has approved those annual rates consistent with the Company's applications and in accordance with the approved 2020 to 2024 Custom IR framework.
    - THESL is required to share earnings in excess of 100 basis points (bps) over the allowed ROE equally between the Company and its customers.
    - A regulatory review may be initiated by THESL or the OEB (off-ramp) should actual ROE vary from the allowed ROE by 300 bps (either positive or negative).
- In December 2020, the OEB approved THESL's application for base rate increase of 4.59%.

Assessment of Regulatory Framework

Criteria	Score	Analysis
1. Deemed Equity	Excellent Good **Satisfactory** Below Average Poor	The OEB allows THESL to have a deemed equity of 40%, which is consistent with other electricity distribution companies in Ontario.
2. Allowed ROE	Excellent Good **Satisfactory** Below Average Poor	THESL has an allowed ROE of 8.52% for 2020 to 2024, which is in line with the other distribution companies in Ontario. Any difference in ROE between the Company and other distribution companies is mainly because of the timing of the regulatory filings and the interest environment prevalent at that time.
3. Energy Cost Recovery	**Excellent** Good Satisfactory Below Average Poor	There is no power price risk for THC, 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 the Company collects the payments from its customers on a monthly basis.
4. Capital and Operating Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Under Custom IR, the capex program for THESL is pre-approved for a five-year period by the OEB and recovered through distribution rates. Additionally, beginning in 2020, all residential customers are charged a fully fixed monthly fee for distribution services, significantly reducing volume risk.
5. COS versus IRM	Excellent Good **Satisfactory** Below Average Poor	THESL operates under Custom IR, which is a hybrid of COS and IRM. The Custom IR is for a five-year term from 2020 to 2024. DBRS Morningstar considers the productivity and inflation factors as reasonable.
6. Political Interference	Excellent Good Satisfactory **Below Average** Poor	The Government of Ontario plays a significant role in the electricity sector in Ontario, given that most of the utilities are government owned (THC is owned by the City). Furthermore, stakeholders, such as the Independent Electricity System Operator, are also government owned. As a result, the government has direct and indirect influence on Ontario's electricity industry.
7. Stranded Cost Recovery	Excellent **Good** 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** Satisfactory 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.

Balance Sheet

(CAD millions)	Dec. 31	Dec. 31	Dec. 31		Dec. 31	Dec. 31	Dec. 31
Assets	**2020**	**2019**	**2018**	**Liabilities and Equity**	**2020**	**2019**	**2018**
Cash and equivalents	0	0	0	Short-term debt	166	137	126
Accounts receivable	241	272	216	Accounts payable	406	505	525
Inventories	10	8	8	Current portion long-term debt	300	0	250
Unbilled revenue	229	269	283	Customer advanced deposits	45	49	48
Prepaid expenses and other	29	15	11	Other current liabilities.	34	23	27
Total Current Assets	**508**	**564**	**517**	**Total Current Liabilities.**	**951**	**714**	**975**
Net fixed assets	5,039	4,701	4,392	Long-term debt	2,082	2,183	1,785
Future income tax assets	48	21	0	Deferred income taxes	47	23	0
Goodwill and intangibles	343	340	319	Regulatory liabilities	183	218	178
Regulatory assets	123	144	126	Other long-term liabilities	893	753	588
Investments and others	8	9	6	Shareholders' equity	1,912	1,888	1,834
Total Assets	**6,069**	**5,779**	**5,360**	**Total Liabilities and Equity**	**6,069**	**5,779**	**5,360**

Ratios

	For the year ended December 31				
Balance Sheet and Liquidity and Capital Ratios	**2020**	**2019**	**2018**	**2017**	**2016**
Current ratio	0.53	0.79	0.53	0.68	0.53
Total debt in capital structure (%)	57.1	55.1	54.1	55.6	62.2
Total debt in capital structure (%)[1]	57.1	55.1	54.1	55.6	62.4
Cash flow/Total debt (%)	14.5	17.6	17.9	16.7	15.9
Cash flow/Total debt (%)[1]	14.5	17.6	17.9	16.7	15.9
(Cash flow-dividends)/Capex (x)	0.53	0.70	0.76	0.61	0.61
DBRS Morningstar-adjusted dividend payout ratio (%)	67.5	65.7	56.8	53.4	44.6
Coverage Ratios (x)					
EBIT gross interest coverage	2.64	3.10	3.27	2.75	2.71
EBIT gross interest coverage[1]	2.64	3.10	3.27	2.75	2.69
EBITDA gross interest coverage	5.96	6.07	6.11	5.29	5.13
Fixed-charges coverage	2.64	3.10	3.27	2.75	2.69
Profitability Ratios					
EBITDA margin (%)	61.8	62.8	62.5	61.5	61.8
EBIT margin (%)	27.4	32.1	33.5	32.0	32.6
Profit margin (%)	17.2	18.4	20.2	18.4	19.6
Return on equity (%)	7.2	8.2	9.2	8.8	10.3
Return on capital (%)	5.0	6.5	6.9	6.3	6.4

1 Adjusted for operating leases.

Rating History

	Current	2020	2019	2018	2017	2016
Issuer Rating	A	A	A	A	A	A
Senior Unsecured Debentures & MTNs	A	A	A	A	A	A
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Commercial Paper Limit

- $750 million.

Previous Actions

- DBRS Morningstar Assigns Rating of "A," Stable, to Toronto Hydro Corporation's 1.50% $200 Million Senior Unsecured Debentures, October 15, 2020.
- DBRS Morningstar Notes Toronto Hydro Corporation's Commercial Paper Limit Increase, May 22, 2020.
- DBRS Morningstar Confirms Ratings of Toronto Hydro Corporation with Stable Trends, April 28, 2020.

Previous Report

- Toronto Hydro Corporation: Rating Report, May 5, 2020.

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.

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 3,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why DBRS Morningstar is the next generation of credit ratings.

Learn more at dbrsmorningstar.com.

MORNINGSTAR | DBRS

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: https://www.dbrsmorningstar.com/research/225752/highlights.pdf.

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

© 2021 DBRS Morningstar. All Rights Reserved. The information upon which DBRS Morningstar ratings and other types of credit opinions and reports are based is obtained by DBRS Morningstar from sources DBRS Morningstar believes to be reliable. DBRS Morningstar does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS Morningstar ratings, other types of credit opinions, reports and any other information provided by DBRS Morningstar are provided "as is" and without representation or warranty of any kind. DBRS Morningstar hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS Morningstar or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Morningstar Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS Morningstar or any DBRS Morningstar Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. No DBRS Morningstar entity is an investment advisor. DBRS Morningstar does not provide investment, financial or other advice. Ratings, other types of credit opinions, other analysis and research issued or published by DBRS Morningstar are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities. A report with respect to a DBRS Morningstar rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS Morningstar may receive compensation for its ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. DBRS Morningstar is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS Morningstar shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS Morningstar. ALL DBRS MORNINGSTAR RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT https://www.dbrsmorningstar.com/about/disclaimer. ADDITIONAL INFORMATION REGARDING DBRS MORNINGSTAR RATINGS AND OTHER TYPES OF CREDIT OPINIONS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON https://www.dbrsmorningstar.com.

MORNINGSTAR | DBRS

Rating Report
Toronto Hydro Corporation

DBRS Morningstar
May 5, 2022

Contents

1 Ratings
1 Rating Update
2 Financial Information
2 Issuer Description
2 Rating Considerations
3 Corporate Structure
4 Earnings and Outlook
5 Financial Profile
6 Liquidity and Long-Term Debt Maturities
8 Regulation
10 ESG Checklist
12 Rating History
12 Commercial Paper Limit
12 Previous Actions
12 Previous Report

Tom Li
+1 416 597-7378
tom.li@dbrsmorningstar.com

Ram Vadali
+1 416 597-7526
ram.vadali@dbrsmorningstar.com

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable
Senior Unsecured Debentures & MTNs	A	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating Update

On April 29, 2022, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating and Senior Unsecured Debentures & MTNs rating of Toronto Hydro Corporation (Toronto Hydro or the Company) at "A," and the Commercial Paper (CP) rating at R-1 (low). All trends are Stable. The ratings of Toronto Hydro continue to be based on its regulated electricity distribution business, which operates under a reasonable regulatory framework by the Ontario Energy Board (OEB). The Stable trend reflects the Company's key credit metrics, which are in line with the "A" rating category.

Toronto Hydro's business risk assessments is supported by its regulated electricity distribution operation, which provides almost all of its earnings and cash flows. The Company is currently in the third year of its five-year Custom Incentive Rate-making (IR) regime, where rates increase annually by a custom price cap index which includes an inflation factor for operational expenditures and a capital factor for Toronto Hydro's significant capital expenditures (capex) plan (approximately $2.9 billion for the Custom IR term). The Custom IR capital plan was proactively reviewed by the OEB and is funded through the rates approved by the OEB during the 2020-2024 Custom IR term. As such, DBRS Morningstar does not expect any material changes to Toronto Hydro's business risk assessment over the medium term.

Toronto Hydro's financial risk assessment remained supportive of the "A" rating. The Company's cash flow-to-debt and EBIT-interest coverage ratios improved in 2021 following the dip experienced in the previous year because of lower commercial customer usage from the Coronavirus Disease (COVID-19) pandemic. While commercial throughputs in 2021 remained below pre-pandemic levels, Toronto Hydro was able to find efficiencies and manage its administrative expenses in order to meet its financial targets. DBRS Morningstar expects the Company's key credit metrics to remain in line with the "A" rating in 2022 with higher revenues from the growing rate base to offset remaining impact from the pandemic. Given the current business risk assessment and the substantial capex program, DBRS Morningstar considers a positive rating action for Toronto Hydro to be unlikely. Although unlikely as well, a negative rating action may occur should there be an adverse regulatory decision or if the Company's key credit metrics weaken to a level no longer commensurate with the "A" rating category,

such as if, over a sustained period, the cash flow-to-debt ratio falls below 12.5% and the debt-to-capital ratio exceeds 60%.

Financial Information

	For the year ended December 31				
	2021	**2020**	**2019**	**2018**	**2017**
Cash flow/Total debt (%)[1]	16.3	14.5	17.6	17.9	16.7
Total debt in capital structure (%)[1]	57.8	57.1	55.1	54.1	55.6
EBIT gross interest coverage (times)[1]	2.80	2.64	3.10	3.27	2.75

1 Adjusted for operating leases.

Issuer Description

Toronto Hydro is a holding company with the following subsidiaries: Toronto Hydro-Electric System Limited (THESL), the regulated electricity distributor, and Toronto Hydro Energy Services Inc., which provides street lighting services. The Company's sole shareholder is the City of Toronto (the City; rated AA with a Stable trend by DBRS Morningstar).

Rating Considerations

Strengths

1. Reasonable regulatory environment

Nearly all of Toronto Hydro's earnings are contributed by its low-risk distribution business that operates under a reasonable and supportive regulatory environment. The Company operates under a five-year Custom IR framework that preapproves capex for the term and allows Toronto Hydro to generate relatively stable earnings and cash flow. Toronto Hydro's deemed capital structure (deemed equity of 40%) has remained unchanged for several years.

2. Strong and growing franchise area

Toronto Hydro operates in Toronto, which is one of the largest metropolitan cities in North America and has reasonable growth in population. The Company is one of the largest municipally owned local distribution companies (LDCs) in Canada, providing approximately 18% of the electricity consumed in Ontario, and serves a customer base of approximately 787,000 customers. Toronto Hydro's electricity throughput is predominantly distributed to residential and general service customers who account for approximately 94% of the Company's distribution revenue, reducing its exposure to cyclicality.

3. Reasonable financial profile

Toronto Hydro's credit metrics, including cash flow-to-total debt of 16.3%, total debt-to-capital of 57.8%, and EBIT interest coverage of 2.80 times (x) for 2021, have remained reasonable for the "A" rating.

Challenges

1. Balance sheet pressure as a result of high capex

The Company is executing a substantial capex program of approximately $2.9 billion for the 2020 to 2024 period to replace its aging electricity infrastructure, which is expected to result in consistent free cash

flow deficits for the medium term. Historically, Toronto Hydro has depended entirely on debt to fund its cash flow deficits, causing leverage to peak at 62.8% for 2015. Although an equity injection from the City alleviated this pressure in 2017, leverage will likely rise over the next few years after factoring in the higher dividend policy implemented in 2017. DBRS Morningstar expects the Company's key credit metrics to remain supportive of the current ratings though.

2. Limited access to equity market

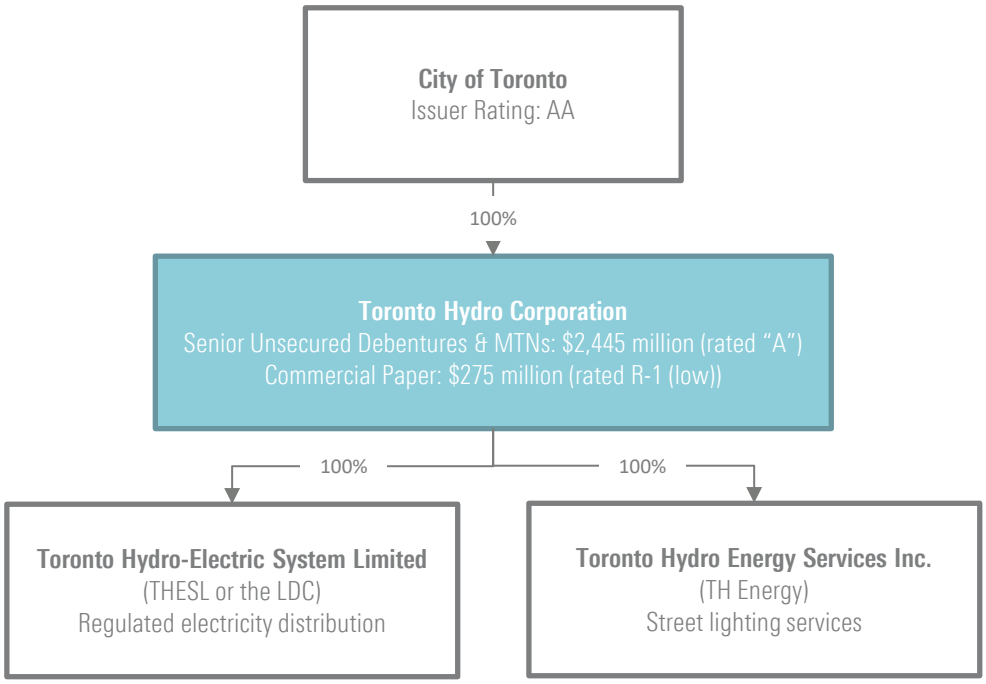
The Company's ownership structure (100% owned by the City) limits its ability to access the equity markets. As a result, cash flow deficits from the large capex program are funded largely through debt.

3. Earnings sensitive to volume

Earnings and cash flow for LDCs are partially dependent on the volume of electricity sold, given that rates typically include a variable charge component. Seasonality, economic cyclicality, and weather variability have a direct impact on the volume of electricity sold and, therefore, on distribution revenue. While volume risk has been largely eliminated for residential customers through a fixed charge, distribution rates for commercial and industrial customers (71% of revenue in 2021) continue to be based on fixed and volumetric components.

Corporate Structure

Simplified Organizational Structure



As at December 31, 2021.
Source: Toronto Hydro.

- Toronto Hydro is a holding company with the following subsidiaries operating in the Toronto area:
    - THESL is one of the largest municipal electricity distribution utilities in Canada (99% of revenue); and
    - Toronto Hydro Energy Services Inc., which has a contractual relationship with the City, owns and operates street lighting services (1% of revenue).
- The Company serves approximately 787,000 customers and distributed 18% of electricity in Ontario for 2020.
- In September 2021, as requested by the City, Toronto Hydro filed a Climate Action Plan outlining options the Company could undertake to support the City's Net Zero Strategy.
    - Beyond continued investments to expand its regulated distribution network, the Climate Action Plan included potential unregulated climate advisory services, such as transportation or buildings electrification, and renewable energy and storage.
    - Toronto Hydro expects these unregulated activities will facilitate up to $3.5 billion of investment by 2050. The Company notes that, given its financial resources, its potential contribution would be limited to $15 million a year and the remaining financing would need to be sourced from either provincial or federal subsidies.

Earnings and Outlook

	For the year ended December 31				
(CAD millions where applicable)	**2021**	**2020**	**2019**	**2018**	**2017**
Net revenue	846	798	831	820	761
EBITDA	528	493	522	513	468
EBIT	235	219	267	275	244
Gross interest expense	84	83	86	84	89
Net income before nonrecurring items	143	137	153	165	140
Reported net income	141	117	154	167	157
Return on equity (%)	7.3	7.2	8.2	9.2	8.8
Achieved regulated ROE (%)	7.08	5.90	8.44	9.33	9.08
Allowed ROE (%)	8.52	8.52	9.30	9.30	9.30
Rate base	4,675	4,534	4,380	4,123	3,851

2021 Summary

- Earnings for Toronto Hydro improved in 2021 because of higher approved distribution rates and rate riders.
    - DBRS Morningstar notes that results in 2020 were negatively affected by the coronavirus pandemic, which reduced commercial electricity consumption. While consumption in 2021 remained below pre-pandemic levels, the Company was able to meet its budgeted net income through achieving efficiencies by lowering administrative expenses.
    - The higher earnings were partly offset by higher depreciation from the growing rate base.
- Reported net income included 1.2 million of incremental bad debt expense and $3.6 million of operating costs to implement safety features as a result of the pandemic.

2022 Outlook

- DBRS Morningstar expects Toronto Hydro's earnings in 2022 to increase modestly.
    - The higher earnings will largely materialize through the annual mechanisms of the Custom IR decision, with rates to grow in line with the rate base
    - Revenue from residential customers should remain steady as distribution rates are decoupled. However, revenue from commercial customers may still be pressured because of the ongoing pandemic leading to lower throughputs.

Financial Profile

	For the year ended December 31				
(CAD millions where applicable)	**2021**	**2020**	**2019**	**2018**	**2017**
Net income before nonrecurring items	143	137	153	165	140
Depreciation and amortization	293	274	256	238	224
Deferred income taxes and other	6	(41)	1	(16)	3
Cash flow from operations	**442**	**370**	**409**	**387**	**368**
Dividends paid	(70)	(93)	(100)	(94)	(75)
Capital expenditures	(502)	(529)	(444)	(388)	(483)
Free cash flow (bef. working cap. changes)	**(131)**	**(251)**	**(135)**	**(94)**	**(190)**
Changes in noncash work. cap. items	8	46	(77)	(1)	62
Changes in regulatory assets and liabilities	(54)	(19)	62	3	13
Net free cash flow	**(177)**	**(224)**	**(149)**	**(92)**	**(115)**
Acquisitions and long-term investments	0	0	0	0	0
Proceeds on asset sales	3	1	2	117	13
Net equity change	0	0	0	0	250
Net debt change	167	229	161	(47)	(151)
Other	7	(6)	(14)	22	3
Change in cash	**0**	**0**	**(0)**	**0**	**(0)**
Total debt	2,715	2,548	2,320	2,161	2,205
Total debt in capital structure (%)[1]	57.8	57.1	55.1	54.1	55.6
Cash flow/Total debt (%)[1]	16.3	14.5	17.6	17.9	16.7
EBIT gross interest coverage (x)[1]	2.80	2.64	3.10	3.27	2.75
DBRS Morningstar-adjusted dividend payout ratio (%)	49.2	67.5	65.7	56.8	53.4

1 Adjusted for operating leases.

2021 Summary

- Toronto Hydro's key credit metrics remained in line with the "A" rating.
    - While the debt-to-capital increased modestly because of the higher debt load, the cash flow-to-debt and EBIT-interest coverage ratios recovered to more historical levels because of the higher earnings and cash flows for the year.
- Cash flow from operations increased tracking the increase in net income.

- Gross capex of $603 million, while lower than 2020, remained elevated as the Company continued to spend on infrastructure renewal projects, customer-initiated plant relocations (such as for public transit expansion projects), new customer connections, and overhead infrastructure.
- Toronto Hydro paid dividends of $70 million in 2021, in line with its distribution policy of 60% of consolidated net income after net movements in regulatory balances.
- The Company funded its net free cash flow deficit through CPs and a $350 million senior unsecured debentures issuance.
    - Proceeds from the debentures issuance were also used to repay a $300 million debenture maturity.

2022 Outlook

- DBRS Morningstar expects cash flow from operations to increase modestly in 2022, in line with the expected higher earnings.
- The Company has planned gross capex of $742 million for the year.
- Dividends are expected to increase because of the higher net income in 2021.
- Combined with the high capex and dividend requirements, Toronto Hydro is expected to continue generating net cash flow deficits in the medium term that will likely be funded by debt.
    - As a result, DBRS Morningstar expects leverage for the Company will increase modestly but remain within the regulatory capital structure of 60% debt.
    - Additionally, DBRS Morningstar expects the cash flow-to-debt and EBIT-to-interest coverage ratios to remain commensurate with the "A" rating.

Liquidity and Long-Term Debt Maturities

Liquidity

(CAD millions - as at December 31, 2021)	Amount	Drawn/CPs/LOCs	Available	Expiry
Cash and cash equivalents	0	0	**0**	-
Revolving credit facility	800	275	**525**	Sep. 2, 2026
Prudential facility	100	59	**41**	Demand
Working capital facility	20	9	**11**	Demand
Total	**920**	**343**	**577**	

- Toronto Hydro's liquidity profile remains adequate to cover near- to medium-term obligations, with approximately $577 million of available facilities.
- Toronto Hydro has a $750 million CP program backstopped by the $800 million revolving credit facility with a maturity date of September 2, 2026.
    - As at December 31, 2021, the Company had $275 million of CPs outstanding.
- Toronto Hydro also has a $100 million Prudential Facility (demand facility) for the purpose of issuing letters of credit mainly to support prudential requirements with the Independent Electricity System Operator and a $20 million Working Capital Facility.

Long-Term Debt

Debentures

(CAD millions - as at December 31, 2021)	Maturity	Outstanding
Series 6 - 5.54%	May 21, 2040	200
Series 8 - 2.91%	April 10, 2023	250
Series 9 - 3.96%	April 9, 2063	245
Series 10 - 4.08%	September 16, 2044	200
Series 11 - 3.55%	July 28, 2045	200
Series 12 - 2.52%	August 25, 2026	200
Series 13 - 3.485%	February 28, 2048	200
Series 14 - 2.43%	December 11, 2029	200
Series 15 - 2.99%	December 10, 2049	200
Series 16 - 1.50%	October 15, 2030	200
Series 17 - 2.47%	October 20, 2031	150
Series 18 - 3.27%	October 18, 2051	200
Total debentures		**2,445**
Less: Unamortized debt issuance costs		(14)
Less: Current portion of debentures		0
Long-term portion of debentures		**2,431**

Long-Term Debt Maturities

(CAD millions - as at December 31, 2021)	2022	2023	2024	2025	2026	2027+	Total
Debentures	-	250	-	-	200	1,995	**2,445**
% of total	0	10	0	0	8	82	**100**

- Debt maturities are reasonably staggered and manageable and Toronto Hydro continues to have adequate access to debt capital markets.
- The Company filed a base shelf prospectus on July 29, 2021, for issue of debentures up to $1.0 billion.
- In October 2021, the Company issued $150 million of senior unsecured debentures maturing in 2031, and $200 million maturing in 2051.
    - Proceeds from the issuance was largely used to repay a $300 million debenture maturity.

Regulation

- THESL is regulated by the OEB under a Custom IR framework. The Company has a good track record of prudently managing its regulatory risk.
    - DBRS Morningstar considers the regulatory regime under the OEB as supportive.
- The five-year Custom IR framework approved by the OEB for THESL is a hybrid between cost of service (COS) and an incentive rate mechanism (IRM).
    - The rate setting for the term is based on THESL's forecasts and OEB's incentive rate analysis using productivity benchmarking.
    - Custom IR is suited to distributors with large, broad, multiyear investment needs over a five-year period or more, and to distributors that require certainty of funding several years in advance.
- In December 19, 2019, the OEB approved THESL's Custom IR application for rates effective January 1, 2020, to December 31, 2024.
    - The application was largely a continuation of the previous Custom IR regime, where rates will increase annually by a capital factor (based on the approved capex program), an inflation factor (as updated annually by the OEB), less the productivity and stretch factors (respectively, 0% and 0.6%), and a growth factor (based on changes in load and customer count).
    - The OEB approved a deemed capital structure of 60% debt (56% long-term and 4% short-term), 40% equity, and an allowed ROE of 8.52%.
    - Total approved capex of approximately $2.9 billion for the 2020 to 2024 period.
    - THESL must file annual mechanistic IRM applications to finalize the rates approved on an interim basis as part of the application. The OEB has approved those annual rates consistent with the Company's applications and in accordance with the approved 2020 to 2024 Custom IR framework.
    - THESL is required to share earnings in excess of 100 basis points (bps) over the allowed ROE equally between the Company and its customers.
    - A regulatory review may be initiated by THESL or the OEB (off-ramp) should actual ROE vary from the allowed ROE by 300 bps (either positive or negative).
- In December 2020, the OEB approved THESL's application for base rate increase of 4.59% effective January 1, 2021.
- In December 2021, the OEB approved THESL's application for base rate increase of 1.49% effective January 1, 2022.

Assessment of Regulatory Framework

Criteria	Score	Analysis
1. Deemed Equity	Excellent Good **Satisfactory** Below Average Poor	The OEB allows THESL to have a deemed equity of 40%, which is consistent with other electricity distribution companies in Ontario.
2. Allowed ROE	Excellent Good **Satisfactory** Below Average Poor	THESL has an allowed ROE of 8.52% for 2020 to 2024, which is in line with the other distribution companies in Ontario. Any difference in ROE between the Company and other distribution companies is mainly because of the timing of the regulatory filings and the interest environment prevalent at that time.
3. Energy Cost Recovery	**Excellent** Good Satisfactory Below Average Poor	There is no power price risk for Toronto Hydro, 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 the Company collects the payments from its customers on a monthly basis.
4. Capital and Operating Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Under Custom IR, the capex program for THESL is pre-approved for a five-year period by the OEB and recovered through distribution rates. Additionally, beginning in 2020, all residential customers are charged a fully fixed monthly fee for distribution services, significantly reducing volume risk.
5. COS versus IRM	Excellent Good **Satisfactory** Below Average Poor	THESL operates under Custom IR, which is a hybrid of COS and IRM. The Custom IR is for a five-year term from 2020 to 2024. DBRS Morningstar considers the productivity and inflation factors as reasonable.
6. Political Interference	Excellent Good Satisfactory **Below Average** Poor	The Government of Ontario plays a significant role in the electricity sector in Ontario, given that most of the utilities are government owned (Toronto Hydro is owned by the City). Furthermore, stakeholders, such as the Independent Electricity System Operator, are also government owned. As a result, the government has direct and indirect influence on Ontario's electricity industry.
7. Stranded Cost Recovery	Excellent **Good** 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** Satisfactory 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

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		**Overall:**	**N**	**N**
	Emissions, Effluents, and Waste	Do we consider that the costs or risks for the issuer or its clients result, or could result, in changes to an issuerÆs financial, operational, and/or reputational standing?	**N**	**N**
	Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs and/or will such costs increase over time affecting the long term credit profile?	**N**	**N**
	Resource and Energy Management	Does the scarcity of sourcing key resources hinder the production or operations of the issuer, resulting in lower productivity and therefore 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**
	Climate and Weather Risks	In the near term, will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact? In the long term, will the issuer's or client's business activities and infrastructure be materially affected financially by a 2C rise in temperature?	**N**	**N**
Social		**Overall:**	**N**	**N**
	Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services could pose 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 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**
		Human Capital and Human Rights	**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	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could it result, in financial penalties or client attrition to the issuer?	**N**	**N**
	Occupational Health and Safety	Would the failure to address workplace hazards have a negative 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	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**
Governance		**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**
		Are there any political risks that could impact the issuer's financial position or its reputation?	**N**	**N**
		Bribery, Corruption, and Political Risks	**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**
		Corporate / Transaction Governance	**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**
		Are government officials exposed to public scrutiny and held to high ethical standards of conduct?	**N**	**N**
		Institutional Strength, Governance, and Transparency (Governments Only)	**N**	**N**
		Consolidated ESG Criteria Output:	**N**	**N**

Balance Sheet

(CAD millions)	Dec. 31	Dec. 31	Dec. 31		Dec. 31	Dec. 31	Dec. 31
Assets	**2021**	**2020**	**2019**	**Liabilities and Equity**	**2021**	**2020**	**2019**
Cash and equivalents	0	0	0	Short-term debt	284	166	137
Accounts receivable	247	241	272	Accounts payable	425	406	505
Inventories	10	10	8	Current portion long-term debt	0	300	0
Unbilled revenue	212	229	269	Customer advanced deposits	62	45	49
Prepaid expenses and other	21	29	15	Other current liabilities.	37	34	23
Total Current Assets	**490**	**508**	**564**	**Total Current Liabilities.**	**808**	**951**	**714**
Net fixed assets	5,377	5,039	4,701	Long-term debt	2,431	2,082	2,183
Future income tax assets	64	48	21	Deferred income taxes	64	47	23
Goodwill and intangibles	358	343	340	Regulatory liabilities	151	183	218
Regulatory assets	118	123	144	Other long-term liabilities	977	893	753
Investments and others	7	8	9	Shareholders' equity	1,983	1,912	1,888
Total Assets	**6,414**	**6,069**	**5,779**	**Total Liabilities and Equity**	**6,414**	**6,069**	**5,779**

Ratios

	For the year ended December 31				
Balance Sheet, Liquidity and Capital Ratios	**2021**	**2020**	**2019**	**2018**	**2017**
Current ratio	0.61	0.53	0.79	0.53	0.68
Total debt in capital structure (%)	57.8	57.1	55.1	54.1	55.6
Total debt in capital structure (%)[1]	57.8	57.1	55.1	54.1	55.6
Cash flow/Total debt (%)	16.3	14.5	17.6	17.9	16.7
Cash flow/Total debt (%)[1]	16.3	14.5	17.6	17.9	16.7
(Cash flow-dividends)/Capex (x)	0.74	0.53	0.70	0.76	0.61
DBRS Morningstar-adjusted dividend payout ratio (%)	49.2	67.5	65.7	56.8	53.4
Coverage Ratios (x)					
EBIT gross interest coverage	2.80	2.64	3.10	3.27	2.75
EBIT gross interest coverage[1]	2.80	2.64	3.10	3.27	2.75
EBITDA gross interest coverage	6.28	5.96	6.07	6.11	5.29
Fixed-charges coverage	2.80	2.64	3.10	3.27	2.75
Profitability Ratios					
EBITDA margin (%)	62.4	61.8	62.8	62.5	61.5
EBIT margin (%)	27.8	27.4	32.1	33.5	32.0
Profit margin (%)	16.9	17.2	18.4	20.2	18.4
Return on equity (%)	7.3	7.2	8.2	9.2	8.8
Return on capital (%)	5.1	5.0	6.5	6.9	6.3

1 Adjusted for operating leases.

Rating History

	Current	2021	2020	2019	2018	2017
Issuer Rating	A	A	A	A	A	A
Senior Unsecured Debentures & MTNs	A	A	A	A	A	A
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Commercial Paper Limit

- $750 million.

Previous Actions

- "DBRS Morningstar Assigns Ratings of “A” with Stable Trends to Toronto Hydro Corporation’s $350 Million Senior Unsecured Debentures Issuances," October 18, 2021.
- "DBRS Morningstar Confirms Ratings of Toronto Hydro Corporation With Stable Trends," April 29, 2021.

Previous Report

- Toronto Hydro Corporation: Rating Report, May 7, 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.

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 3,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why DBRS Morningstar is the next generation of credit ratings.

Learn more at dbrsmorningstar.com.

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: https://www.dbrsmorningstar.com/research/225752/highlights.pdf.

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

© 2022 DBRS Morningstar. The information upon which DBRS Morningstar credit ratings and other types of credit opinions and reports are based is obtained by DBRS Morningstar from sources DBRS Morningstar believes to be reliable. DBRS Morningstar does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS Morningstar credit ratings, other types of credit opinions, reports and any other information provided by DBRS Morningstar are provided "as is" and without representation or warranty of any kind and DBRS Morningstar assumes no obligation to update any such ratings, opinions, reports or other information. DBRS Morningstar hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS Morningstar or its directors, officers, employees, independent contractors, agents, affiliates and representatives (collectively, DBRS Morningstar Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of credit ratings, other types of credit opinions and reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS Morningstar or any DBRS Morningstar Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. IN ANY EVENT, TO THE EXTENT PERMITTED BY LAW, THE AGGREGATE LIABILITY OF DBRS MORNINGSTAR AND THE DBRS MORNINGSTAR REPRESENTATIVES FOR ANY REASON WHATSOEVER SHALL NOT EXCEED THE GREATER OF (A) THE TOTAL AMOUNT PAID BY THE USER FOR SERVICES PROVIDED BY DBRS MORNINGSTAR DURING THE TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO LIABILITY, AND (B) U.S. $100. DBRS Morningstar does not act as a fiduciary or an investment advisor. DBRS Morningstar does not provide investment, financial or other advice. Credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar (a) are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities; (b) do not take into account your personal objectives, financial situations or needs; (c) should be weighed, if at all, solely as one factor in any investment or credit decision; (d) are not intended for use by retail investors; and (e) address only credit risk and do not address other investment risks, such as liquidity risk or market volatility risk. Accordingly, credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar are not a substitute for due care and the study and evaluation of each investment decision, security or credit that one may consider making, purchasing, holding, selling, or providing, as applicable. A report with respect to a DBRS Morningstar credit rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS Morningstar may receive compensation for its credit ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS Morningstar. ALL DBRS MORNINGSTAR CREDIT RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DEFINITIONS, LIMITATIONS, POLICIES AND METHODOLOGIES THAT ARE AVAILABLE ON https://www.dbrsmorningstar.com. Users may, through hypertext or other computer links, gain access to or from websites operated by persons other than DBRS Morningstar. Such hyperlinks or other computer links are provided for convenience only. DBRS Morningstar does not endorse the content, the operator or operations of third party websites. DBRS Morningstar is not responsible for the content or operation of such third party websites and DBRS Morningstar shall have no liability to you or any other person or entity for the use of third party websites.

MORNINGSTAR | DBRS

Rating Report
Toronto Hydro Corporation

DBRS Morningstar
May 1, 2023

Contents

1 Ratings
1 Rating Update
2 Financial Information
2 Issuer Description
2 Rating Considerations
3 Corporate Structure
4 Earnings and Outlook
5 Financial Profile
6 Liquidity and Long-Term Debt Maturities
7 Regulation
10 Environmental, Social, and Governance (ESG) Credit Risk Considerations
13 Rating History
13 Commercial Paper Limit
13 Previous Actions
13 Previous Report

Tom Li
+1 416 597-7378
tom.li@dbrsmorningstar.com

Steven Lin
+1 416 597-7569
steven.lin@dbrsmorningstar.com

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable
Senior Unsecured Debentures & MTNs	A	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Rating Update

On April 28, 2023, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating and Senior Unsecured Debentures & MTNs rating of Toronto Hydro Corporation (Toronto Hydro or the Company) at "A," and the Commercial Paper (CP) rating at R-1 (low). All trends are Stable. The ratings of Toronto Hydro are based on the Company's stable regulated electricity distribution business, which operates under a reasonable regulatory environment under the Ontario Energy Board (OEB).

There have been no material changes to Toronto Hydro's business risk assessment since the last rating confirmations. The Company continues to operate under the Custom Incentive Rate-setting (IR) framework as approved for 2020–24. DBRS Morningstar notes Toronto Hydro has begun preparation work for its next distribution rates application for the 2025–29 period. DBRS Morningstar will monitor progress on the application for any implications on the Company's credit profile.

Toronto Hydro's financial risk assessment has been supportive of the "A" ratings, with all key credit metrics in line with the current rating category. DBRS Morningstar notes, however, the Company's metrics weakened in 2022 because of the significant capital expenditures (capex) program (gross capex of $675 million for the year) to maintain safety and reliability, support a growing city, enable clean energy, and prepare for and respond to extreme weather. Toronto Hydro's financial ratios may continue to weaken over the next few years as the ongoing capex program will likely require substantial debt financing. DBRS Morningstar expects the Company to be prudent in managing its debt load in order to maintain leverage in line with the regulatory capital structure of 60% debt. However, should the Company's key credit metrics weaken to a level no longer commensurate with the "A" rating category for a sustained period of time (cash flow-to-debt less than 12.5%, debt-to-capital more than 65.0%, and EBIT-interest coverage less than 1.80 times (x)), a negative rating action may occur. Conversely, a positive rating action is considered unlikely at this time given the capex program in place and the current business risk assessment.

Financial Information

	For the year ended December 31				
	2022	**2021**	**2020**	**2019**	**2018**
Cash flow/total debt (%)	14.1	16.3	14.5	17.6	17.9
Total debt in capital structure (%)	60.0	57.8	57.1	55.1	54.1
EBIT gross interest coverage (x)	2.70	2.80	2.64	3.10	3.27

Issuer Description

Toronto Hydro is a holding company with the following subsidiaries: Toronto Hydro-Electric System Limited (THESL), the regulated electricity distributor, and Toronto Hydro Energy Services Inc., which provides street lighting services. The Company's sole shareholder is the City of Toronto (the City; rated AA with a Stable trend by DBRS Morningstar).

Rating Considerations

Strengths

1. Reasonable regulatory environment

Nearly all of Toronto Hydro's earnings are contributed by its low-risk distribution business that operates under a reasonable and supportive regulatory environment. The Company operates under a five-year Custom IR framework that preapproves capex for the term and allows Toronto Hydro to generate relatively stable earnings and cash flow. Toronto Hydro's deemed capital structure (deemed equity of 40%) has remained unchanged for several years.

2. Strong and growing franchise area

Toronto Hydro operates in Toronto, which is one of the largest metropolitan cities in North America and has reasonable growth in population. The Company is one of the largest municipally owned local distribution companies (LDCs) in Canada, providing approximately 18% of the electricity consumed in Ontario, and serves a customer base of approximately 790,000 customers. Toronto Hydro's electricity throughput is predominantly distributed to residential and general service customers who account for approximately 95% of the Company's distribution revenue, reducing its exposure to cyclicality.

3. Reasonable financial profile

Toronto Hydro's credit metrics, including cash flow-to-total debt of 14.1%, total debt-to-capital of 60.0%, and EBIT interest coverage of 2.70x for 2022, have remained reasonable for the "A" ratings.

Challenges

1. Balance sheet pressure as a result of high capex

The Company is executing a substantial capex program of approximately $2.9 billion for the 2020–24 period to replace its aging electricity infrastructure, which is expected to result in consistent free cash flow deficits for the medium term. Historically, Toronto Hydro has depended entirely on debt to fund its cash flow deficits, causing leverage to peak at 62.8% for 2015. Although an equity injection from the City alleviated this pressure in 2017, leverage will likely rise over the next few years after factoring in the higher dividend policy implemented in 2017. While DBRS Morningstar expects the Company's key credit

metrics to remain supportive of the current ratings, should they weaken to a level no longer in line with the "A" rating category, a negative rating action may occur.

2. Limited access to equity market

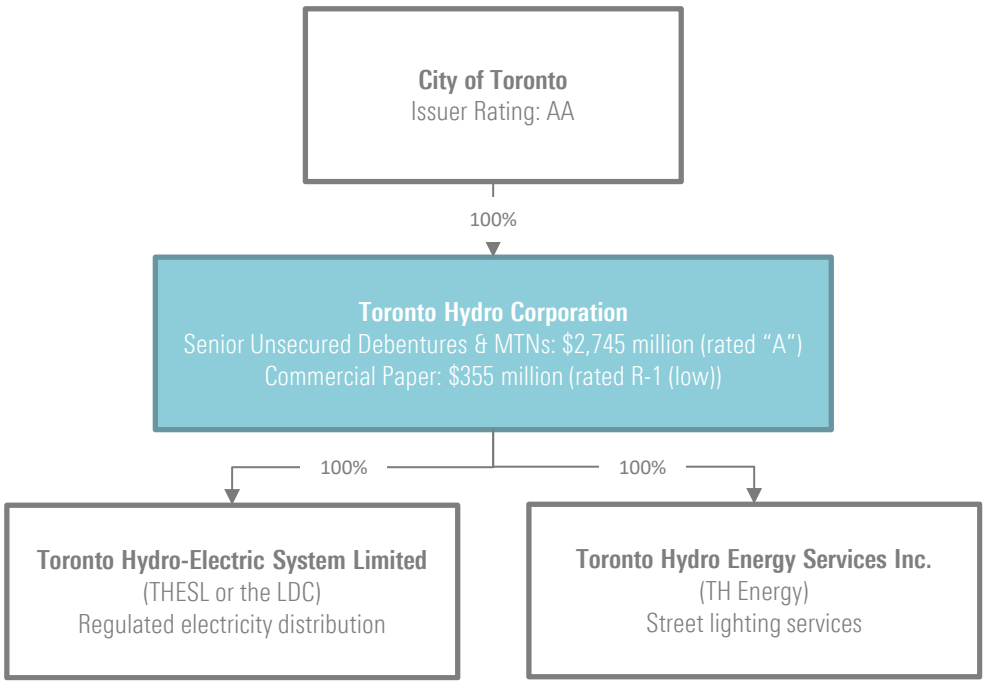
The Company's ownership structure (100% owned by the City) limits its ability to access the equity markets. As a result, cash flow deficits from the large capex program are funded largely through debt.

3. Earnings sensitive to volume

Earnings and cash flow for LDCs are partially dependent on the volume of electricity sold, given that rates typically include a variable charge component. Seasonality, economic cyclicality, and weather variability have a direct impact on the volume of electricity sold and, therefore, on distribution revenue. While volume risk has been largely eliminated for residential customers through a fixed charge, distribution rates for commercial and industrial customers (71% of revenue in 2022) continue to be based on fixed and volumetric components.

Corporate Structure

Simplified Organizational Structure



As at December 31, 2022.
Source: Toronto Hydro.

- Toronto Hydro is a holding company with the following subsidiaries operating in the Toronto area:
  - THESL is one of the largest municipal electricity distribution utilities in Canada (99% of revenue); and

- Toronto Hydro Energy Services Inc., which has a contractual relationship with the City, owns and operates street lighting services (1% of revenue).

- The Company serves approximately 790,000 customers and distributed 18% of electricity in Ontario for 2022.

Earnings and Outlook

	For the year ended December 31				
(CAD millions where applicable)	**2022**	**2021**	**2020**	**2019**	**2018**
Net revenue	892	846	798	831	820
EBITDA	569	528	493	522	513
EBIT	258	235	219	267	275
Gross interest expense	95	84	83	86	84
Net income before nonrecurring items	164	143	137	153	165
Reported net income	164	141	117	154	167
ROE (%)	8.1	7.3	7.2	8.2	9.2
Achieved regulated ROE (%)	7.44	7.08	5.90	8.44	9.33
Allowed ROE (%)	8.52	8.52	8.52	9.30	9.30
Rate base	4,907	4,675	4,534	4,380	4,123

ROE = return on equity.

2022 Summary

- Earnings for Toronto Hydro improved in 2022 mainly because of higher consumption and electricity distribution rates.
    - DBRS Morningstar notes earnings rebounded following the lower consumption during the past two years because of the Coronavirus Disease (COVID-19) pandemic.
    - The higher earnings were partly offset by higher depreciation from the growing rate base and higher interest expense.

2023 Outlook

- DBRS Morningstar expects Toronto Hydro's earnings to weaken in 2023.
    - The lower earnings will be primarily driven by higher financing costs from funding the significant capex program and higher expenses to operate the growing asset base. Earnings will also be pressured from the regulatory lag in passing through the impact of higher interest rates and inflation on operating expenses.
    - This will be partly offset by an increase in distribution revenue through the annual mechanisms of the Custom IR decision.
    - DBRS Morningstar expects revenues from residential customers should remain steady as distribution rates are decoupled.

Financial Profile

	For the year ended December 31				
(CAD millions where applicable)	**2022**	**2021**	**2020**	**2019**	**2018**
Net income before nonrecurring items	164	143	137	153	165
Depreciation and amortization	311	293	274	256	238
Deferred income taxes and other	(39)	6	(41)	1	(16)
Cash flow from operations	**436**	**442**	**370**	**409**	**387**
Dividends paid	(85)	(70)	(93)	(100)	(94)
Capex	(589)	(492)	(529)	(444)	(388)
Free cash flow (bef. working cap. changes)	**(238)**	**(121)**	**(251)**	**(135)**	**(94)**
Changes in noncash work. cap. items	(6)	(2)	46	(77)	(1)
Changes in regulatory assets and liabilities	(137)	(54)	(19)	62	3
Net free cash flow	**(380)**	**(177)**	**(224)**	**(149)**	**(92)**
Acquisitions and long-term investments	0	0	0	0	0
Proceeds on asset sales	0	3	1	2	117
Net equity change	0	0	0	0	0
Net debt change	384	167	229	161	(47)
Other	(5)	7	(6)	(14)	22
Change in cash	**(0)**	**0**	**0**	**(0)**	**0**
Total debt	3,097	2,715	2,548	2,320	2,161
Total debt in capital structure (%)	60.0	57.8	57.1	55.1	54.1
Cash flow/total debt (%)	14.1	16.3	14.5	17.6	17.9
EBIT gross interest coverage (x)	2.70	2.80	2.64	3.10	3.27
DBRS Morningstar-adjusted dividend payout ratio (%)	51.6	49.2	67.5	65.7	56.8

2022 Summary

- While Toronto Hydro's key credit metrics weakened in 2022, they remained in line with the "A" ratings.
    - The weaker key credit metrics were largely because of the growing debt load to fund the substantial capex program.
- Cash flow from operations was steady with 2021 results.
- Gross capex of $675 million remained elevated as the Company continued to spend on infrastructure renewal projects, customer-initiated plant relocations (such as for public transit expansion projects), new customer connections, and overhead infrastructure.
- Toronto Hydro paid dividends of $85 million in 2022, in line with its distribution policy of 60% of consolidated net income after net movements in regulatory balances.
- The Company funded its net free cash flow deficit through CPs and a $300 million senior unsecured debentures issuance.

2023 Outlook

- DBRS Morningstar expects cash flow from operations to decrease modestly in 2023, in line with the expected lower earnings.
- The Company has planned gross capex of $742 million for the year.

- Dividends are expected to increase because of the higher net income in 2022.
- Combined with the high capex and dividend requirements, Toronto Hydro is expected to continue generating net cash flow deficits in the medium term that will likely be funded by debt.
    - As a result, DBRS Morningstar expects leverage for the Company will increase modestly and be more than the regulatory capital structure of 60% debt.
    - Additionally, DBRS Morningstar expects the cash flow-to-debt and EBIT-to-interest coverage ratios to weaken as well but remain commensurate with the "A" ratings.
    - Should Toronto Hydro's key credit metrics continue to weaken to lower than the "A" rating category, a negative rating action may occur.

Liquidity and Long-Term Debt Maturities

Long-Term Debt

Debentures

(CAD millions - as at December 31, 2022)	Maturity	Outstanding
Series 6 - 5.54%	May 21, 2040	200
Series 8 - 2.91%	Apr. 10, 2023	250
Series 9 - 3.96%	Apr. 9, 2063	245
Series 10 - 4.08%	Sep. 16, 2044	200
Series 11 - 3.55%	Jul. 28, 2045	200
Series 12 - 2.52%	Aug. 25, 2026	200
Series 13 - 3.485%	Feb. 28, 2048	200
Series 14 - 2.43%	Dec. 11, 2029	200
Series 15 - 2.99%	Dec. 10, 2049	200
Series 16 - 1.50%	Oct. 15, 2030	200
Series 17 - 2.47%	Oct. 20, 2031	150
Series 18 - 3.27%	Oct. 18, 2051	200
Series 19 - 4.95%	Oct. 13, 2052	300
Total debentures		**2,745**
Less: Unamortized debt issuance costs		(15)
Less: Unamortized discount/premium		(1)
Less: Current portion of debentures		(250)
Long-term portion of debentures		**2,479**

Long-Term Debt Maturities

(CAD millions - as at December 31, 2022)	2023	2024	2025	2026	2027	2028+	Total
Debentures	250	-	-	200	-	2,295	**2,745**
% of total	9	0	0	7	0	84	**100**

- Debt maturities are reasonably staggered and manageable, and Toronto Hydro continues to have adequate access to debt capital markets.
- In October 2022, the Company issued $300 million of senior unsecured debentures maturing in 2052.

Liquidity

(CAD millions - as at December 31, 2022)	Amount	Drawn/CPs/LOCs	Available	Expiry
Cash and cash equivalents	0	0	**0**	-
Revolving credit facility	800	355	**445**	Sep 17, 2027
Prudential facility	100	58	**42**	Demand
Working capital facility	20	13	**7**	Demand
Total	**920**	**426**	**494**	

- Toronto Hydro's liquidity profile remains adequate to cover near- to medium-term obligations, with approximately $494 million of available facilities.
- In March 2023, Toronto Hydro increased its CP program to $1 billion from $750 million. The program is backstopped by a $1 billion revolving credit facility (previously $800 million) with a maturity date of September 17, 2027.
- Toronto Hydro also has a $100 million Prudential Facility (demand facility) for the purpose of issuing letters of credit (LOCs) mainly to support prudential requirements with the Independent Electricity System Operator (IESO) and a $20 million Working Capital Facility.

Regulation

- THESL is regulated by the OEB under a Custom IR framework. The Company has a good track record of prudently managing its regulatory risk.
    - DBRS Morningstar considers the regulatory regime under the OEB as supportive.
- The five-year Custom IR framework approved by the OEB for THESL is a hybrid between cost of service (COS) and an incentive rate mechanism (IRM).
    - The rate setting for the term is based on THESL's forecasts and OEB's incentive rate analysis using productivity benchmarking.
    - Custom IR is suited to distributors with large, broad, multiyear investment needs over a five-year period or more, and to distributors that require certainty of funding several years in advance.
- On December 19, 2019, the OEB approved THESL's Custom IR application for rates effective January 1, 2020, to December 31, 2024.
    - The application was largely a continuation of the previous Custom IR regime, where rates will increase annually by a capital factor (based on the approved capex program), an inflation factor (as updated annually by the OEB), less the productivity and stretch factors, and a growth factor (based on changes in load and customer count).
    - The OEB approved a deemed capital structure of 60% debt (56% long-term and 4% short-term), 40% equity, and an allowed return on equity (ROE) of 8.52%.
    - Total approved capex of approximately $2.9 billion for the 2020–24 period.
    - THESL must file annual mechanistic IRM applications to finalize the rates approved on an interim basis as part of the application. The OEB has approved those annual rates consistent with the Company's applications and in accordance with the approved 2020–24 Custom IR framework.

    - THESL is required to share earnings in excess of 100 basis points (bps) over the allowed ROE equally between the Company and its customers.
    - A regulatory review may be initiated by THESL or the OEB (off-ramp), should actual ROE vary from the allowed ROE by 300 bps (either positive or negative).
- In December 2021, the OEB approved THESL's application for base rate increase of 1.49% effective January 1, 2022.
- In December 2022, the OEB approved THESL's application for base rate increase of 3.7% effective January 1, 2023.
- Preparatory work is under way for Toronto Hydro's next Custom IR application for rates effective January 1, 2025, to December 31, 2029.

Assessment of Regulatory Framework

Criteria	Score	Analysis
1. Deemed Equity	Excellent Good **Satisfactory** Below Average Poor	The OEB allows THESL to have a deemed equity of 40%, which is consistent with other electricity distribution companies in Ontario.
2. Allowed ROE	Excellent Good **Satisfactory** Below Average Poor	THESL has an allowed ROE of 8.52% for 2020–24, which is in line with the other distribution companies in Ontario. Any difference in ROE between the Company and other distribution companies is mainly because of the timing of the regulatory filings and the interest environment prevalent at that time.
3. Energy Cost Recovery	**Excellent** Good Satisfactory Below Average Poor	There is no power price risk for Toronto Hydro, 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 the Company collects the payments from its customers on a monthly basis.
4. Capital and Operating Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Under Custom IR, the capex program for THESL is pre-approved for a five-year period by the OEB and recovered through distribution rates. Additionally, beginning in 2020, all residential customers are charged a fully fixed monthly fee for distribution services, significantly reducing volume risk.
5. COS versus IRM	Excellent Good **Satisfactory** Below Average Poor	THESL operates under Custom IR, which is a hybrid of COS and IRM. The Custom IR is for a five-year term from 2020–24. The productivity factor has been set at 0% and the stretch factor for operating expenses has been set at 0.6% for the current Custom IR term.
6. Political Interference	Excellent Good Satisfactory **Below Average** Poor	The Government of Ontario plays a significant role in the electricity sector in Ontario, given that most of the utilities are government owned (Toronto Hydro is owned by the City). 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 **Good** 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** Satisfactory Below Average Poor	From 2002–05, 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.

Environmental, Social, and Governance (ESG) Credit Risk Considerations

Environmental

There were no Environmental factors that had a relevant or significant effect on the credit analysis. For more details about which Environmental factors could have an effect on the credit analysis, please refer to the following checklist. DBRS Morningstar notes regulated utilities may be exposed to severe weather events. DBRS Morningstar expects any costs associated with these events to be recovered through rates.

Social

There were no Social factors that had a relevant or significant effect on the credit analysis. For more details about which Social factors could have an effect on the credit, please refer to the following checklist.

Governance

There were no Governance factors that had a relevant or significant effect on the credit analysis. For more details about which Governance factors could have an effect on the credit analysis, please refer to the following checklist.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in *DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings* at https://www.dbrsmorningstar.com/research/396929.

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		Overall:	N	N
	Emissions, Effluents, and Waste	Do we consider the costs or risks result, or could result in changes to an issuer's financial, operational, and/or reputational standing?	N	N
	Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs?	N	N
	Resource and Energy Management	Does the scarcity of sourcing key resources hinder the production or operations of the issuer, resulting in lower productivity and therefore 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
	Climate and Weather Risks	Will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact?	N	N
Social		Overall:	N	N
	Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services could pose 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 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
		Human Capital and Human Rights:	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	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could result, in financial penalties or client attrition to the issuer?	N	N
	Occupational Health and Safety	Would the failure to address workplace hazards have a negative 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	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
Governance		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
		Are there any political risks that could impact the issuer's financial position or its reputation?	N	N
		Bribery, Corruption, and Political Risks:	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 limit 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
		Corporate / Transaction Governance:	N	N
	Institutional Strength, Governance, and Transparency (Governments Only)s	Compared with other governments, do institutional arrangements provide a higher or lesser degree of accountability, transparency, and effectiveness?	N	N
		Are regulatory and oversight bodies insufficiently protected from inappropriate political influence?	N	N
		Are government officials insufficiently exposed to public scrutiny or held to insufficiently high ethical standards of conduct?	N	N
		Institutional Strength, Governance, and Transparency (Governments Only)s:	N	N
		Consolidated ESG Criteria Output:	N	N

Balance Sheet

(CAD millions)	Dec. 31	Dec. 31	Dec. 31		Dec. 31	Dec. 31	Dec. 31
Assets	**2022**	**2021**	**2020**	**Liabilities and Equity**	**2022**	**2021**	**2020**
Cash and equivalents	0	0	0	Short-term debt	368	284	166
Accounts receivable	246	247	241	Accounts payable	463	425	406
Inventories	8	10	10	Current portion long-term debt	250	0	300
Unbilled revenue	255	212	229	Customer advanced deposits	55	62	45
Prepaid expenses and other	16	21	29	Other current liabilities	47	37	34
Total Current Assets	**526**	**490**	**508**	**Total Current Liabilities**	**1,183**	**808**	**951**
Net fixed assets	5,757	5,377	5,039	Long-term debt	2,479	2,431	2,082
Future income tax assets	87	64	48	Deferred income taxes	85	64	47
Goodwill and intangibles	387	358	343	Regulatory liabilities	150	151	183
Regulatory assets	176	118	123	Other long-term liabilities	989	977	893
Investments and others	14	7	8	Shareholders' equity	2,062	1,983	1,912
Total Assets	**6,947**	**6,414**	**6,069**	**Total Liabilities and Equity**	**6,947**	**6,414**	**6,069**

Ratios

	For the year ended December 31				
Balance Sheet, Liquidity, and Capital Ratios	**2022**	**2021**	**2020**	**2019**	**2018**
Current ratio	0.44	0.61	0.53	0.79	0.53
Total debt in capital structure (%)	60.0	57.8	57.1	55.1	54.1
Cash flow/total debt (%)	14.1	16.3	14.5	17.6	17.9
(Cash flow-dividends)/Capex (x)	0.60	0.75	0.53	0.70	0.76
DBRS Morningstar-adjusted dividend payout ratio (%)	51.6	49.2	67.5	65.7	56.8
Coverage Ratios (x)					
EBIT gross interest coverage	2.70	2.80	2.64	3.10	3.27
EBITDA gross interest coverage	5.97	6.28	5.96	6.07	6.11
Fixed-charges coverage	2.70	2.80	2.64	3.10	3.27
Profitability Ratios					
EBITDA margin (%)	63.8	62.4	61.8	62.8	62.5
EBIT margin (%)	28.9	27.8	27.4	32.1	33.5
Profit margin (%)	18.4	16.9	17.2	18.4	20.2
ROE (%)	8.1	7.3	7.2	8.2	9.2
Return on capital (%)	5.2	5.1	5.0	6.5	6.9

Rating History

	Current	2022	2021	2020	2019	2018
Issuer Rating	A	A	A	A	A	A
Senior Unsecured Debentures & MTNs	A	A	A	A	A	A
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Commercial Paper Limit

- $1 billion.

Previous Actions

- "DBRS Morningstar Notes Toronto Hydro Corporation's Commercial Paper Limit Increase," March 24, 2023.
- "DBRS Morningstar Assigns Rating of “A” with Stable Trend to Toronto Hydro Corporation’s 4.95% $300 Million Senior Unsecured Debentures," October 13, 2022.
- "DBRS Morningstar Confirms Ratings of Toronto Hydro Corporation With Stable Trends," April 29, 2022.

Previous Report

- Toronto Hydro Corporation: Rating Report, May 5, 2022.

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.

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 4,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why DBRS Morningstar is the next generation of credit ratings.

Learn more at dbrsmorningstar.com.

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). DBRS Morningstar does not hold an Australian financial services license. DBRS Morningstar credit ratings, and other types of credit opinions and reports, are not intended for Australian residents or entities. DBRS Morningstar does not authorize their distribution to Australian resident individuals or entities, and accepts no responsibility or liability whatsoever for the actions of third parties in this respect. For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: https://www.dbrsmorningstar.com/research/225752/highlights.pdf.

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

© 2023 DBRS Morningstar. All Rights Reserved. The information upon which DBRS Morningstar credit ratings and other types of credit opinions and reports are based is obtained by DBRS Morningstar from sources DBRS Morningstar believes to be reliable. DBRS Morningstar does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS Morningstar credit ratings, other types of credit opinions, reports and any other information provided by DBRS Morningstar are provided "as is" and without representation or warranty of any kind and DBRS Morningstar assumes no obligation to update any such ratings, opinions, reports or other information. DBRS Morningstar hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS Morningstar or its directors, officers, employees, independent contractors, agents, affiliates and representatives (collectively, DBRS Morningstar Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of credit ratings, other types of credit opinions and reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS Morningstar or any DBRS Morningstar Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. IN ANY EVENT, TO THE EXTENT PERMITTED BY LAW, THE AGGREGATE LIABILITY OF DBRS MORNINGSTAR AND THE DBRS MORNINGSTAR REPRESENTATIVES FOR ANY REASON WHATSOEVER SHALL NOT EXCEED THE GREATER OF (A) THE TOTAL AMOUNT PAID BY THE USER FOR SERVICES PROVIDED BY DBRS MORNINGSTAR DURING THE TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO LIABILITY, AND (B) U.S. $100. DBRS Morningstar does not act as a fiduciary or an investment advisor. DBRS Morningstar does not provide investment, financial or other advice. Credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar (a) are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities; (b) do not take into account your personal objectives, financial situations or needs; (c) should be weighed, if at all, solely as one factor in any investment or credit decision; (d) are not intended for use by retail investors; and (e) address only credit risk and do not address other investment risks, such as liquidity risk or market volatility risk. Accordingly, credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar are not a substitute for due care and the study and evaluation of each investment decision, security or credit that one may consider making, purchasing, holding, selling, or providing, as applicable. A report with respect to a DBRS Morningstar credit rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS Morningstar may receive compensation for its credit ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS Morningstar. ALL DBRS MORNINGSTAR CREDIT RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DEFINITIONS, LIMITATIONS, POLICIES AND METHODOLOGIES THAT ARE AVAILABLE ON https://www.dbrsmorningstar.com. Users may, through hypertext or other computer links, gain access to or from websites operated by persons other than DBRS Morningstar. Such hyperlinks or other computer links are provided for convenience only. DBRS Morningstar does not endorse the content, the operator or operations of third party websites. DBRS Morningstar is not responsible for the content or operation of such third party websites and DBRS Morningstar shall have no liability to you or any other person or entity for the use of third party websites.

MORNINGSTAR | DBRS

Rating Report
Toronto Hydro Corporation

Morningstar DBRS
April 25, 2024

Contents

1 Credit Ratings
1 Credit Rating Drivers
1 Key Credit Rating Considerations
1 Financial Outlook
2 Earnings Outlook
2 Financial Information
2 Issuer Description
2 Business Risk Assessment
3 Financial Risk Assessment
4 Environmental, Social, and Governance (ESG) Checklist
5 ESG Considerations
6 Credit Rating History
6 Previous Actions
6 Previous Report
7 Appendix 1—Corporate Structure
8 Appendix 2—Liquidity and Long-Term Debt
9 Appendix 3—Regulation

Commercial Paper Limit
$1 billion

Tom Li
+1 416 597-7378
tom.li@morningstar.com

Steven Lin
+1 416 597-7596
steven.lin@morningstar.com

Credit Ratings

Debt	Credit Rating	Credit Rating Action	Trend
Issuer Rating	A	Confirmed	Stable
Senior Unsecured Debentures & MTNs	A	Confirmed	Stable
Commercial Paper	R-1 (low)	Confirmed	Stable

Credit Rating Drivers

Positive Credit Rating Drivers	Negative Credit Rating Drivers
DBRS Limited (Morningstar DBRS) considers a positive credit rating action as unlikely at this time given the capital expenditures (capex) program in place and the current business risk assessment.	A negative credit rating action may occur should the Company's key credit metrics weaken to a level no longer commensurate with the "A" credit rating category for a sustained period of time (cash flow-to-debt less than 12.5%, debt-to-capital more than 65.0%, and EBIT-interest coverage less than 1.80 times (x)).

Key Credit Rating Considerations

Toronto Hydro Corporation's (Toronto Hydro or the Company) credit ratings are based on the Company's stable regulated electricity distribution business, which operates under a reasonable regulatory environment under the Ontario Energy Board (OEB). In November 2023, Toronto Hydro filed its 2025–29 Custom Incentive Rate-setting (IR) application with the OEB. The Company's application includes a significant capex plan of $3.9 billion (compared with $2.9 billion approved for 2020–24) to replace aging infrastructure, modernize the grid, and prepare for expected growth in demand from electrification.

Financial Outlook

As a result of its already large capex program, Toronto Hydro's key credit metrics have weakened over the past few years. While the Company's financial risk assessment continues to remain supportive of the current "A" credit rating, Morningstar DBRS expects Toronto Hydro's capex program will require substantial debt financing, which may lead to further weakening in key credit metrics. Morningstar DBRS expects Toronto Hydro to manage its debt load and dividend payments (distribution policy of 60% of consolidated net income after net movements in regulatory balances) in order to maintain leverage in line with the regulatory capital structure of 60% debt. Morningstar DBRS notes that the Company's leverage already increased to 61.5% for 2023, and cash flow-to-debt weakened to 11.8%. Morningstar DBRS will review Toronto Hydro's capex and financing plans following the approval of its 2025–29 Custom IR application. Should the Company's key credit metrics further weaken to below the "A" credit rating category, a negative credit rating action is likely to occur.

Earnings Outlook

Toronto Hydro's earnings have been relatively stable, supported by its regulated operations and the decoupling of distribution rates for residential customers. However, net income has been negatively affected by higher interest expense and inflationary pressure on operating expenses, and lag in passing through this impact to customers. As such, Morningstar DBRS expects the Company's EBITDA and EBIT to weaken modestly in 2024, but for net income to notably decrease. Morningstar DBRS expects Toronto Hydro's earnings to recover in 2025 following the approval of its Custom IR application. Overall, Morningstar DBRS expects earnings to increase modestly year over year from growth in the rate base.

Financial Information

	For the year ended December 31				
	2023	**2022**	**2021**	**2020**	**2019**
Total Debt in Capital Structure (%)	61.5	60.0	57.8	57.1	55.1
Cash Flow/Total Debt (%)	11.8	14.1	16.3	14.5	17.6
EBIT Gross Interest Coverage (x)	2.00	2.70	2.80	2.64	3.10

Issuer Description

Toronto Hydro is a holding company with the following subsidiaries: Toronto Hydro-Electric System Limited (THESL), the regulated electricity distributor; and Toronto Hydro Energy Services Inc., which provides street lighting services. The Company's sole shareholder is the City of Toronto (the City; rated AA with a Stable trend by Morningstar DBRS).

Business Risk Assessment

1. Reasonable regulatory environment

Nearly all of Toronto Hydro's earnings are contributed by its low-risk distribution business that operates under a reasonable and supportive regulatory environment. The Company operates under a five-year Custom IR framework that preapproves capex for the term and allows Toronto Hydro to generate relatively stable earnings and cash flow. Toronto Hydro's deemed capital structure (deemed equity of 40%) has remained unchanged for several years.

2. Strong and growing franchise area

Toronto Hydro operates in Toronto, which is one of the largest metropolitan cities in North America and has reasonable growth in population. The Company is one of the largest municipally owned local distribution companies (LDCs) in Canada, providing approximately 18% of the electricity consumed in Ontario, and serves a customer base of approximately 793,000 customers. Toronto Hydro's electricity throughput is predominantly distributed to residential and general service customers who accounted for approximately 94% of the Company's distribution revenue in 2023, reducing its exposure to cyclicality.

3. Earnings sensitive to volume

Earnings and cash flow for LDCs are partially dependent on the volume of electricity sold, given that rates typically include a variable charge component. Seasonality, economic cyclicality, and weather variability have a direct impact on the volume of electricity sold and, therefore, on distribution revenue. While volume risk has been largely eliminated for residential customers through a fixed charge,

distribution rates for commercial and industrial customers (72% of revenue in 2023) continue to be based on fixed and volumetric components.

Financial Risk Assessment

1. Balance sheet pressure as a result of high capex

The Company is executing a substantial capex program of approximately $2.9 billion for the 2020–24 period to replace its aging electricity infrastructure, which is expected to result in consistent free cash flow deficits for the medium term. Historically, Toronto Hydro has depended entirely on debt to fund its cash flow deficits, causing leverage to peak at 62.8% for 2015. Although an equity injection from the City alleviated this pressure in 2017, leverage will likely rise over the next few years after factoring in the higher dividend policy implemented in 2017. Additionally, the Company's 2025–29 Custom IR application includes $3.9 billion of capex, which will likely require substantial debt financing. Should Toronto Hydro's key credit metrics weaken to a level no longer in line with the "A" credit rating category, a negative credit rating action may occur.

2. Limited access to equity market

The Company’s ownership structure (100% owned by the City) limits its ability to access the equity markets. As a result, cash flow deficits from the large capex program are funded largely through debt.

Environmental, Social, and Governance (ESG) Checklist

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		**Overall:**	**N**	**N**
	Emissions, Effluents, and Waste	Do we consider that the costs or risks for the issuer or its clients result, or could result, in changes to an issuerÆs financial, operational, and/or reputational standing?	**N**	**N**
	Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs and/or will such costs increase over time affecting the long-term credit profile?	**N**	**N**
	Resource and Energy Management	Does the scarcity of sourcing key resources hinder the production or operations of the issuer, resulting in lower productivity and therefore 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**
	Climate and Weather Risks	In the near term, will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact? In the long term, will the issuer's or client's business activities and infrastructure be materially affected financially under key IPCC climate scenarios up to a 2°C rise in temperature by 2050?	**N**	**N**
Social		**Overall:**	**N**	**N**
	Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services pose a financial or regulatory risk to the issuer?	**N**	**N**
	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, 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 issuer's financial wellbeing or reputation?	**N**	**N**
		Human Capital and Human Rights	**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	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could it result, in financial penalties or client attrition to the issuer?	**N**	**N**
	Occupational Health and Safety	Would the failure to address workplace hazards have a negative 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	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**
Governance		**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**
		Are there any political risks that could affect the issuer's financial position or its reputation?	**N**	**N**
		Bribery, Corruption, and Political Risks	**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**
		Corporate / Transaction Governance	**N**	**N**
		Consolidated ESG Criteria Output:	**N**	**N**

ESG Considerations

Environmental

There were no environmental factors that had a relevant or significant effect on the credit analysis. Morningstar DBRS notes that regulated utilities may be exposed to severe weather events. Morningstar DBRS expects any costs associated with these events to be recovered through rates. Toronto Hydro has also established a Climate Advisory Services business to help the City facilitate reductions in greenhouse gas emissions through electrification.

Social

There were no social factors that had a relevant or significant effect on the credit analysis. Morningstar DBRS notes that as a regulated utility, Toronto Hydro must provide access to its service. Any disruption in the Company's operations could significantly affect its reputation and could lead to financial penalties. Toronto Hydro offers numerous programs to assist customers with affordability concerns, including an Emergency Energy Fund and an Equal Payment Plan, among others. The Company is also committed to a safe and injury-free workplace and has established an occupational health and safety policy.

Governance

There were no governance factors that had a relevant or significant effect on the credit analysis. While the Company is owned by the City, a majority of directors on the board are independent, including the chair. The board is mandated to oversee the identification of the Company's risks, including those regarding emissions reduction, electrification, and safety.

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in *Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings* at https://dbrs.morningstar.com/research/427030.

Credit Rating History

	Current	2023	2022	2021	2020	2019
Issuer Rating	A	A	A	A	A	A
Senior Unsecured Debentures & MTNs	A	A	A	A	A	A
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Previous Actions

- "DBRS Morningstar Assigns Rating of "A," Stable, to Toronto Hydro's $200 Million Senior Unsecured Debentures Issuance," October 12, 2023.
- "DBRS Morningstar Assigns Rating of "A," Stable, to Toronto Hydro's $250 Million Senior Unsecured Debentures Issuance," June 14, 2023.
- "DBRS Morningstar Confirms Ratings of Toronto Hydro Corporation With Stable Trends," April 28, 2023.

Previous Report

- Toronto Hydro Corporation: Rating Report, May 1, 2023.

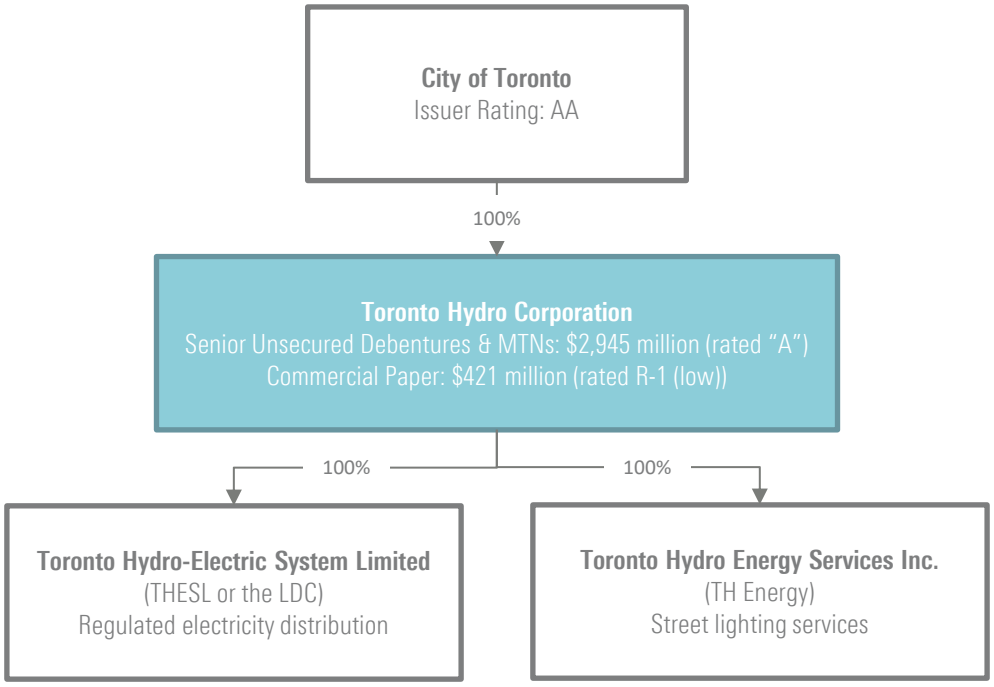
Notes:
All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on dbrs.morningstar.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.

Appendix 1—Corporate Structure

Exhibit 1 Organizational Chart



As at December 31, 2023.
Source: Toronto Hydro.

- Toronto Hydro is a holding company with the following subsidiaries operating in the Toronto area:
  - THESL is one of the largest municipal electricity distribution utilities in Canada (99% of revenue); and
  - Toronto Hydro Energy Services Inc., which has a contractual relationship with the City, owns and operates street lighting services (1% of revenue).
- The Company serves approximately 793,000 customers and distributed 18% of electricity in Ontario for 2023.

Appendix 2—Liquidity and Long-Term Debt

Liquidity

(CAD million as at December 31, 2023)	Amount	Drawn/Letter of Credit/CP Issued	Available	Expiry
Cash and Cash Equivalents	-	-	**-**	-
Revolving Credit Facility	1,000	421	**579**	Sep. 18, 2028
Prudential Facility	100	51	**49**	Demand
Working Capital Facility	20	7	**13**	Demand
Total	**1,120**	**480**	**640**	

CP = commercial paper.

- Toronto Hydro's liquidity profile remains adequate to cover near- to medium-term obligations, with approximately $640 million of available facilities.
- In March 2023, Toronto Hydro increased its CP program to $1 billion from $750 million. The program is backstopped by a $1 billion revolving credit facility (previously $800 million) with a maturity date of September 18, 2028.
- Toronto Hydro also has a $100 million Prudential Facility (demand facility) for the purpose of issuing letters of credit mainly to support prudential requirements with the Independent Electricity System Operator (IESO) and a $20 million Working Capital Facility.

Long-Term Debt

(CAD million as at December 31, 2023)	2024	2025	2026	2027	2028	2029+	Total
Debentures	-	-	200	-	200	2,545	**2,945**
% of Total	0	0	7	0	7	86	**100**

- Debt maturities are reasonably staggered and manageable, and Toronto Hydro continues to have adequate access to debt capital markets.

Appendix 3—Regulation

- THESL is regulated by the OEB under a Custom IR framework. The Company has a good track record of prudently managing its regulatory risk.
    - Morningstar DBRS considers the regulatory regime under the OEB as supportive.
- The five-year Custom IR framework approved by the OEB for THESL is a hybrid between cost of service (COS) and an incentive rate mechanism (IRM).
    - The rate setting for the term is based on THESL's forecasts and OEB's incentive rate analysis using productivity benchmarking.
    - Rates for THESL increase annually by a capital factor (based on the approved capex program), an inflation factor (as updated annually by the OEB), less the productivity and stretch factors, and a growth factor (based on changes in load and customer count).
    - For the 2020–24 period, THESL has an approved deemed capital structure of 60% debt (56% long-term and 4% short-term), 40% equity, and an allowed return on equity (ROE) of 8.52%.
    - THESL is required to share earnings in excess of 100 basis points (bps) over the allowed ROE equally between the Company and its customers.
    - A regulatory review may be initiated by THESL or the OEB (off-ramp), should actual ROE vary from the allowed ROE by 300 bps (either positive or negative).
- In November 2023, THESL filed its 2025–29 Custom IR application with the OEB.
    - The application is based on the Custom IR framework.
    - THESL has requested capex of $3.9 billion over the five-year period to renew the grid, connect new customers, withstand extreme weather conditions, and prepare the grid for new technologies and expected increase in demand from electrification.
    - A decision from the OEB is expected by the end of 2024.

Assessment of Regulatory Framework

Criteria	Score	Analysis
1. Deemed Equity	Excellent Good **Satisfactory** Below Average Poor	The OEB allows THESL to have a deemed equity of 40%, which is consistent with other electricity distribution companies in Ontario.
2. Allowed ROE	Excellent Good **Satisfactory** Below Average Poor	THESL has an allowed ROE of 8.52% for 2020–24, which is in line with the other distribution companies in Ontario. Any difference in ROE between the Company and other distribution companies is mainly because of the timing of the regulatory filings and the interest environment prevalent at that time.
3. Energy Cost Recovery	**Excellent** Good Satisfactory Below Average Poor	There is no power price risk for Toronto Hydro, 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 the Company collects the payments from its customers on a monthly basis.
4. Capital and Operating Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Under Custom IR, the capex program for THESL is pre-approved for a five-year period by the OEB and recovered through distribution rates. Additionally, beginning in 2020, all residential customers are charged a fully fixed monthly fee for distribution services, significantly reducing volume risk.
5. COS versus IRM	Excellent Good **Satisfactory** Below Average Poor	THESL operates under Custom IR, which is a hybrid of COS and IRM. The Custom IR is for a five-year term from 2020–24. The productivity factor has been set at 0% and the stretch factor for operating expenses has been set at 0.6% for the current Custom IR term.
6. Political Interference	Excellent Good Satisfactory **Below Average** Poor	The Government of Ontario plays a significant role in the electricity sector in Ontario, given that most of the utilities are government owned (Toronto Hydro is owned by the City). 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 **Good** 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** Satisfactory Below Average Poor	From 2002–05, 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.

About Morningstar DBRS

Morningstar DBRS is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 4,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

Morningstar DBRS is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why Morningstar DBRS is the next generation of credit ratings.

Learn more at dbrs.morningstar.com.

MORNINGSTAR | DBRS

The Morningstar DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GMBH (Frankfurt, Germany) (EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). Morningstar DBRS does not hold an Australian financial services license. Morningstar DBRS credit ratings, and other types of credit opinions and reports, are not intended for Australian residents or entities. Morningstar DBRS does not authorize their distribution to Australian resident individuals or entities, and accepts no responsibility or liability whatsoever for the actions of third parties in this respect. For more information on regulatory registrations, recognitions and approvals of the Morningstar DBRS group of companies please see: https://dbrs.morningstar.com/research/highlights.pdf.

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

© 2024 Morningstar DBRS. All Rights Reserved. The information upon which Morningstar DBRS credit ratings and other types of credit opinions and reports are based is obtained by Morningstar DBRS from sources Morningstar DBRS believes to be reliable. Morningstar DBRS does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. Morningstar DBRS credit ratings, other types of credit opinions, reports and any other information provided by Morningstar DBRS are provided "as is" and without representation or warranty of any kind and Morningstar DBRS assumes no obligation to update any such credit ratings, opinions, reports or other information. Morningstar DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall Morningstar DBRS or its directors, officers, employees, independent contractors, agents, affiliates and representatives (collectively, Morningstar DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of credit ratings, other types of credit opinions and reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of Morningstar DBRS or any Morningstar DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. IN ANY EVENT, TO THE EXTENT PERMITTED BY LAW, THE AGGREGATE LIABILITY OF MORNINGSTAR DBRS AND THE MORNINGSTAR DBRS REPRESENTATIVES FOR ANY REASON WHATSOEVER SHALL NOT EXCEED THE GREATER OF (A) THE TOTAL AMOUNT PAID BY THE USER FOR SERVICES PROVIDED BY MORNINGSTAR DBRS DURING THE TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO LIABILITY, AND (B) U.S. $100. Morningstar DBRS does not act as a fiduciary or an investment advisor. Morningstar DBRS does not provide investment, financial or other advice. Credit ratings, other types of credit opinions and other analysis and research issued by Morningstar DBRS (a) are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities; (b) do not take into account your personal objectives, financial situations or needs; (c) should be weighed, if at all, solely as one factor in any investment or credit decision; (d) are not intended for use by retail investors; and (e) address only credit risk and do not address other investment risks, such as liquidity risk or market volatility risk. Accordingly, credit ratings, other types of credit opinions and other analysis and research issued by Morningstar DBRS are not a substitute for due care and the study and evaluation of each investment decision, security or credit that one may consider making, purchasing, holding, selling, or providing, as applicable. A report with respect to a Morningstar DBRS credit rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Morningstar DBRS may receive compensation for its credit ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of Morningstar DBRS. ALL MORNINGSTAR DBRS CREDIT RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DEFINITIONS, LIMITATIONS, POLICIES AND METHODOLOGIES THAT ARE AVAILABLE ON HTTPS://DBRS.MORNINGSTAR.COM. Users may, through hypertext or other computer links, gain access to or from websites operated by persons other than Morningstar DBRS. Such hyperlinks or other computer links are provided for convenience only. Morningstar DBRS does not endorse the content, the operator or operations of third party websites. Morningstar DBRS is not responsible for the content or operation of such third party websites and Morningstar DBRS shall have no liability to you or any other person or entity for the use of third party websites.

S&P Global
Ratings

RatingsDirect®

Toronto Hydro Corp.

Primary Credit Analyst:
Andrew Ng, Toronto + 1 (416) 507 2545; andrew.ng@spglobal.com

Secondary Contact:
Mayur Deval, Toronto (1) 416-507-3271; mayur.deval@spglobal.com

Table Of Contents

Credit Highlights

Outlook

Our Base-Case Scenario

Company Description

Business Risk

Financial Risk

Liquidity

Other Credit Considerations

Environmental, Social, And Governance

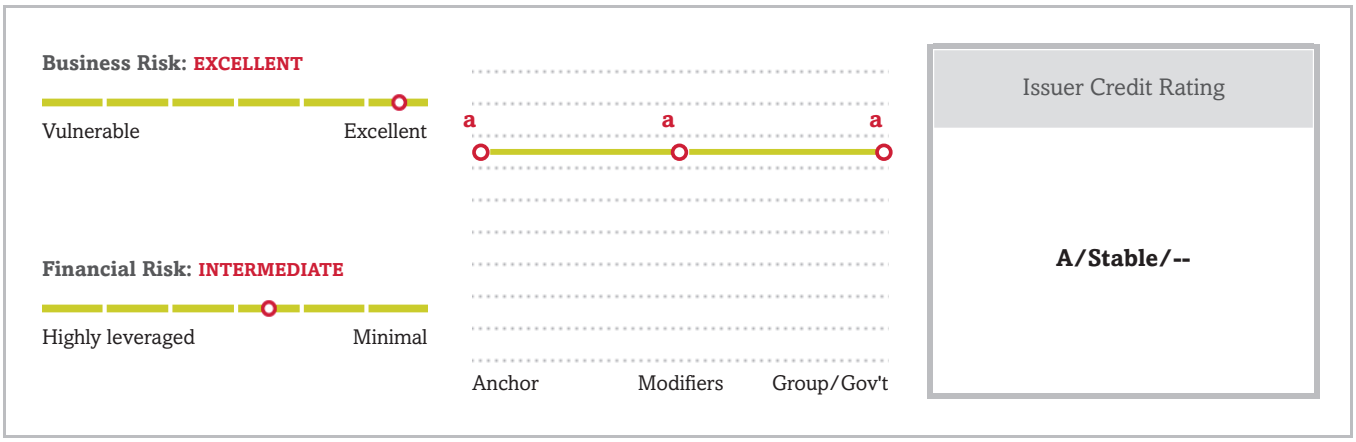
Issue Ratings - Subordination Risk Analysis

Reconciliation

Ratings Score Snapshot

Related Criteria

Toronto Hydro Corp.



Credit Highlights

Overview

Key strengths	Key risks
A relatively strong regulatory structure that supports stable cash flows for the low-risk electricity distribution business.	Large capital spending programs to replace aging infrastructure over the next several years adds execution risk.
No exposure to commodity cost risk and minimal exposure to nonregulated operations.	Toronto Hydro lacks operational diversity because it operates only in the City of Toronto, making the company reliant on its regulator, the Ontario Energy Board, to sustain its credit quality.
A large, diverse customer and economic base with no significant concentration risk.	
The moderate likelihood of Toronto Hydro receiving extraordinary government support from its owner provides some ratings cushion.	

Large capital spending plan over the outlook period. Toronto Hydro Corp. (Toronto Hydro) continues to have large capital expenditures from 2019 to 2021 that will total more than twice its depreciation cost, which can lead to higher execution risks, including completing its key capital projects on time and within its budget.

Lack of geographical and regulatory diversification. Toronto Hydro serves the City of Toronto, which is the largest city in Canada and has a diverse customer and economic base. We consider the province of Ontario as a relatively strong regulatory jurisdiction, supporting the company's excellent business risk. However, compared with other utilities, Toronto Hydro lacks geographic and regulatory diversity. As a result, we consider Toronto Hydro's business risk to be at the lower half of the range compared with that of its utility peers.

Outlook: Stable

The stable outlook reflects our view that Toronto Hydro will continue to focus on its regulated electricity distribution operation and generate stable and predictable cash flow. For 2019-2020, we expect funds from operations (FFO) to debt of about 16%-17%.

Downside scenario

We could take a negative rating action on Toronto Hydro if the company's credit metrics deteriorate and FFO to debt approaches 10% with no prospects for improvement, which could lead to a lower stand-alone credit profile (SACP) of two-notches. This could happen if there are significant cost overruns with capital programs or if Toronto Hydro experiences adverse regulatory decisions, including significantly large cost disallowance or lower return on equity (ROE).

Given our view that the utility is moderately likely to receive extraordinary support from its government owner, if needed, a one-notch downgrade to the City of Toronto or a one-notch revision to the company's SACP would have no rating impact.

Upside scenario

We could take a positive rating action if the company improves its financial position, with sustained FFO to debt approaching 20%. However, we believe this is unlikely during our two-year outlook period given that rates are regulated and that the company is going through a period of elevated capital spending. A positive rating action on the City of Toronto would also result in a similar action for Toronto Hydro based on our view that the utility is likely to receive government support from the city.

Our Base-Case Scenario

Assumptions	Key Metrics

- The regulatory regime will be relatively stable and Toronto Hydro will not experience any material, adverse regulatory decisions.
- Toronto Hydro will continue to focus on its regulated electric distribution utility operations.
- Electricity distribution rates will continue to be set under the custom incentive ratemaking mechanism.
- The company will earn an authorized ROE of about 9.30% in 2019 and 8.82% in 2020 based on its deemed capital structure of 60% debt and 40% equity.
- Capital expenditures will average about C$600 million annually in 2019 and 2020.
- Dividend payments of about C$100 million annually in 2019 and 2020.

	2018A	2019E	2020E
FFO/debt (%)	17.27	15-17	15-16
FFO interest cash coverage (x)	6.17	About 6	5.5-6.0

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

Company Description

Toronto Hydro is a utility holding company. Its primary operation is Toronto Hydro-Electric System Ltd.'s (THESL) monopoly electricity distribution business, which delivers electricity in Toronto. THESL generated almost all of Toronto Hydro's revenue (net of commodity pass-through) in 2018. It is one of Ontario's largest local distribution companies, serves about 772,000 Toronto customers, and delivers about 19% of the electricity consumed in the Province of Ontario.

Business Risk: Excellent

Our business risk assessment for Toronto Hydro reflects the company's lower-risk regulated electric distribution operations and effective management of regulatory risk. The utility continues to operate under a supportive regulatory regime. The Ontario Energy Board (OEB) is the provincial regulator and provides a generally transparent, consistent, and independently operated regulatory framework that supports a stable and predictable cash flow model. We view this as a key credit strength. Toronto Hydro has limited exposure to commodity risk because the cost of electricity is passed on to ratepayers. The tariff structure also allows the operator to recover prudently spent operating costs, capital expenditures, or other large unexpected losses.

Further supporting our business risk profile is Toronto Hydro's large and diverse customer base, with no meaningful concentration risk. The utility's largest customer is the City of Toronto (AA/Stable/A-1+), an investment-grade counterparty. Residential and small businesses account for more than 90% of customers. In our view, this customer

profile is less sensitive to macroeconomic stress and business cycles. Nevertheless, the residential customer base has some sensitivity to volume fluctuations, primarily weather-driven ones. But we don't believe these fluctuations would stress credit metrics enough to affect the rating, especially given that residential distribution rates are moving to a 100% fixed rate structure that mitigates this risk. We do not expect the utility's customer composition to change materially over the next two years.

Overall, we assess Toronto Hydro's business risk profile at the lower half of the business risk profile category, reflecting its lack of geographic and regulatory diversity.

Peer comparison

Table 1

Toronto Hydro Corp. -- Peer Comparison

Industry Sector: Electric

	Toronto Hydro Corp.	Alectra Inc.	Hydro Ottawa Holding Inc.	Hydro One Limited
Ratings as of April 20, 2019	A/Stable/--	A/Stable/--	BBB+/Stable/--	A-/Negative/--
	--Fiscal year ended Dec. 31, 2018--		--Fiscal year ended Dec. 31, 2017--	--Fiscal year ended Dec. 31, 2018--
(Mil. C$)				
Revenues	3,472.7	3,452.0	1,151.5	6,150.0
EBITDA	530.2	363.5	124.5	2,150.5
FFO	408.5	296.7	87.1	1,594.4
Interest Expense	90.8	71.8	31.2	549.1
Cash Interest Paid	79.1	65.8	31.4	539.1
Cash flow from operations	514.2	235.7	74.3	1,511.4
Capital expenditures	490.6	425.0	180.2	1,485.0
Free operating cash flow	23.6	(189.3)	(106.0)	26.4
Discretionary cash flow	(70.3)	(263.3)	(126.6)	(523.6)
Cash and short-term investments	0.0	16.0	0.9	483.0
Debt	2,365.1	2,016.3	930.5	14,018.7
Equity	1,833.5	1,689.0	438.1	10,092.0
Adjusted ratios				
EBITDA margin (%)	15.3	10.5	10.8	35.0
Return on capital (%)	7.0	6.2	5.4	5.3
EBITDA interest coverage (x)	5.8	5.1	4.0	3.9
FFO cash interest coverage (x)	6.2	5.5	3.8	4.0
Debt/EBITDA (x)	4.5	5.5	7.5	6.5
FFO/debt (%)	17.3	14.7	9.4	11.4
Cash flow from operations/debt (%)	21.7	11.7	8.0	10.8
Free operating cash flow/debt (%)	1.0	(9.4)	(11.4)	0.2
Discretionary cash flow/debt (%)	(3.0)	(13.1)	(13.6)	(3.7)

Sousrce: S&P Global Ratings, company reports. FFO--Funds from operations.

Financial Risk: Intermediate

We assess Toronto Hydro's financial risk profile using the low-volatility financial benchmark table, reflecting the company's lower-risk regulated electric distribution operation and effective management of regulatory risk. We expect the company will continue to have large capital programs, exceeding depreciation, to replace aging infrastructure. Toronto Hydro's large capital programs will likely pressure credit metrics and the utility will need to rely on both internally generated funds and external funds to finance its capital programs.

Under our base-case assumptions, which include capital spending of about C$600 million per year and dividends of about C$100 million per year, we forecast FFO to debt of about 15%-17% in 2019-2020.

Financial summary

Table 2

Toronto Hydro Corp.--Financial Summary

Industry Sector: Electric

	--Fiscal year ended Dec. 31--				
	2018	**2017**	**2016**	**2015**	**2014**
Rating history	A/Stable/--	A/Stable/--	A/Negative/--	A/Stable/--	A/Stable/--
(Mil. C$)					
Revenues	3,472.7	3,849.7	4,030.0	3,539.9	3,316.2
EBITDA	530.2	517.1	556.5	393.1	373.2
FFO	408.5	407.8	471.1	306.2	293.9
Interest Expense	90.8	95.5	96.4	89.9	79.7
Cash Interest Paid	79.1	87.1	84.5	78.0	69.0
Cash flow from operations	514.2	492.8	481.7	425.1	257.2
Capital expenditures	490.6	527.2	542.1	510.7	486.6
Free operating cash flow	23.6	(34.4)	(60.4)	(85.6)	(229.4)
Discretionary cash flow	(70.3)	(109.4)	(123.8)	(141.9)	(290.0)
Cash and short-term investments	0.0	0.0	0.0	0.0	0.0
Gross available cash	0.0	0.0	0.0	0.0	0.0
Debt	2,365.1	2,436.7	2,564.4	2,451.9	2,191.5
Equity	1,833.5	1,760.4	1,428.9	1,340.9	1,270.4
Adjusted ratios					
EBITDA margin (%)	15.3	13.4	13.8	11.1	11.3
Return on capital (%)	7.0	7.1	8.7	5.3	6.4
EBITDA interest coverage (x)	5.8	5.4	5.8	4.4	4.7
FFO cash interest coverage (x)	6.2	5.7	6.6	4.9	5.3
Debt/EBITDA (x)	4.5	4.7	4.6	6.2	5.9
FFO/debt (%)	17.3	16.7	18.4	12.5	13.4
Cash flow from operations/debt (%)	21.7	20.2	18.8	17.3	11.7
Free operating cash flow/debt (%)	1.0	(1.4)	(2.4)	(3.5)	(10.5)

Table 2

Toronto Hydro Corp.--Financial Summary (cont.)

Industry Sector: Electric

	--Fiscal year ended Dec. 31--				
	2018	**2017**	**2016**	**2015**	**2014**
Discretionary cash flow/debt (%)	(3.0)	(4.5)	(4.8)	(5.8)	(13.2)

Source: S&P Global Ratings, company reports. FFO--Funds from operations.

Liquidity: Adequate

We assess Toronto Hydro'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. Moreover, liquidity should benefit from the company's likely ability to absorb high-impact, low-probability events without the need for refinancing, its well-established and solid relationships with banks, and its satisfactory standing in the credit markets.

Principal Liquidity Sources	Principal Liquidity Uses
• Committed credit facilities availability of C$800 million as of Dec. 30, 2018; and • Cash FFO of about C$560 million	• Debt maturities of about C$363 million in 2019, including long-term and short-term debt; • Capital expenditure of about C$570 million; and • Dividend payments of about C$100 million.

Debt maturities

- 2019: C$250 million
- 2020: 0
- 2021: C$300 million
- 2022: 0
- 2023: C$250 million

Other Credit Considerations

We continue to believe there is a moderate likelihood that the utility's owner, the City of Toronto, would provide timely and sufficient extraordinary support in the event of financial distress. This was evident with the cash injection by the city in 2017, demonstrating that Toronto is willing to provide financial support to the utility when needed.

Environmental, Social, And Governance

We consider Toronto Hydro's environmental footprint in the broader context of environmental, social, and governance (ESG) factors. Toronto Hydro's exposure to environmental risk is quite manageable compared with its peers, since electric distribution-only companies are more favorably positioned than their counterparts with owned power-generation assets or who operate gas utilities. From a social perspective, Toronto Hydro's history of providing safe and reliable electricity to its customers could enable it to maintain social cohesion going forward. We view governance factors as neutral for the utility. Most of Toronto Hydro's directors are independent of its owner, the City of Toronto. In our view, the Toronto Hydro board is capably engaged in risk oversight on behalf of all stakeholders.

Issue Ratings - Subordination Risk Analysis

Capital structure

- As of Dec. 31, 2018, Toronto Hydro had total consolidated long-term senior unsecured debt of about C$2.05 billion at the holding company level.

Analytical conclusions

- All of Toronto Hydro's debt, including the long-term senior unsecured debt, is at the holding company level. Therefore, we rate the senior unsecured debt at 'A', the same as the issuer credit rating on Toronto, reflecting minimal subordination risk.

Reconciliation

Table 3

Reconciliation Of Toronto Hydro Corp. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. C$)

	--Fiscal year ended Dec. 31, 2018--						
Toronto Hydro Corp. reported amounts							
	Debt	**EBITDA**	**Operating income**	**Interest expense**	**S&P Adjusted EBITDA**	**Cash flow from operations**	**Capital Expenditures**
	2,160.5	518.9	280.6	76.0	530.2	596.7	494.3
S&P Global Ratings' adjustments							
Cash taxes paid	--	--	--	--	(42.6)	--	--
Cash taxes paid - Other	--	--	--	--	--	--	--
Cash Interest Paid	--	--	--	--	(75.3)	--	--
Operating leases	1.1	0.3	0.1	0.1	(0.1)	0.2	--
Postretirement benefit obligations/deferred compensation	202.8	11.0	11.0	11.0	--	--	--

Table 3

Reconciliation Of Toronto Hydro Corp. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. C$) (cont.)							
Capitalized interest	--	--	--	3.7	(3.7)	(3.7)	(3.7)
Non-operating income (expense)	--	--	1.4	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	(79.0)	--
Debt - Amortized cost	0.7	--	--	--	--	--	--
Total adjustments	204.6	11.3	12.5	14.8	(121.7)	(82.5)	(3.7)
S&P Global Ratings' adjusted amounts							
	Debt	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Capital expenditures**
	2,365.1	530.2	293.1	90.8	408.5	514.2	490.6

Source: S&P Global Ratings, company reports.

Ratings Score Snapshot

Issuer 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
- **Capital structure:** Neutral
- **Financial policy:** Neutral
- **Liquidity:** Adequate
- **Management and governance:** Satisfactory
- **Comparable rating analysis:** Neutral

Stand-alone credit profile : a

- **Related government rating:** AA
- **Likelihood of government support:** Moderate (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 May 2, 2019)*

Toronto Hydro Corp.	
Issuer Credit Rating	A/Stable/--
Senior Unsecured	A
Issuer Credit Ratings History	
25-Apr-2017	A/Stable/--
25-Apr-2016	A/Negative/--
03-Jun-2008	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.

Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

S&P Global
Ratings

RatingsDirect®

Toronto Hydro Corp.

Primary Credit Analyst:
Andrew Ng, Toronto + 1 (416) 507 2545; andrew.ng@spglobal.com

Secondary Contacts:
Obioma Ugboaja, New York + 1 (212) 438 7406; obioma.ugboaja@spglobal.com
Mayur Deval, Toronto (1) 416-507-3271; mayur.deval@spglobal.com

Table Of Contents

Credit Highlights

Outlook

Our Base-Case Scenario

Company Description

Business Risk

Financial Risk

Liquidity

Environmental, Social, And Governance

Group Influence

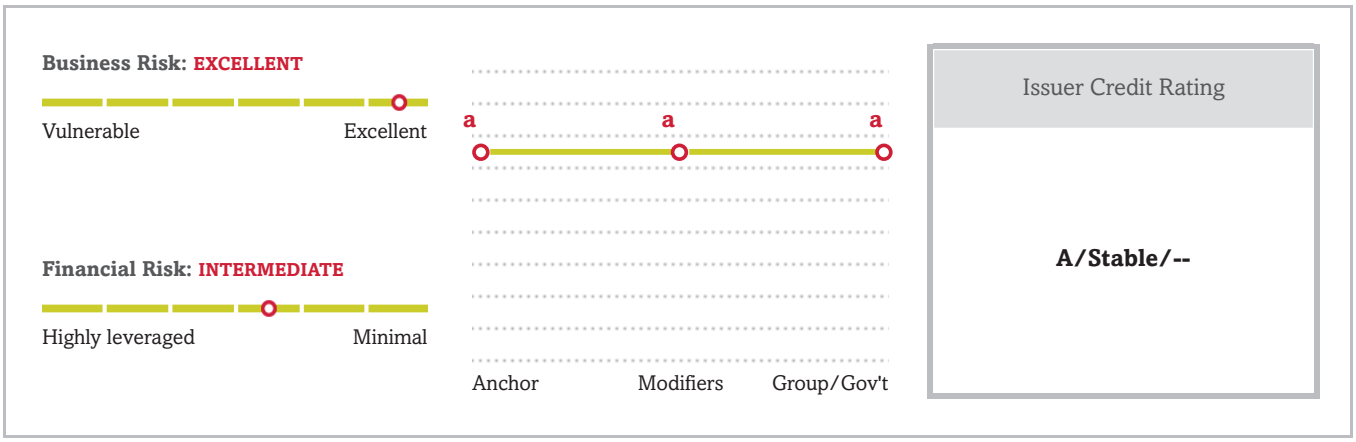
Issue Ratings - Subordination Risk Analysis

Reconciliation

Ratings Score Snapshot

Related Criteria

Toronto Hydro Corp.



Credit Highlights

Overview

Key strengths	Key risks
A relatively strong regulatory structure that supports stable cash flows for the low-risk electricity distribution business.	Large capital spending programs, about 2x depreciation expense, and rate refunds over the next several years will weaken credit metrics for 2020.
No exposure to commodity cost risk and minimal exposure to nonregulated operations.	Toronto Hydro lacks operational diversity because it operates only in Toronto, making the company reliant on its regulator, the Ontario Energy Board, to sustain its credit quality.
A large, diverse customer and economic base with no significant concentration risk.	
The moderate likelihood of Toronto Hydro receiving extraordinary government support from its owner provides some ratings cushion.	

The OEB established deferral accounts to record costs and losses arising from the COVID-19 pandemic. On March 25, 2020, the Ontario Energy Board (OEB), Ontario's regulator, acknowledged that utility distributors, including Toronto Hydro Corp., may incur incremental costs related to the ongoing coronavirus pandemic. As a result, the OEB established deferral accounts for utilities to track any incremental costs and lost revenues related to the COVID-19 pandemic. This allows Toronto Hydro to recover potential lost revenue, incremental expenses, or costs relating to bad debt expenses subject to OEB approval. The pandemic will likely result in cash flow volatility and lag for Toronto Hydro in the short term but the deferral accounts partially mitigate this concern, since it provides a recovery mechanism for utilities.

Toronto Hydro has sufficient liquidity sources to cover its uses over the next six to 12 months. The utility has an C$800 million undrawn credit facility to backstop its commercial paper program, with about C$140 million outstanding as of Dec. 31, 2019. In addition, the company has no long-term debt maturities in 2020. Toronto Hydro's next long-term debt maturity is C$300 million due in November 2021. As a result, we expect Toronto Hydro to have sufficient liquidity over the next six to 12 months to endure through the COVID-19 pandemic, assuming no persistent long-term impact. Furthermore, we expect the utility to scale back on capital spending or dividends to the the city if needed.

Toronto Hydro lacks geographic and regulatory diversity. Toronto Hydro operates in the city of Toronto and serves about 778,000 customers. Although Toronto has a well-diversified economy and has mostly residential and small business customers, compared with other utilities, it lacks geographic and regulatory diversity, making it reliant on the

OEB to sustain its credit quality.

Outlook: Stable

The stable outlook reflects our view that Toronto Hydro will continue to focus on its regulated electricity distribution operation and generate stable and predictable cash flow. For 2020-2021, we expect funds from operations (FFO) to debt of about 13%-15%.

Downside scenario

We could take a negative rating action on Toronto Hydro if its credit metrics deteriorate and FFO to debt approaches 10% with no prospects for improvement, which could lead to a lower stand-alone credit profile (SACP) of two notches. This could happen if there are significant cost overruns with capital programs or if Toronto Hydro experiences adverse regulatory decisions, including significantly large cost disallowance or lower return on equity (ROE). Given our view that the utility will likely receive extraordinary support from its government owner if needed, a one-notch downgrade to the city of Toronto or a one-notch revision to the Toronto Hydro's SACP would have no rating impact.

Upside scenario

We could take a positive rating action if the company improves its financial position, with FFO to debt remaining around 20%. However, we believe this is unlikely during our two-year outlook period given that rates are regulated and the company is going through a period of elevated capital spending. A positive rating action on the city of Toronto would also result in a similar action for Toronto Hydro based on our view that it would likely receive government support from the city.

Our Base-Case Scenario

Assumptions

- No material persistent impact from the COVID-19 pandemic.
- The regulatory regime will be relatively stable and Toronto Hydro will not experience any material, adverse regulatory decisions.
- Toronto Hydro will continue to focus on its regulated electric distribution utility operations.
- Electricity distribution rates will continue to be set under the custom incentive ratemaking mechanism.
- The company will execute against the approved rate decision by the OEB for the 2020-2024 period.

Key Metrics

	2019a	2020e	2021f
FFO to total debt (%)	17.9	13-14	14-15
FFO cash interest coverage (x)	6.2	~5.5	~5.5

a--Actual. e--Estimate. f--Forecast. FFO--Funds from operations.

- Capital expenditures of about C$520 million and C$600 million in 2020 and 2021, respectively.
- Dividend payments of about C$90 million annually in 2020 and 2021.

Company Description

Toronto Hydro is a utility holding company. Its primary operation is Toronto Hydro-Electric System Ltd.'s (THESL) monopoly electricity distribution business, which delivers electricity in Toronto. THESL generated almost all of Toronto Hydro's revenue (net of commodity pass-through) in 2019. It is one of Ontario's largest local distribution companies, serves about 778,000 Toronto customers, and delivers about 18% of the electricity consumed in the Province of Ontario.

Business Risk: Excellent

Our view of Toronto Hydro's business risk has not changed. The utility continues to operate under a supportive regulatory regime. The OEB, the provincial regulator, continues to provide a transparent, consistent, and independently operated regulatory framework that supports a stable and predictable cash flow model, which we view as a key credit strength. Toronto Hydro has limited exposure to commodity risk because electricity cost is flowed through to ratepayers. The tariff structure also allows the operator to recover prudently spent operating cost, capital expenditures, or other unexpected material losses in a timely manner.

Further supporting our assessment of the excellent business risk profile is Toronto Hydro's large and diverse customer base; serving about 778,000 customers with no significant concentration risk. The utility's largest customer is the city of Toronto (AA/Stable/A-1+), an investment-grade counterparty. Toronto Hydro's customer base largely consists of residential, small business, and the municipals, universities, schools and hospitals (MUSH) sector, which is less sensitive to macroeconomic stresses and business cycles. Nonetheless, Toronto Hydro's residential customer base has some sensitivity to volume fluctuations, primarily weather-driven. However, we expect the change to 100% fixed-charge distribution rates will mitigate this volume risk exposure.

Overall, we assess Toronto Hydro's business risk profile at the lower half of the business risk profile category, reflecting the relatively limited geographic footprint of the utility's operations and its exposure to only a single regulatory regime.

Table 1

Peer Comparison

Industry sector: electric

	Toronto Hydro Corp.	Enbridge Gas Inc.	Hydro One Inc.	CU Inc.	Alectra Inc.
Ratings as of April 21, 2020	A/Stable/--	A-/Stable/A-2	A-/Stable/A-2	A-/Stable/A-2	A/Stable/--

Table 1

Peer Comparison (cont.)

	--Fiscal year ended Dec. 31, 2019--				Fiscal year ended Dec. 31, 2018
(Mil. C$)					
Revenue	3,673.3	5,075.0	6,442.0	2,787.0	3,452.0
EBITDA	584.8	1,639.0	2,316.0	1,557.0	363.5
FFO	459.3	1,239.5	1,807.0	1,178.5	296.7
Interest expense	96.6	394.5	503.0	378.5	71.8
Cash interest paid	88.2	387.5	488.0	384.5	65.8
Cash flow from operations	505.2	1,277.5	1,678.0	1,155.5	235.7
Capital expenditure	568.1	1,104.0	1,577.0	936.0	425.0
FOCF	(62.9)	173.5	101.0	219.5	(189.3)
DCF	(163.3)	(1,076.5)	(1,145.0)	(171)	(263.3)
Cash and short-term investments	0.0	77.0	7.0	71.0	16.0
Debt	2,567.3	9,435.1	14,920.1	8,136.8	2,016.3
Equity	1,887.5	10,004.0	9,723.0	4,853.0	1,689.0
Adjusted ratios					
EBITDA margin (%)	15.9	32.3	36.0	55.9	10.5
Return on capital (%)	7.7	5.3	6.0	8.4	6.2
EBITDA interest coverage (x)	6.1	4.2	4.6	4.1	5.1
FFO cash interest coverage (x)	6.2	4.2	4.7	4.1	5.5
Debt/EBITDA (x)	4.4	5.8	6.4	5.2	5.5
FFO/debt (%)	17.9	13.1	12.1	14.5	14.7
Cash flow from operations/debt (%)	19.7	13.5	11.2	14.2	11.7
FOCF/debt (%)	(2.5)	1.8	0.7	2.7	(9.4)
DCF/debt (%)	(6.4)	(11.4)	(7.7)	(2.1)	(13.1)

FFO--Funds from operations. FOCF--Free operating cash flow. DCF--Discretionary cash flow.

Financial Risk: Intermediate

We assess Toronto Hydro's financial measures using our low volatility financial benchmark table relative to the typical industrial issuer. This reflects the company's lower-risk regulated electricity distribution operation and effective management of regulatory risk. Toronto Hydro has a large capital program--about 2x that of depreciation expense--that will result in negative discretionary cash flow and continually rely on external financing to fund its capital programs.

For 2020, we expect Toronto Hydro's financial measures will be under pressure due to refund credit included in the 2020-2024 rate application and the current coronavirus pandemic. Specifically, Toronto Hydro plans to dispose various deferral variance accounts and other balances that would result in a refund of about C$190 million to ratepayers over the five-year period. The refunds primarily comprise gains on property sales, including the operating

cost center consolidation program, and capital-related revenue requirement variance.

The coronavirus pandemic will likely decrease load consumption and increase bad debt expenses for utilities across Ontario, including Toronto Hydro. However, some mitigating factors include a relatively small segment of large industrial customers, whose electricity consumption depends more on economic cycles, makes up only about 4% of Toronto Hydro's distribution revenue. Furthermore, in response to the current coronavirus pandemic, the OEB has setup deferral accounts for utilities, including Toronto Hydro, to track incremental costs and lost revenues related to the pandemic for later disposition, subject to OEB's review and approval. As a result, we expect there will be some short-term cash flow volatility associated with Toronto Hydro's financial measures for 2020 related to the pandemic.

Under our base-case scenario, which includes a short-term impact from the coronavirus pandemic, a stable regulatory environment with no material adverse regulatory decisions, execution of the 2020-2024 rate order, capital spending of about C$520 million and C$600 million in 2020 and 2021 respectively, and dividend payments averaging about C$90 million annually, we expect Toronto Hydro's FFO to debt at about 13%-15% in 2020 and 2021.

Table 2

Financial Summary

Industry sector: electric					
	--Fiscal year ended Dec. 31--				
	2019	**2018**	**2017**	**2016**	**2015**
(Mil. C$)					
Revenue	3,673.3	3,472.7	3,849.7	4,030.0	3,539.9
EBITDA	584.8	530.2	517.1	556.5	393.1
FFO	459.3	408.5	407.8	471.1	306.2
Interest expense	96.6	90.8	95.5	96.4	89.9
Cash interest paid	88.2	79.1	87.1	84.5	78.0
Cash flow from operations	505.2	514.2	492.8	481.7	425.1
Capital expenditure	568.1	490.6	527.2	542.1	510.7
FOCF	(62.9)	23.6	(34.4)	(60.4)	(85.6)
DCF	(163.3)	(70.3)	(109.4)	(123.8)	(141.9)
Cash and short-term investments	0.0	0.0	0.0	0.0	0.0
Gross available cash	0.0	0.0	0.0	0.0	0.0
Debt	2,567.3	2,365.1	2,436.7	2,564.4	2,451.9
Equity	1,887.5	1,833.5	1,760.4	1,428.9	1,340.9
Adjusted ratios					
EBITDA margin (%)	15.9	15.3	13.4	13.8	11.1
Return on capital (%)	7.7	7.0	7.1	8.7	5.3
EBITDA interest coverage (x)	6.1	5.8	5.4	5.8	4.4
FFO cash interest coverage (x)	6.2	6.2	5.7	6.6	4.9
Debt/EBITDA (x)	4.4	4.5	4.7	4.6	6.2
FFO/debt (%)	17.9	17.3	16.7	18.4	12.5
Cash flow from operations/debt (%)	19.7	21.7	20.2	18.8	17.3
FOCF/debt (%)	(2.5)	1.0	(1.4)	(2.4)	(3.5)

Table 2

Financial Summary (cont.)

Industry sector: electric

	--Fiscal year ended Dec. 31--				
	2019	**2018**	**2017**	**2016**	**2015**
DCF/debt (%)	(6.4)	(3.0)	(4.5)	(4.8)	(5.8)

FFO--Funds from operations. FOCF--Free operating cash flow. DCF--Discretionary cash flow.

Liquidity: Adequate

We assess Toronto Hydro's liquidity as adequate because we believe its liquidity sources will likely cover uses by more than 1.1x over the next 12 months and meet cash outflows even if EBITDA declines 10%. Moreover, liquidity should benefit from the company's likely ability to absorb high-impact, low probability events without the need for refinancing, its well-established and solid relationships with banks, and its satisfactory standing in the credit markets.

Principal Liquidity Sources	Principal Liquidity Uses
• Committed credit facilities availability of C$800 million as of Dec. 31, 2019; and • Cash FFO of about C$450 million.	• Debt maturities of about C$170 million in 2020, including short-term debt and outstanding commercial paper; • Capital expenditure of about C$520 million; and • Dividend payments of about C$90 million.

Debt maturities

- 2021: C$300 million
- 2023: C$250 million

Environmental, Social, And Governance

We consider Toronto Hydro's environmental footprint in the broader context of ESG factors. Toronto Hydro's exposure to environmental risk is quite manageable compared with its peers, since electric-distribution-only companies are more favorably positioned than their counterparts with owned power-generation assets or that operate gas utilities. From a social perspective, Toronto Hydro's history of providing safe and reliable electricity to its customers could enable it to maintain social cohesion going forward. Governance factors are neutral. In our view, Toronto Hydro's independent board is capably engaged in risk oversight on behalf of all stakeholders.

Group Influence

We continue to believe there is a moderate likelihood that the utility's owner, the city of Toronto, would provide timely and sufficient extraordinary support in the event of financial distress. This was evident with the cash injection by the city in 2017, demonstrating that Toronto is willing to provide financial support to the utility when needed. The relationship with the city of Toronto does not provide any rating benefit to Toronto Hydro.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of Dec. 31, 2019, Toronto Hydro had total consolidated long-term senior unsecured debt of about C$2.18 billion and short-term debt of about C$140 million at the holding company level.

Analytical conclusions

All of Toronto Hydro's debt, including the long-term senior unsecured debt, is at the holding company level. Therefore, we rate the senior unsecured debt at 'A', the same as the issuer credit rating on Toronto Hydro, reflecting minimal subordination risk.

Reconciliation

Table 3

Toronto Hydro Corp.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts

	--Fiscal year ended Dec. 31, 2019--					
Toronto Hydro Corp. reported amounts (mil. C$)						
	Debt	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Capital expenditure**
	2,320.0	329.2	83.1	584.8	596.6	571.3
S&P Global Ratings' adjustments						
Cash taxes paid	--	--	--	(37.3)	--	--
Cash interest paid	--	--	--	(82.5)	--	--
Reported lease liabilities	0.3	--	--	--	--	--
Postretirement benefit obligations/deferred compensation	246.2	--	10.3	--	--	--
Capitalized interest	--	--	3.2	(3.2)	(3.2)	(3.2)
Nonoperating income (expense)	--	3.0	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	(85.7)	--
Debt: amortized cost	0.8	--	--	--	--	--
Total adjustments	247.3	3.0	13.5	(123.0)	(88.9)	(3.2)

Table 3

Toronto Hydro Corp.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (cont.)

S&P Global Ratings' adjusted amounts

	Debt	EBIT	Interest expense	Funds from operations	Cash flow from operations	Capital expenditure
	2,567.3	332.2	96.6	461.8	507.7	568.1

Ratings Score Snapshot

Issuer 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
- **Capital structure:** Neutral
- **Financial policy:** Neutral
- **Liquidity:** Adequate
- **Management and governance:** Satisfactory
- **Comparable rating analysis:** Neutral

Stand-alone credit profile : a

- **Group credit profile:** a
- **Related government rating:** AA
- **Likelihood of government support:** Moderate (no impact)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018

- 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
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, 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 23, 2020)*

Toronto Hydro Corp.	
Issuer Credit Rating	A/Stable/--
Senior Unsecured	A
Issuer Credit Ratings History	
25-Apr-2017	A/Stable/--
25-Apr-2016	A/Negative/--
03-Jun-2008	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.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

S&P Global
Ratings

RatingsDirect®

Research Update:

Toronto Hydro Corp. 'A' Rating Affirmed, Outlook Stable; Competitive Position Revised To Strong

May 11, 2021

Rating Action Overview

- The Ontario Energy Board (OEB), the regulator for Ontario, recently issued a proposal that allows utilities to recover only up to 50% of the incremental costs incurred during the COVID-19 pandemic if these costs result in utilities to earn less than their authorized ROE by 300 basis points (bps) or more.
- We don't believe OEB's proposal is credit supportive since Toronto Hydro Corp. (THC) wrote off C$17.2 million of bad debt expenses in 2020. In addition, cash flow volatility increased.
- We revised our assessment of the company's competitive position to strong from excellent.
- We affirmed the ratings on THC, including the 'A' long-term issuer credit rating and 'A' issue level rating on its senior unsecured debt.
- The stable outlook reflects very low risk regulated electricity distribution operations and stable forecasted financial measures with funds from operations (FFO) to debt of averaging about 14% through 2023.

PRIMARY CREDIT ANALYST

Mayur Deval
Toronto
(1) 416-507-3271
mayur.deval
@spglobal.com

SECONDARY CONTACTS

Andrew Ng
Toronto
+ 1 (416) 507 2545
andrew.ng
@spglobal.com

Daria Babitsch
New York
917-574-4573
daria.babitsch1
@spglobal.com

Rating Action Rationale

On Dec. 16, 2020, OEB issued a proposal regarding guidelines for utilities to request for recovery of incremental costs incurred during COVID-19 pandemic. To assess if a utility should be given recovery of these COVID-19-related costs, the staff recommends implementing a means test based on the lower end (-300 bps) of the dead band of approved ROE. If the utility passes the means test, any material and prudently incurred incremental impacts from the COVID-19 pandemic would be eligible for 50% a recovery rate. If the utility demonstrates that its financial viability would still be compromised if the recovery was only limited to 50%, the OEB could consider a higher recovery rate on a case-by-case basis. Additionally, within the proposal, the OEB staff recommends utilities can record any realized savings that occurred in the COVID-19 pandemic as an offset to the incremental costs. Based on the OEB staff's proposal and subsequent means test, THC recorded C$17.2 million as bad debt expenses on its income statement.

Dispositions of regulatory balances and effects of the COVID-19 pandemic affect THC's FFO to debt. We expect THC's financial measures will be under pressure because of a refund included in the 2020-2024 rate application and the impact of COVID-19. Specifically, THC plans to dispose various deferral and variance accounts and other balances that would result in a refund of about C$190 million to ratepayers over the five-year period. The refunds primarily comprise gains on property sales, the operating cost center consolidation program, and capital-related revenue requirement variance. In addition, lower distribution rates and lower consumption due to the effects of the COVID-19 pandemic resulted in lower revenue of about C$38 million. Based on the refunding of regulatory balances and our understanding that the incremental costs related to COVID-19 would not be recovered in future, we expect moderately weaker financial measures with FFO to debt in the 13%-15% range through 2023. We base our assessment on our low-volatility financial benchmarks, which are the most relaxed compared with those for a typical corporate issuer. This reflects the company's focus on low-risk regulated electricity distribution operations and strong regulatory risk management.

Under IFRS, the accounting treatment of commodity charges within energy sales and refunding gains on property sales result in volatile profitability measures. For THC, the commodity charges under energy sales are passed through to customers over time. For any given period, energy sales should be equal to the cost of energy purchased. However, a difference between energy sales and energy purchases arises when there is a timing difference between the amounts charged by local distribution companies (LDCs) to customers, based on regulated rates, and the electricity and noncompetitive electricity service costs billed monthly by the Independent System Electric Operator (IESO) to LDCs. During 2019 and 2020, THC recorded an under-recovery in commodity charges, the largest component of settlement variances with IESO, of about C$4.2 million and C$25.6 million, respectively, that would be recovered from customers through future rates approved by the OEB. As previously mentioned, the refunding of gains on property sales in the 2020-2024 rate application results in lower cash flows. These adjustments that impact elements of the income statement from the difference in amount in energy sales and refunding gains on property sales increases volatility in profitability. This led us to revise our assessment of the company's competitive position to strong from excellent.

Our assessment of moderate likelihood of extraordinary government support remains unchanged. We continue to believe there is a moderate likelihood that the utility's owner, the city of Toronto, would provide timely and sufficient extraordinary support in the event of financial distress. This was evident with the cash injection by the city in 2017, demonstrating that Toronto is willing to provide financial support to the utility when needed. The relationship with the city of Toronto does not provide any rating benefit to Toronto Hydro.

Outlook

The stable outlook reflects our view that THC will remain focused on its regulated electricity distribution operation and generate stable and predictable cash flow. We expect THC to recover any future under collections related to various deferral and variance accounts with minimal regulatory lag and disallowances. For 2021-2023, we expect FFO to debt to average 14%.

Downside scenario

We could downgrade THC if its financial measures weaken including if FFO to debt approaches

and consistently remains around 10%, resulting in a revision of THC's stand-alone credit profile (SACP) to 'bbb+'. This could happen if there are significant cost overruns with capital programs or if THC experiences material cost disallowances. Given our view that the utility will likely receive extraordinary support from its government owner, a one-notch downgrade to the city of Toronto or a one-notch revision to the THC's SACP would have no rating impact.

Upside scenario

We could upgrade THC if the company's financial measures strengthen, including FFO to debt consistently at or above 20%. We believe this is unlikely during our two-year outlook period since THC has elevated capital spending and is experiencing regulatory disallowances. A positive rating action on the city of Toronto would also result in a positive action for THC since we believe THC would receive government support from the city.

Company Description

THC is a utility holding company. Its primary operation is Toronto Hydro-Electric System Ltd.'s (THESL) monopoly electricity distribution business, which delivers electricity in Toronto. THESL generated almost all of THC's revenue, net of commodity pass-through, in 2020. It is one of Ontario's largest LDCs, serves about 781,000 Toronto customers, and delivers about 18% of the electricity consumed in the Province of Ontario.

Liquidity

We assess THC's liquidity as adequate because we believe its sources of cash will likely be more than 1.1x its uses over the next 12 months and meet its cash outflows even if its EBITDA declines by 10%. Our assessment also incorporates the company's generally prudent risk management, sound relationships with banks, and generally satisfactory standing in the credit markets.

Principal Liquidity Sources

- Estimated cash FFO of about C$580 million; and
- Estimated credit facility availability of C$640 million.

Principal Liquidity Uses

- Capital spending of about C$645 million;
- Debt maturities, including outstanding commercial paper, of about C$300 million; and
- Dividends of about C$70 million.

Environmental, Social, And Governance

We consider THC's environmental footprint in the broader context of ESG factors. Toronto Hydro's exposure to environmental risk is quite manageable compared with its peers as electric-distribution-only companies are more favorably positioned than their counterparts with owned power-generation assets or that operate gas utilities. From a social perspective, THC has a history of providing safe and reliable electricity, as shown in the company's superior performance compared to the Canadian Electricity Association CEA) benchmark and the Ontario System

Average Interruption-Duration Index (SAIDI) statistic. Additionally, THC's capital plan is focused on replacing infrastructure to improve reliability measures. Governance factors are neutral. In our view, THC's independent board is capable and engaged in risk oversight on behalf of all stakeholders.

Issue Ratings - Subordination Risk Analysis

Capital structure

THC's capital structure includes roughly C$2.4 billion of senior unsecured debt.

Analytical conclusions

We rate THC's senior unsecured debt the same as the issuer credit rating because we believe there is relatively little priority debt at subsidiaries.

Ratings Score Snapshot

Issuer Credit Rating: A/Stable/--

Business risk: Excellent

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

Financial risk: Intermediate

- Cash flow/leverage: Intermediate

Anchor: a

Modifiers

- Diversification/portfolio effect: Neutral
- Capital structure: Neutral
- Financial policy: Neutral
- Liquidity: Adequate
- Management and governance: Satisfactory
- Comparable rating analysis: Neutral
- Stand-alone credit profile: a

Group credit profile: a

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

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- 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
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, 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: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed	
Toronto Hydro Corp.	
Issuer Credit Rating	A/Stable/--
Senior Unsecured	A

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

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

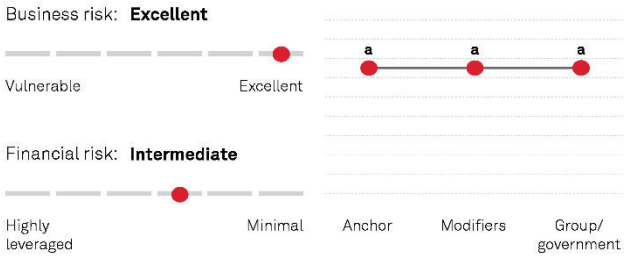
S&P Global
Ratings

RatingsDirect®

Toronto Hydro Corp.

May 12, 2022

Ratings Score Snapshot



PRIMARY CONTACT

Omar El Gamal
Toronto
1-416-844-9712
omar.elgamal
@spglobal.com

SECONDARY CONTACTS

Mayur Deval
Toronto
1-416-507-3271
mayur.deval
@spglobal.com

Shiny A Rony
Toronto
1-437-247-7036
shiny.rony
@spglobal.com

Credit Highlights

Overview

Key strengths	Key risks
Low risk electric distribution (LDC) operations in a generally constructive regulatory environment.	Consistent regulatory lag in recovery of costs may be indicative of a weakening regulatory environment.
A large and diverse customer and economic base with no significant concentration risk.	Consistent negative discretionary cash flow through our forecast period, largely due to robust capital spending, indicates a need for external funding
Moderate likelihood of receiving extraordinary government support from owner, city of Toronto, provides some cushion for our downgrade trigger.	Lack of access to equity capital markets.

Consistent regulatory lag may be indicative of a weakening regulatory environment. Over the past few years, Toronto Hydro Corp. (THC) has been experiencing a growing lag in recovery of energy costs. While Ontario Energy Board (OEB) regulation authorizes rate recovery of energy costs, there is a materiality threshold that could make such costs recoverable over a 12-24 month period. The lack of immediate recovery of energy costs in 2021 is mainly due to mechanisms by which LDCs recover commodity costs, transmission rates, and wholesale market services rates. THC has unrecovered balances of about $25 million and $70 million for 2020 and 2021, respectively. The large increase in 2021 was largely from higher transmission costs. Although transmission service rates are passed

through to customers, between rate cases, THC defers any changes in transmission rates for future rate recovery. The deferred cost recovery can lead to a weakening of cash flow measures.

We expect THC to file for new base rates in 2023. With the company's existing incentive ratemaking mechanism set to end in 2024, we expect THC will file a base rate case with the OEB in 2023 to recover costs for grid expansion in Toronto and to meet electrification goals.

Outlook

The stable outlook reflects our view that THC will remain focused on its regulated electricity distribution operation and generate stable and predictable cash flow. We expect THC to recover any future costs under collections related to various deferral and variance accounts with minimal disallowances. For 2022-2024, we expect funds from operations (FFO) to debt to be in the 12%-14% range.

Downside scenario

We could downgrade THC if its financial measures weaken including if FFO to debt approaches and consistently remains around 10%, resulting in a revision of THC's stand-alone credit profile (SACP) to 'bbb+'. This could happen if there are significant cost overruns with capital programs or if THC experiences material cost disallowances. Given our view that the utility will likely receive extraordinary support from its government owner, a one-notch downgrade to the city of Toronto or a one-notch revision to the THC's SACP would have no rating impact.

Upside scenario

We could upgrade THC if the company's financial measures strengthen, including FFO to debt consistently at or above 20%. We believe this is unlikely during our two-year outlook period since THC has elevated capital spending and is experiencing regulatory disallowances. A positive rating action on the city of Toronto would also result in a positive action for THC because we believe THC would receive government support from the city.

Our Base-Case Scenario

Assumptions

- Gross margin growth between 5% and 7% per year through 2024 driven by periodic rate increases.
- Operation and maintenance expense growth between 4% and 6% per year through 2024.
- Net refunds of about C$100 million to ratepayers through 2024.
- Capital spending averaging about C$670 million per year through 2024.
- Discretionary cash flow deficit of about C$200 million to C$250 million per year.
- No material disallowances of costs.
- All debt maturities are refinanced.

Key metrics

Toronto Hydro Corporation--Key Metrics*

Mil. $	2021a	2022e	2023f
FFO to debt (%)	13.1	12-14	12-14
Debt to EBITDA (x)	6.3	6-6.5	6-6.5

FFO interest coverage (x)	5.5	5-5.5	5-5.5

*S&P Global Ratings-adjusted. a— actual. e—Estimate. f—forecast.

Company Description

THC is a utility holding company that owns Toronto Hydro-Electric System Ltd. (THESL), the electricity distribution utility delivering electricity in Toronto.

Peer Comparison

Toronto Hydro Corporation--Peer Comparisons

	Toronto Hydro Corp.	Enbridge Gas Inc.	Hydro One Inc.	CU Inc.
Foreign currency issuer credit rating	A/Stable/--	A-/Stable/A-2	A-/Stable/A-2	A-/Stable/A-2
Local currency issuer credit rating	A/Stable/--	A-/Stable/A-2	A-/Stable/A-2	A-/Stable/A-2
Period	Annual	Annual	Annual	Annual
Period ending	2021-12-31	2021-12-31	2021-12-31	2021-12-31
Mil.	C$	C$	C$	C$
Revenue	3,567	4,893	7,185	2,823
EBITDA	469	1,650	2,539	1,428
Funds from operations (FFO)	384	1,272	2,010	1,045
Interest	93	385	515	382
Cash interest paid	85	383	509	369
Operating cash flow (OCF)	499	739	2,052	1,011
Capital expenditure	599	1,373	1,990	994
Free operating cash flow (FOCF)	(100)	(634)	62	17
Discretionary cash flow (DCF)	(170)	(1,884)	(566)	(438)
Cash and short-term investments	0	9	499	121
Gross available cash	0	9	499	121
Debt	2,941	10,245	15,779	8,771
Equity	1,983	10,348	11,260	4,801
EBITDA margin (%)	13.1	33.7	35.3	50.6
Return on capital (%)	3.7	4.7	6.1	6.6
EBITDA interest coverage (x)	5.1	4.3	4.9	3.7
FFO cash interest coverage (x)	5.5	4.3	5.0	3.8
Debt/EBITDA (x)	6.3	6.2	6.2	6.1
FFO/debt (%)	13.1	12.4	12.7	11.9
OCF/debt (%)	17.0	7.2	13.0	11.5

Toronto Hydro Corporation--Peer Comparisons

FOCF/debt (%)	(3.4)	(6.2)	0.4	0.2
DCF/debt (%)	(5.8)	(18.4)	(3.6)	(5.0)

Business Risk

We base our assessment of THC's business risk on its low-risk, regulated LDC utility operations that provides an essential service in the city of Toronto. Given material barriers to entry, THC and the regulated utility industry as a whole effectively operate insulated from competitive market challenges. This underlines our view of regulated utilities' very low industry risk compared to other industries.

THC, which delivers about 18% of electricity in Ontario, has a large and diverse customer base of about 787,000 customers and no significant concentration risk. Toronto Hydro's customer base largely consists of residential, small business, and the municipals, universities, schools, and hospitals (MUSH) sector. The utility's largest customer is the city of Toronto (AA/Stable/A-1+). Furthermore, THC has a history of safe and reliable operations.

The business risk profile assessment is also supported by a generally constructive regulatory framework in Ontario, where the rates are based on regulatory periods with a fixed-base return on equity (ROE). LDCs also have revenue decoupling for residential customers. Distribution rates are typically based on the performance-based ratemaking (PBR) framework for four to five years. Provincial utilities can choose from Price Cap Incentive Rate-Setting (IR), Custom IR, and IR. THC currently operates under a custom IR. which sets base rates for five years using a five-year forecast based on a specific utility's costs and sales volumes. Commodity costs are passed through to customers; however, there have not been any disallowances in spite of the persistent regulatory lag.

Financial Risk

Over the next three years, we expect THC's elevated capital spending and refunds to ratepayers of about C$2 billion and C$150 million, respectively, through 2024 to drive its financial performance. While we expect the company's regulatory construct to provide periodic annual rate increases as rate base grows, we forecast operating cash flow will fund about 65%-75% of total funding needs. We anticipate the shortfall will be funded with debt.

We expect THC's financial measures will be under pressure because of a refund included in the 2020-2024 rate application. Specifically, THC plans to dispose various deferral and variance accounts and other balances that would result in a refund of about C$150 million to ratepayers through 2023. The refunds primarily comprise gains on property sales, the operating cost center consolidation program, and changes in the capital-related revenue requirement.

Our base case includes adjusted FFO to debt in the 12%-14% range through 2024. We forecast the company's ability to cover annual cash interest payments based on FFO as bolstering our assessment of THC's financial risk, with coverage averaging 5x-5.5x per year through 2024. Finally, we forecast leverage as indicated by adjusted debt to EBITDA, to be elevated in the 6x-6.5x range through 2024.

We assess THC's financial risk profile using our low volatility financial benchmarks, reflecting lower-risk, regulated utility operations and effective management of regulatory risk. These benchmarks are the most relaxed as compared to the benchmarks we use for typical corporate issuers.

Toronto Hydro Corporation--Financial Summary

Period ending	Dec-31-2016	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021
Reporting period	2016a	2017a	2018a	2019a	2020a	2021a

Toronto Hydro Corporation--Financial Summary

Display currency (mil.)	C$	C$	C$	C$	C$	C$
Revenues	4,030	3,850	3,473	3,673	3,930	3,567
EBITDA	557	517	530	585	453	469
Funds from operations (FFO)	471	408	409	462	353	384
Interest expense	96	96	91	97	93	93
Cash interest paid	85	87	79	86	85	85
Operating cash flow (OCF)	482	493	514	508	539	499
Capital expenditure	542	527	491	568	676	599
Free operating cash flow (FOCF)	(60)	(34)	24	(60)	(137)	(100)
Discretionary cash flow (DCF)	(124)	(109)	(70)	(161)	(229)	(170)
Cash and short-term investments	0	0	0	0	0	0
Gross available cash	0	0	0	0	0	0
Debt	2,564	2,437	2,365	2,567	2,794	2,941
Common equity	1,429	1,760	1,834	1,888	1,912	1,983
Adjusted ratios						
EBITDA margin (%)	13.8	13.4	15.3	15.9	11.5	13.1
Return on capital (%)	8.7	7.1	7.0	7.7	3.9	3.7
EBITDA interest coverage (x)	5.8	5.4	5.8	6.1	4.9	5.1
FFO cash interest coverage (x)	6.6	5.7	6.2	6.4	5.1	5.5
Debt/EBITDA (x)	4.6	4.7	4.5	4.4	6.2	6.3
FFO/debt (%)	18.4	16.7	17.3	18.0	12.6	13.1
OCF/debt (%)	18.8	20.2	21.7	19.8	19.3	17.0
FOCF/debt (%)	(2.4)	(1.4)	1.0	(2.4)	(4.9)	(3.4)
DCF/debt (%)	(4.8)	(4.5)	(3.0)	(6.3)	(8.2)	(5.8)

Reconciliation Of Toronto Hydro Corporation 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-31-2021									
Company reported amounts	2,715	1,983	3,567	469	176	80	469	588	70	603
Cash interest paid	-	-	-	-	-	-	(80)	-	-	-
Postretirement benefit obligations/ deferred compensation	225	-	-	-	-	8	-	-	-	-

Reconciliation Of Toronto Hydro Corporation 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
Capitalized interest	-	-	-	-	-	5	(5)	(5)	-	(5)
Nonoperating income (expense)	-	-	-	-	1	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(85)	-	-
Debt: Amortized cost	1	-	-	-	-	-	-	-	-	-
Total adjustments	227	-	-	-	1	13	(85)	(89)	-	(5)

S&P Global Ratings adjusted	Debt	Equity	Revenue	EBITDA	EBIT	Interest expense	Funds from Operations	Operating cash flow	Dividends	Capital expenditure
	2,941	1,983	3,567	469	177	93	384	499	70	599

Liquidity

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

Principal liquidity sources

- Estimated cash FFO of about C$520 million;
- Estimated credit facility availability of C$800 million; and,
- Estimated working capital inflows of $55 million.

Principal liquidity uses

- Capital spending of about C$740 million;
- Debt maturities, including outstanding commercial paper, of about C$275 million; and,
- Dividends of about C$85 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 THC.

Group Influence

We continue to believe there is a moderate likelihood that the utility's owner, the city of Toronto, would provide timely and sufficient extraordinary support in the event of financial distress. This was evident with the cash injection by the city in 2017, demonstrating that the city of Toronto is willing to provide financial support to the utility when needed. We expect to see continued support from the city because the utility provides essential infrastructure services to the population of Toronto. We therefore view the likelihood of extraordinary government support for THC as moderate.

Issue Ratings--Subordination Risk Analysis

Capital structure

THC's capital structure includes roughly C$2.4 billion of senior unsecured debt

Analytical conclusions

We rate THC's senior unsecured debt the same as the issuer credit rating because we believe there is relatively little priority debt at subsidiaries.

Rating Component Scores

Foreign currency issuer credit rating	**A/Stable/--**
Local currency issuer credit rating	**A/Stable/--**
Business risk	**Excellent**
Country risk	Very Low
Industry risk	Very Low
Competitive position	Strong
Financial risk	**Intermediate**
Cash flow/leverage	Intermediate
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

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- 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
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

Enter Article Content Here

Ratings Detail (as of May 12, 2022)*

Toronto Hydro Corp.	
Issuer Credit Rating	A/Stable/--
Senior Unsecured	A
Issuer Credit Ratings History	
25-Apr-2017	A/Stable/--
25-Apr-2016	A/Negative/--
03-Jun-2008	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.

Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

S&P Global
Ratings

RatingsDirect®

Research Update:

Toronto Hydro Corp. Outlook Revised To Positive On Outlook Revision On The City Of Toronto; Ratings Affirmed

June 29, 2022

Rating Action Overview

- S&P Global Ratings recently revised its rating outlook on the City of Toronto to positive from stable.
- The ratings on Toronto Hydro Corp. (THC) benefit from our view of moderate government support.
- As such, we revised the outlook on our long-term issuer credit rating on THC to positive from stable reflecting the possibility of a one-notch upgrade. At the same time, we affirmed the ratings on THC.
- The positive rating outlook on THC reflects our positive outlook on that of the City of Toronto and our expectation that the company will consistently maintain funds from operations (FFO) to debt greater than 13%.

PRIMARY CREDIT ANALYST

Omar El Gamal
Toronto
+1 4165072523
omar.elgamal
@spglobal.com

SECONDARY CONTACTS

Gerrit W Jepsen, CFA
New York
+ 1 (212) 438 2529
gerrit.jepsen
@spglobal.com

Mayur Deval
Toronto
(1) 416-507-3271
mayur.deval
@spglobal.com

Shiny A Rony
Toronto
+1 6474803513
shiny.rony
@spglobal.com

Rating Action Rationale

The positive outlook on THC follows our recent positive ratings outlook on the City of Toronto, our expectations that THC will continue to benefit from moderate support from the government, and that THC's financial measures will remain above our downgrade threshold. We continue to assess there is a moderate likelihood that the utility's owner, the city of Toronto, will provide timely and sufficient extraordinary support in the event of financial distress. This was evident with the cash injection by the city in 2017, demonstrating that it is willing to provide financial support to the utility when needed. We expect to see ongoing support from the city, as necessary, because the utility provides essential infrastructure services to the population of Toronto.

While we expect that THC's financial measures will be pressured in 2022 due to the recovery lag of energy and transmission costs, we expect gradual improvement beginning in 2023 as THC begins

to recover such costs. Specifically, we expect 2022 funds from operations (FFO) to debt of 11%-13% and then for gradual improvement to 13%-15% beginning in 2023.

We continue to assess the company's business risk profile as excellent. Our assessment reflects the company's low-risk, regulated distribution utility operations that provides an essential service in the city of Toronto. THC also serves a diverse customer base of about 787,000 customers with limited concentration risk.

Our assessment of the company's business risk profile is also supported by the generally constructive regulatory framework in Ontario. THC currently operates under a custom incentive rate-setting, which establishes base rates for five years, forecasting the utility's costs and sales volumes, and using a fixed return on equity. The regulatory construct also allows for the utility to benefit from revenue decoupling for residential customers.

Partially offsetting is the regulatory lag associated with the recovery of energy costs. While commodity costs are passed through to customers and there has not been any disallowances, the persistent lag in recovering such costs may be indicative of a weakening regulatory environment. Currently, THC has unrecovered balances of about $25 million and $70 million for 2020 and 2021, respectively. The large increase in 2021 was largely from higher transmission costs. Although transmission service rates are passed through to customers, between rate cases, THC defers any changes in transmission rates for future rate recovery. Significant deferred cost leads to increasing volatility of profitability and weaker cash flow measures.

Outlook

The positive outlook on THC reflects our positive rating outlook on the the City of Toronto because we assess a moderate likelihood the city will continue to provide support to the utility in stressed environments. Furthermore, we expect that THC will recover future energy related costs and under collections without a disallowance. For 2022, we expect FFO to debt of 11%-13% and then to gradually improve to 13%-15% for 2023-2024.

Downside scenario

We could affirm our ratings on THC and revise our outlook to stable if we affirmed the ratings and revised the outlook on the City of Toronto to stable. We could also affirm our ratings on THC and revise our outlook to stable if THC's financial measures weakened, reflecting FFO to debt consistently below 13% or if there was a deterioration in the regulatory environment in Ontario that increases business risk.

Upside scenario

We could upgrade THC if the City of Toronto' rating is upgraded and THC's FFO to debt consistently at or above 13%.

Company Description

THC is a utility holding company that owns Toronto Hydro-Electric System Ltd., the electricity distribution utility delivering electricity in Toronto.

Our Base-Case Scenario

- Gross margin averaging about 7% per year through 2024 driven by periodic rate increases and recovery of energy costs.
- Operation and maintenance expense growth between 4% and 6% per year through 2024.
- Recovery of energy costs in 2023 and 2024.
- Net refunds of about C$100 million to rate payers through 2024.
- Capital spending averaging about C$670 million per year through 2024.
- Discretionary cash flow deficit averaging about C$200 per year through 2024.
- Cash flow from operations to fund on average about 75% of the company's financing needs.
- No material disallowance of costs.
- All debt maturities are refinanced.

Liquidity

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

Principal Liquidity Sources

- Committed credit facilities availability of C$800 million as of March 31, 2022;
- Cash FFO of about C$550 million; and
- Working capital inflows of about C$30 million.

Principal Liquidity Uses

- Commercial paper maturities of about C$350 million,
- Capital expenditure of about C$720 million, and
- Dividend payments of about C$85 million.

Issue Ratings - Subordination Risk Analysis

Capital structure

THC's capital structure includes roughly C$2.8 billion of senior unsecured debt.

Analytical conclusions

We rate THC's senior unsecured debt the same as the issuer credit rating because we believe there is relatively little priority debt at subsidiaries.

Ratings Score Snapshot

Foreign currency issuer credit rating: A/Positive/--

Local currency issuer credit rating: A/Positive/--

Business risk: Excellent

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

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)

Stand-alone credit profile: a

- Group credit profile: a
- Entity status within group: Core (no impact)

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- 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
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Various Rating Actions Taken On Canadian Municipal Governments On Improved Institutional Framework Assessment, June 1, 2022

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Toronto Hydro Corp.		
Issuer Credit Rating	A/Positive/--	A/Stable/--
Ratings Affirmed		
Toronto Hydro Corp.		
Senior Unsecured	A	A

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 criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating

action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

S&P Global
Ratings

RatingsDirect®

Research Update:

Toronto Hydro Corp. Outlook Revised To Developing From Positive Due To Heightened Regulatory Lag; Ratings Affirmed

May 11, 2023

Rating Action Overview

- The financial performance of the Ontario local distribution companies (LDC), regulated by the Ontario Energy Board (OEB), has gradually weakened, primarily reflecting regulatory lag. We view this development as negative for credit quality, which could lead to our reassessing Ontario's regulatory framework.
- We therefore affirmed our 'A' issuer credit rating and senior unsecured rating on Toronto Hydro Corp., and we revised the outlook to developing from positive.
- The developing outlook reflects the possibility that we could either affirm, raise, or lower Toronto Hydro Corp. (THC) over the next 12 months. This will depend on THC's financial measures, our view of the Ontario regulatory framework, and if we upgrade the city of Toronto.

PRIMARY CREDIT ANALYST

Omar El Gamal, CFA
Toronto
+1 4165072523
omar.elgamal
@spglobal.com

SECONDARY CONTACTS

Matthew L O'Neill
New York
+ 1 (212) 438 4295
matthew.oneill
@spglobal.com

Mayur Deval
Toronto
(1) 416-507-3271
mayur.deval
@spglobal.com

Rating Action Rationale

We revised THC's outlook to developing. THC's prior outlook reflected the positive outlook on the city of Toronto because there is a moderate likelihood that the city of Toronto will provide timely and sufficient support in the event of financial distress. The cash injection by the city in 2017, demonstrating its willingness to provide financial support to THC when needed, supports this view. We expect to see ongoing support from the city, as necessary, because the utility provides essential infrastructure services to the population of Toronto.

The developing outlook on THC reflects the possibility that we could reassess our view of the Ontario regulatory framework because of regulatory lag that has weakened financial performance, increased cash flow volatility, and weakened financial predictability.

We have historically assessed the Ontario regulatory framework as one of the most credit-supportive regulatory jurisdictions. Despite the OEB only authorizing its LDCs an average return on equity (ROE) and a significantly below average capital structure, reflecting a 40% equity ratio, we have consistently assessed the Ontario regulatory framework as one of the most

credit-supportive regulatory jurisdictions for LDCs because they have consistently been able to earn at or close to their authorized ROE. However, more recently financial measures have gradually weakened because of rising regulatory lag, which is the timing difference between when costs are incurred and when regulators allow those costs to be fully recovered from ratepayers. During the past two years, transmission costs and wholesale market charges have significantly increased. Although we expect the LDCs to recover these costs from ratepayers, it has taken them as long as 24 months to fully recover these costs, which has eroded financial performance. In general, regulatory jurisdictions that we assess as most credit supportive have a regulatory construct in place that consistently minimizes regulatory lag.

THC's historical financial measures have weakened. THC's financial performance materially weakened in 2022, reflecting high capital spending and regulatory lag. In 2022, funds from operations (FFO) to debt was 10.3%, significantly below our ratings trigger of 13%.

We currently expect THC's financial measures will remain weak in 2023 and 2024, reflecting FFO to debt of 11%-14%. This is driven by high capital expenditures (capex) of about C$800 million per year, refunds to rate payers, and regulatory lag. We currently expect financial measures to improve starting 2025 as the company will enter a new five-year rate period. We expect the company to file a multiyear rate case with the OEB sometime in late 2023.

We assess THC's business risk profile as excellent. We assess the utility's business risk profile as excellent because of the company's lower-risk regulated electric LDC business that serves a large customer base (about 790,000 customers), consisting of mostly residential customers that provide a degree of cash flow stability, and our high assessment of the Ontario regulatory construct. However, should we reassess Ontario's regulatory construct downward, it would likely weaken our relative assessment of THC's business risk profile within its current business risk profile category.

Outlook

The developing outlook reflects the possibility that we could either affirm, raise, or lower the ratings on THC over the next 12 months. This will depend on THC's financial measures, our view of the Ontario regulatory framework, and if we upgrade the city of Toronto. We could affirm our rating on THC and revise the outlook to stable if we revise downward our assessment of Ontario's regulatory construct and THC's FFO to debt is consistently greater than 14%. We could also revise the outlook to stable if we maintain our current assessment of Ontario's regulatory construct and THC's FFO to debt is consistently greater than 11%.

Downside scenario

We could lower the ratings on THC if we revise downward our assessment of Ontario's regulatory construct and THC's FFO to debt is consistently below 14%. We could also lower the rating if we maintain our current assessment of Ontario's regulatory construct and THC's FFO to debt is consistently below 11%.

Upside scenario

We could raise the ratings on THC if we upgrade the city of Toronto, we maintain our current assessment of Ontario's regulatory construct, and THC's FFO to debt is consistently greater than

13%.

Company Description

Toronto Hydro Corp. (THC) is a utility holding company that owns Toronto Hydro-Electric System Ltd., the electricity distribution utility delivering electricity in Toronto.

Our Base-Case Scenario

- Continued rate increases driven by annual rate increases, recovery of energy costs, and anticipated 2025 rate case.
- Recovery of large energy cost variance of 2021 and 2022 in 2023 and 2024.
- We forecast energy sales variance would be between C$50 million to C$70 million in 2023.
- Net refunds of about C$100 million to rate payers through 2024.
- Capex averaging about C$800 million per year through 2025.

Liquidity

As of Dec. 31, 2022, we assess THC's liquidity as adequate, which reflects our expectation that sources will cover uses by 1.1x over the coming 12 months. Additionally, we anticipate its net sources will remain positive even if consolidated EBITDA declines 10%. We believe the predictable regulatory framework for THC provides cash flow stability even in times of economic stress. This supports our use of slightly lower thresholds than for a typical corporate issuer to assess the company's liquidity. In addition, THC has the ability to absorb high-impact, low-probability events, given that it maintains about $1 billion in committed credit facilities that mature beyond 12 months. We also believe the company can significantly lower its robust capital spending during stress, which would reduce the need for refinancing under such conditions. Furthermore, our assessment reflects the company's generally prudent risk management, sound relationships with its banks, and satisfactory standing in the credit markets. Overall, we believe the company could withstand adverse market circumstances over the next 12 months with sufficient liquidity to meet its obligations.

Principal liquidity sources

- Committed credit facilities availability of C$1 billion; and
- Cash FFO of about C$550 million.

Principal liquidity uses

- Debt maturities of about C$600 million;
- Assumed maintenance capex of about C$630 million; and
- Dividend payments of about C$100 million.

Ratings Score Snapshot

Issuer credit rating: A/Developing/--

Business risk: Excellent

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

Financial risk: Intermediate

- Cash flow/leverage: Intermediate

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

- Group credit profile: a
- Entity status within group: Core (no impact)
- Government Related-Entity: Moderate (no impact)

ESG credit indicators: E-2, S-2, G-2

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- 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

- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, 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
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Toronto Hydro Corp.		
Issuer Credit Rating	A/Developing/--	A/Positive/--
Issue-Level Ratings Affirmed		
Toronto Hydro Corp.		
Senior Unsecured	A	

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

Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

S&P Global
Ratings

RatingsDirect®

Research Update:

Toronto Hydro Corp. Outlook Revised To Stable From Developing On Reduced Regulatory Lag And Increased Capital Spending

March 28, 2024

Rating Action Overview

- We have concluded our review of Ontario's regulatory construct and determined to maintain our assessment as a most credit supportive regulatory jurisdiction.
- Our assessment reflects the Ontario Energy Board's (OEB) proactively addressing regulatory lag, as well as our belief that the utilities it regulates, including Toronto Hydro Corp. (THC), will maintain consistent financial measures sufficient for the current ratings.
- We revised our outlook on THC to stable from developing and affirmed all of our ratings, including the 'A' issuer credit rating.
- The stable outlook reflects our expectation that the utility's financial measures will remain consistent with the rating, including funds from operations (FFO) to debt of greater than 10%.

PRIMARY CREDIT ANALYST

Omar El Gamal, CFA
Toronto
+1 4165072523
omar.elgamal
@spglobal.com

SECONDARY CONTACT

Matthew L O'Neill
New York
+ 1 (212) 438 4295
matthew.oneill
@spglobal.com

Rating Action Rationale

Our assessment of Ontario's regulatory environment remains unchanged as a most credit supportive regulatory jurisdiction. During 2023, the OEB proactively addressed regulatory lag, particularly related to the timely recovery of rising transmission-related costs. Previously, local distribution companies' (LDCs) recovery of transmission costs included a regulatory lag of about 24 months. Regulatory lag is the timing difference between when costs are incurred by the LDCs and when they ultimately recover such costs from ratepayers. Because of inflation and rising transmission-related capital spending, these transmission costs were significantly increasing, and the regulatory lag was materially weakening the financial measures of Ontario's LDCs.

However, beginning in 2024, the OEB allowed the LDCs to implement new preliminary transmission rates at about the same time that it authorizes such rates for the transmission companies, substantially reducing the regulatory lag. Overall, we view the OEB's proactiveness to quickly address this regulatory lag as constructive and consistent with our view of Ontario's regulatory construct as a most credit supportive regulatory jurisdiction.

We revised our assessment of THC's financial risk profile to significant from intermediate and lowered its stand-alone credit profile (SACP) to 'a-' from 'a'. In November 2023, THC filed a rate case for its new five-year rate period starting in 2025. THC requested about a C$325 million increase in its base rates as well as C$4 billion of net capital spending for 2025-2029. As such, we expect that the company's capital spending will increase by more than 40% in 2025-2029 relative to 2020-2024 timeframe. We believe THC will increase its capital spending to support the city's growth and electrification needs, as well as for system renewals to enhance its reliability and safety.

Due to the company's rising capital spending, regulatory liabilities that will be returned to customers over the next five-years, and approximately 60% dividend payout ratio, we expect it to generate consistent cash flow deficits that it will fund with debt, increasing its leverage. As such, we expect THC's financial measures will remain pressured and largely offsetting our expectation for an improvement in its regulatory lag. Under our base-case scenario, we assume the company's (FFO) to debt will continue to reflect about 10%-12%, which we view as consistent with the significant financial risk profile category. We also lowered our SACP on the company to reflect our expectation that its financial measures will more-consistently reflect the significant financial risk profile category.

Under our base case, we also assume a temporary improvement in THC's financial measures in 2024 and 2025, including FFO to debt of about 13%, primarily because of its reduced regulatory lag and lower capital spending in 2024.

We continue to assess a moderate likelihood of government support. We assess that there is a moderate likelihood that the city of Toronto will provide the company with timely and sufficient extraordinary support to THC in the event of financial distress. Accordingly, we apply one notch of uplift to our SACP to account for this support.

We continue to assess the company's business risk profile as excellent. Our assessment reflects the company's low-risk, regulated distribution utility operations that provides an essential service to the city of Toronto. THC also serves a diverse customer base of about 793,000 customers with limited concentration risk. Our assessment of the company's business risk profile is also supported by the generally constructive regulatory framework in Ontario. THC currently operates under a custom incentive rate-setting regime, which establishes base rates for five years and forecasts the utility's costs and sales volumes using a fixed return on equity. The company's regulatory construct also allows for the utility to benefit from revenue decoupling for its residential customers.

Outlook

The stable outlook reflects our expectation that THC's financial measures will remain consistent with the rating, including FFO to debt of greater than 10%. The outlook also incorporates our continued view of a moderate likelihood of support from the city of Toronto. Furthermore, it reflects our view that THC will remain focused on its regulated electricity distribution operations and generate stable and predictable cash flow.

Downside scenario

We could downgrade THC over the next 24 months if its financial measures weaken, including FFO to debt of consistently below 10%. This could occur if it experiences significant cost overruns on

its capital programs or material cost disallowances. We could also downgrade the company over the next 24 months if we revise downward our assessment of a moderate likelihood of support from the city of Toronto.

Upside scenario

We could raise our ratings on THC over the next 24 months if we upgrade the city of Toronto and the company's FFO to debt rises consistently above 12% absent an increase in its business risk. Although less likely, we could upgrade THC over the next 24 months if its financial measures consistently improve, including FFO to debt of greater than 15%.

Company Description

THC is a utility holding company that owns Toronto Hydro-Electric System Ltd. (THESL), the electricity distribution utility that delivers electricity in Toronto. The company serves about 793,000 customers.

Our Base-Case Scenario

- Continued rate increases supported by the anticipated rate case for 2025-2029, along with annual rate increases and the recovery of energy costs;
- Recovery of large energy costs from 2022 in 2024;
- Refunds of about C$50 million to ratepayers in 2024;
- Refunds of about C$120 million in 2025-2029;
- Capital spending of about C$2.6 billion through 2026;
- Annual discretionary cash flow deficits averaging about C$300 million through 2026;
- No material disallowance of costs; and
- All debt maturities are refinanced and the company funds its discretionary cash flow deficits with debt.

Liquidity

As of Dec. 31, 2023, we assess THC's liquidity as adequate, which reflects our expectation that its sources of cash will be 1.1x its uses over the coming 12 months. Additionally, we anticipate the company's net sources will remain positive even if its consolidated EBITDA declines by 10%. We believe THC's predictable regulatory framework provides it with cash flow stability, even in times of economic stress. This supports our use of slightly lower thresholds than those use for typical corporate issuers to assess the company's liquidity. In addition, we believe THC has the ability to absorb high-impact, low-probability events, given that it maintains about $1 billion of committed credit facilities that mature beyond 12 months. We also believe the company can significantly lower its robust capital spending during periods of stress, which would reduce the need for refinancing under such conditions.

Furthermore, our assessment reflects THC's generally prudent risk management, sound relationships with its banks, and satisfactory standing in the credit markets. Overall, we believe

the company could withstand adverse market circumstances over the next 12 months with sufficient liquidity to meet its obligations. THC's next big long-term debt maturities are in 2026, when about C$200 million total comes due, and we expect it will proactively address these maturities well in advance of their scheduled due date.

Principal liquidity sources:

- Committed credit facilities availability of C$1 billion; and
- Cash FFO of about C$625 million.

Principal liquidity uses:

- Debt maturities of about C$430 million;
- Capital expenditure of about C$740 million; and
- Dividend payments of about C$85 million.

Issue Ratings - Subordination Risk Analysis

Capital structure

- As of Dec. 31, 2024, THC's capital structure comprised about C$3.35 billion of senior unsecured debt.

Analytical conclusions

- We rate THC's senior unsecured debt at the same level as the issuer credit rating because we believe there is relatively little priority debt at its subsidiaries.

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: Neutral (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: a-

- Likelihood of government support: Moderate (+1 notch)

Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- 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
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Toronto Hydro Corp.		
Issuer Credit Rating	A/Stable/--	A/Developing/--
Issue-Level Ratings Affirmed		
Toronto Hydro Corp.		
Senior Unsecured	A	

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 criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

S&P Global
Ratings

RatingsDirect®

Research Update:

Toronto Hydro Corp. Outlook Revised To Positive On Announced Equity Injections, Ratings Affirmed

July 16, 2024

Rating Action Overview

- The city of Toronto (the City) recently agreed to contribute C$300 million of equity to Toronto Hydro Corp. (THC) over the next 10 years and reduce its dividend targets for the period from 2025-2034.
- As such, we revised our outlook on THC to positive from stable reflecting the positive outlook on the City and our expectations that THC's stand-alone financial measures will modestly improve. We also affirmed our ratings.
- At the same time, we raised our stand-alone credit profile (SACP) on THC to 'a' from 'a-' to reflect our expectation for modestly improved financial measures.
- The positive outlook on THC reflects our positive outlook on the City, as well as our expectation that THC will maintain funds from operations (FFO) to debt of consistently above 12%.

PRIMARY CREDIT ANALYST

Omar El Gamal, CFA
Toronto
+1 4165072523
omar.elgamal
@spglobal.com

SECONDARY CONTACT

Matthew L O'Neill
New York
+ 1 (212) 438 4295
matthew.oneill
@spglobal.com

Rating Action Rationale

We raised our SACP on THC to reflect our expectation for modestly improving financial measures following the City's announced equity contributions and reduced dividend targets. Under our revised base-case forecast, we assume about C$4 billion of capital spending over the next five years, a one-time special equity investment of C$50 million in 2025, and C$25 million of annual equity contributions in 2025-2034, and reduced dividend targets for the same period. We also anticipate THC's stand-alone financial measures will be in the higher end of our expected range for the significant financial risk profile category. Specifically, we expect THC's FFO to debt will consistently exceed 12% (up from the 10%-12% range under our previous base case). To reflect our expectation for modestly improving financial measures, we revised our comparable rating analysis modifier to positive from neutral.

We assess THC's financial risk profile using our low volatility financial benchmarks, which reflect its lower-risk regulated utility operations and effective management of regulatory risk. These benchmarks are more relaxed than those we use for typical corporate issuers.

We continue to assess THC's business risk profile as excellent. Our assessment reflects the company's low-risk, regulated distribution utility operations that provide an essential service to the city of Toronto. THC also serves a diverse customer base of about 793,000 customers with limited concentration risk. Our assessment of the company's business risk profile is also supported by the generally constructive regulatory framework in Ontario. THC currently operates under a custom incentive rate-setting regime, which establishes base rates for five years and forecasts its costs and sales volumes using a fixed return on equity. The company's regulatory construct also enables it to benefit from revenue decoupling for its residential customers.

In November 2023, the utility filed a rate case for its new five-year rate period starting in 2025. The utility requested about a C$325 million increase in its base rates and about C$4 billion of net capital spending for 2025-2029. In June 2024, the utility and intervenors reached a tentative substantial settlement that would leave only one issue unresolved. The utility and the intervenors plan to file the settlement proposal with its regulator, the Ontario Energy Board, by Aug. 9, 2024.

We continue to believe there is a moderate likelihood that THC's owner, the city of Toronto, will provide it with timely and sufficient extraordinary support in the event of financial distress. The City's recently announced equity contributions and dividend reductions are consistent with our assessment. We expect these contributions will support THC's financial measures while enabling it to invest in its system to support the City's expansion and rising electrification needs.

Outlook

The positive outlook reflects our positive outlook on the City and our expectation THC will maintain FFO to debt of consistently above 12%.

Downside scenario

We could affirm our ratings on THC and revise our outlook to stable over the next 24 months if we affirmed the ratings and revised the outlook on the City of Toronto to stable. We could also affirm our ratings on THC and revise our outlook to stable if its financial measures weaken, including FFO to debt of consistently below 12%.

Upside scenario

We could raise our ratings over the next 24 months if we raise our rating on the City and THC's FFO to debt remains consistently at or above 12%. Although less likely, we could also upgrade THC over the next 24 months without upgrading the City if it materially improves its financial measures, including FFO to debt of greater than 15%.

Company Description

THC is a utility holding company that owns Toronto Hydro-Electric System Ltd. (THESL), the electricity distribution utility that delivers electricity in Toronto. The company serves about 793,000 customers.

Our Base-Case Scenario

- Continued rate increases supported by the anticipated rate case for 2025-2029, along with annual rate increases and the recovery of energy costs;
- Recovery of large energy costs from 2022 in 2024;
- Refunds of about C$50 million to ratepayers in 2024;
- Net refunds of about C$100 million in 2025-2029;
- Capital spending of about C$2.6 billion through 2026;
- Annual discretionary cash flow deficits averaging about C$200 million-C$250 million through 2026;
- Equity injections from the City of C$75 million in 2025 and C$25 million per year through 2034;
- Dividend tragets of about C$60 million, C$40 million, C$20 million, and C$0 in 2025-2028, respectively;
- No material disallowance of costs; and
- All debt maturities are refinanced and the company funds its discretionary cash flow deficits with debt.

Liquidity

As of March 31, 2024, we assess THC's liquidity as adequate, which reflects our expectation its sources of cash will be 1.1x its uses over the coming 12 months. Additionally, we anticipate its net sources will remain positive even if its consolidated EBITDA declines 10%.

We believe the utility's predictable regulatory framework provides it with stable cash flow even in times of economic stress. This supports our use of slightly lower thresholds than for a typical corporate issuer to assess the company's liquidity. In addition, we believe THC has the ability to absorb high-impact, low-probability events because it maintains about $1 billion of committed credit facilities that mature beyond the next 12 months. We also believe the company can significantly curtail its robust capital spending during periods of stress, which would reduce the need for refinancing under such conditions. Furthermore, our assessment reflects THC's generally prudent risk management, sound relationships with its banks, and satisfactory standing in the credit markets.

Overall, we believe the company could withstand adverse market circumstances over the next 12 months with sufficient liquidity to meet its obligations. THC's next big long-term debt maturities are in 2026 when a total of about C$200 million comes due. We expect the company will proactively address these maturities well in advance of their scheduled due dates. THC has a C$1 billion committed credit facility that matures in September 2028.

Principal liquidity sources:

- Committed credit facility availability of C$1 billion;
- Cash FFO of about C$650 million; and
- Equity injections of about C$19 million

Principal liquidity uses:

- Debt maturities of about C$510 million;
- Capital expenditure of about C$785 million; and
- Dividend payments of about C$80 million.

Issue Ratings - Subordination Risk Analysis

Capital structure

- As of March 31, 2024, THC's capital structure comprised about C$3.4 billion of senior unsecured debt.

Analytical conclusions

- We rate THC's senior unsecured debt at the same level as the issuer credit rating because we believe there is relatively little priority debt at its subsidiaries.

Ratings Score Snapshot

Issuer credit rating: A/Positive/--

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: Neutral (no impact)
- Comparable rating analysis: Positive (+1 notch)

Stand-alone credit profile: a

- Likelihood of government support: Moderate (no impact)

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- 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: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Toronto Hydro Corp.		
Issuer Credit Rating	A/Positive/--	A/Stable/--
Ratings Affirmed		
Toronto Hydro Corp.		
Senior Unsecured	A	

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 criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

Date of Release: June 27, 2019

DBRS Confirms Alectra Inc. at "A" and R-1 (low), Stable Trends

Bloomberg: DBRS Confirms Alectra Inc. at A and R-1 (low), Stable
Industry Group: Corporate Finance
Sub-Industry: Utilities & Independent Power
Region: Canada

DBRS Limited (DBRS) confirmed the Issuer Rating and Senior Unsecured Debentures rating of Alectra Inc. (Alectra or the Company) at "A" and the Commercial Paper rating at R-1 (low), all with Stable trends. The confirmations reflect Alectra's stable business risk profile following the merger with Guelph Hydro in January 2019 and its solid credit metrics. The stability and low risk of the Company's electricity distribution business (around 96% of earnings in 2018) is underpinned by a reasonable and supportive regulatory regime in Ontario, which is regulated by the Ontario Energy Board. The Stable trends incorporate DBRS's expectation that the Company's key credit metrics will likely remain in line with the current ratings.

On January 1, 2019, Alectra merged with Guelph Hydro Electric Systems Inc. (Guelph Hydro; the Merger). With the Merger, the City of Guelph received an approximate 4.6% ownership stake in the merged entity (being Alectra) and one permanent seat on the Board of Directors. DBRS does not anticipate that the Merger will have a material impact on Alectra's credit profile, as (1) Guelph Hydro operates under the same regulatory framework as the Horizon, Brampton, Enersource and PowerStream rate zones; (2) no incremental debt was issued for the Merger; and (3) Guelph Hydro's financial risk profile was in line with Alectra's. DBRS expects the integration risk to be manageable, as the Company is already in the process of merging the systems of the four predecessor utilities, following which Guelph Hydro will adopt Alectra's systems and processes.

Alectra's financial profile remained consistent with the current ratings. The Company maintained solid credit metrics for 2018 and the last 12 months to March 31, 2019 (LTM 2019), despite the 70% debt financing for the acquisition of Hydro One Brampton Networks Inc. (HOBNI) in 2017. Since the HOBNI acquisition, the Company's credit ratios have been supported by strong cash flow through its solid financial performance and earlier-than-expected synergy realization.

Capex for 2019 is expected to be approximately $272 million (net of contributions). A majority of capex will be spent on system renewal and system access projects. The Company is expected to finance capex through debt and cash flow surplus (after dividends), as equity injection from the owners is unlikely. In 2017 and 2018, significant cash flow surplus was retained, as the dividend payout as a percentage of cash flow was relatively low, which is expected to continue. As a result, DBRS expects Alectra's credit metrics to remain stable and supportive of the current ratings over the medium term. However, a negative rating action could occur if the cash flow-to-debt and debt-to-capital ratios weaken to below 12.5% and above 65.0%, respectively, on a sustained basis. DBRS considers this scenario unlikely.

Notes:
All figures are in Canadian dollars unless otherwise noted.

The principal methodology is Rating Companies in the Regulated Electric, Natural Gas and Water Utilities Industry; and DBRS Criteria: Commercial Paper Liquidity Support for Non-Bank Issuers, which can found on dbrs.com under Methodologies & Criteria.

The related regulatory disclosures pursuant to the National Instrument 25-101 *Designated Rating Organizations* are hereby incorporated by reference and can be found by clicking on the link under Related Documents or by contacting us at info@dbrs.com.

The rated entity or its related entities did participate in the rating process for this rating action. DBRS had access to the accounts and other relevant internal documents of the rated entity or its related entities in connection with this rating action.

For more information on this credit or on this industry, visit www.dbrs.com.

DBRS Limited
DBRS Tower, 181 University Avenue, Suite 700
Toronto, ON M5H 3M7 Canada

Issuer	Debt Rated	Rating Action	Rating	Trend
Alectra Inc.	Issuer Rating	Confirmed	A	Stable
Alectra Inc.	Senior Unsecured Debentures	Confirmed	A	Stable
Alectra Inc.	Commercial Paper	Confirmed	R-1 (low)	Stable

Contacts

Eric Eng
Biao Gong

The DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(CRA, NRSRO affiliate, DRO affiliate). For more information on regulatory registrations, recognitions and approvals, please see: http://www.dbrs.com/research/highlights.pdf.

© 2019, DBRS. All rights reserved. The information upon which DBRS ratings and other types of credit opinions and reports are based is obtained by DBRS from sources DBRS believes to be reliable. DBRS does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS ratings, other types of credit opinions, reports and any other information provided by DBRS are provided "as is" and without representation or warranty of any kind. DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS or any DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. Ratings, other types of credit opinions, other analysis and research issued or published by DBRS are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment advice or recommendations to purchase, sell or hold any securities. A report with respect to a DBRS rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS may receive compensation for its ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. DBRS is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS. ALL DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT http://www.dbrs.com/about/disclaimer. ADDITIONAL INFORMATION REGARDING DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON http://www.dbrs.com.

MORNINGSTAR | DBRS

Rating Report
Alectra Inc.

DBRS Morningstar
July 9, 2020

Contents

1 Ratings
1 Rating Update
2 Financial Information
2 Issuer Description
2 Rating Considerations
4 Corporate Structure
5 Earnings and Outlook
6 Financial Profile
7 Debt and Liquidity
9 Regulation
13 Ratings History
13 Previous Actions
13 Previous Report

Commercial Paper Limit
$500 million

Tom Li
+1 416 597-7378
tom.li@dbrsmorningstar.com

Biao Gong
+1 416 597-7557
biao.gong@dbrsmorningstar.com

Ratings

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

Rating Update

On June 29, 2020, DBRS Limited (DBRS Morningstar) confirmed Alectra Inc.'s (Alectra or the Company) Issuer Rating and Senior Unsecured Debentures rating at "A" and Commercial Paper (CP) rating at R-1 (low), all with Stable trends. The ratings of Alectra are based on the Company's regulated electricity-distribution operations, which provide the Company with very stable earnings and cash flow.

Alectra's business risk assessment remained stable in 2019, supported by the reasonable regulatory framework under the Ontario Energy Board (OEB). The Company has been allowed to defer rebasing until 2027, with rates to increase with inflation, less productivity and stretch factors, in between (1.7% for 2020). Alectra's financial risk assessment has also remained supportive of the current ratings. Given the regulated nature of the Company's operations, DBRS Morningstar expects the Company's key credit metrics to remain commensurate with the "A" rating range.

DBRS Morningstar had originally expected Alectra's earnings and cash flow to see a modest increase in 2020, in line with growth in the rate base. However, as a result of the ongoing Coronavirus Disease (COVID-19) pandemic, DBRS Morningstar now expects a modest decrease for the Company. This impact is partly mitigated by (1) a high proportion of Alectra's revenues being fixed (65% of 2019 revenues), including for all residential customers, and (2) deferral accounts approved by the OEB for all Ontario utilities to accrue any costs or lost revenues arising from the coronavirus, with recovery subject to OEB approval. Overall, DBRS Morningstar expects key credit metrics for the Company to remain stable in 2020 and in line with the "A" ratings. A positive rating action is unlikely in the near term given the uncertainty caused by the coronavirus. A negative rating action could occur if Alectra's key credits metrics weaken to a level no longer commensurate with the current ratings.

Financial Information

	12 months ending March 31	For the year ended December 31		
	2020	2019	2018	2017
Total debt in capital structure[1, 2]	62.3%	60.9%	60.9%	61.2%
Cash flow/Total debt[2]	13.9%	14.4%	15.3%	13.2%
EBIT gross interest coverage (times)[2]	2.45	2.59	2.93	3.08

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 over 1 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 96.3% 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. Solid financial profile

Alectra's key credit metrics are reasonable for the current rating category. For the last 12 months ending March 31, 2020 (LTM 2020), all three of the Company's key credit metrics of cash flow-to-debt, debt-to-capital and EBIT-interest coverage (13.9%, 62.3%, and 2.45 times (x), respectively) were in the "A" rating category.

Challenges

1. Operational challenges and performance pressure under 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 Incentive Rate-Setting (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 2019 and 2020 were reasonable, at 0.0% and 0.3% in both years, respectively.

2. Exposure to higher-risk nonregulated business

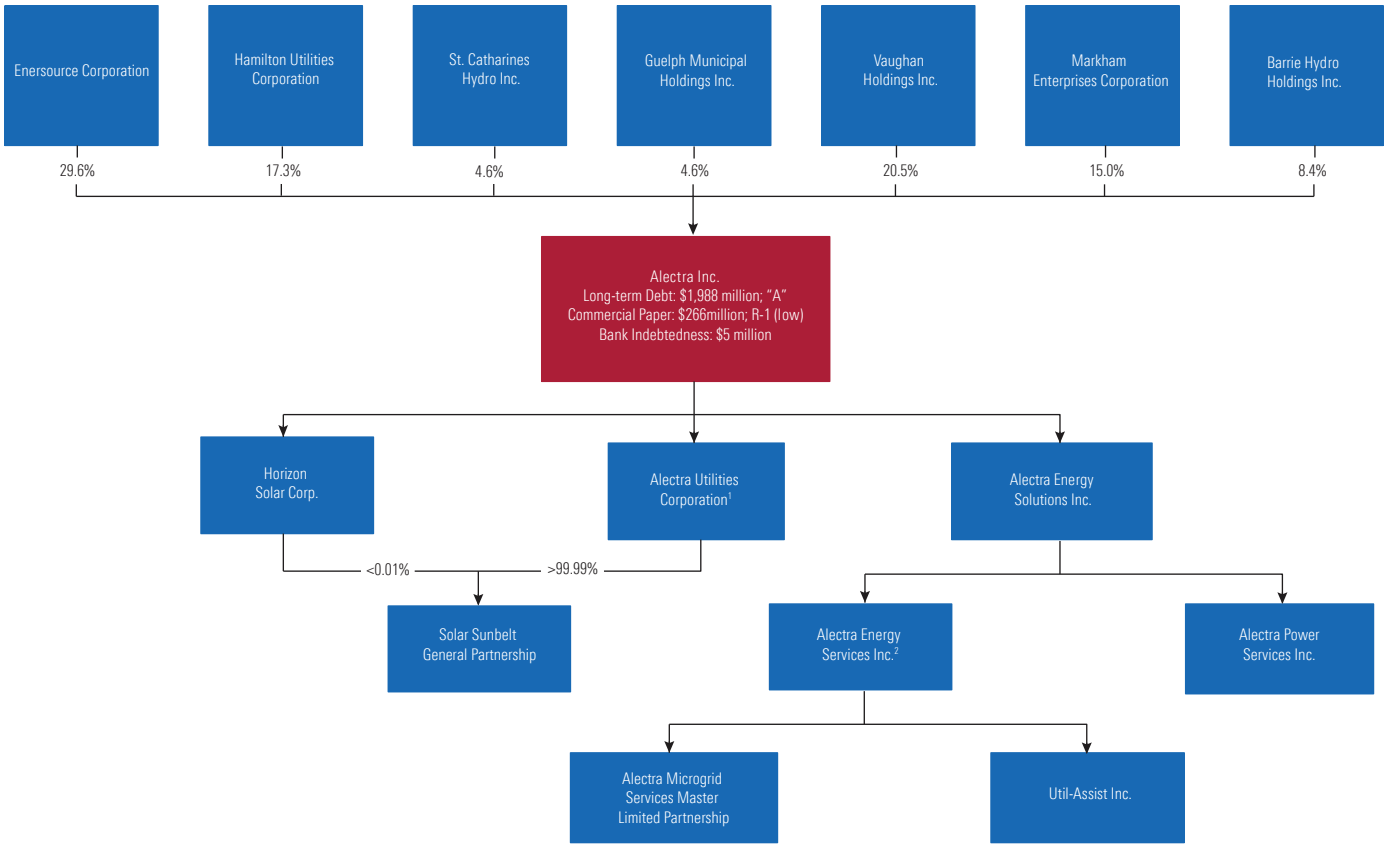
DBRS Morningstar considers the nonregulated business to be higher risk than Alectra's core regulated electricity distribution business. This is largely because of the greater volume risk associated with nonregulated operations. Nonregulated operations for the Company include solar generation and a submetering business. DBRS Morningstar notes that although commodity price risk for the generation business has been mitigated through long-term contracts with the Independent Electricity System Operator (IESO; rated A (high) with a Stable trend by DBRS Morningstar), increasing exposure to the nonregulated segment could result in greater volatility in Alectra's earnings and cash flows. In 2019, nonregulated operations accounted for approximately 5% of total EBITDA. 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, 2020.
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.
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 over 1.0 million customers.

- Alectra Energy Solutions Inc. holds the large majority of the nonregulated business, managing total assets of approximately $185 million, mainly consisting of solar-generation assets under long-term contracts with the IESO and a submetering business.

Earnings and Outlook

	12 months ending March 31	For the year ended December 31		
(CAD millions where applicable)	**2020**	**2019**	**2018**	**2017**
Net Sales	653	653	596	546
EBITDA	349	356	339	304
EBIT	201	210	208	184
Gross interest expense	82	81	70	59
Net income before nonrecurring items	128	133	127	110
Reported net income	70	64	109	74
Return on equity	9.3%	9.9%	10.2%	9.9%
Rate base[1]	3,407	3,212	2,886	2,731
Deemed common equity	40.0%	40.0%	40.0%	40.0%
Allowed ROE[2]	8.95%	8.95%	8.95%	8.91%
Achieved regulatory ROE	N/A	7.21%	7.69%	8.49%

1 2017 to 2019 rate base amounts are based on actual RRR filings while 2020 rate base amount is management estimate; 2019 and 2020 amounts include Guelph Hydro.
2 Based on weighted-average of last OEB-approved rate base.

2019 Summary

- Earnings for Alectra remained relatively stable in 2019, supported by the Company's regulated operations.
    - Regulated activities accounted for 95% of EBITDA for the year.
    - Earnings from the nonregulated segment largely consist of solar generation assets under long-term Feed-In Tariff contracts with the IESO.
- Net income increased modestly because of (1) rate increases for the four rate zones and (2) the amalgamation with Guelph Hydro effective January 1, 2019.
    - This was partly offset by (1) wage and benefit inflation, (2) higher deprecation from the growing asset base, and (3) higher interest expense from the assumption of Guelph Hydro debt and a $200 million debenture issued during the year.
- Reported net income included DBRS Morningstar regulatory adjustments of $69 million.

2020 Summary and Outlook

- Earnings for LTM 2020 decreased modestly because of higher provisions for expected credit losses from the ongoing coronavirus pandemic.
- DBRS Morningstar had expected earnings to increase modestly for 2020, benefitting from the rate increases for the five rate zones effective January 1, 2020. However, because of the coronavirus pandemic, earnings for the year are likely to be weaker than expected.
    - Around 65% of Alectra's revenues are fixed, including all revenues from residential customers, which are fully decoupled. As such, revenues from this segment should remain stable.
    - Revenues from commercial and industrial customers, however, will likely be weaker because of lower throughputs.
    - DBRS Morningstar notes the OEB has approved for all LDCs to establish deferral accounts for the coronavirus pandemic, including one for lost revenues arising from the pandemic. However, recovery of any amounts deferred will be subject to OEB approval.

Financial Profile

	12 months ending March 31	For the year ended December 31		
(CAD millions where applicable)	**2020**	**2019**	**2018**	**2017**
Net income before nonrecurring items	128	133	127	110
Depreciation & amortization	160	158	140	124
Deferred income taxes and other	31	26	38	(5)
Cash flow from operations	**319**	**317**	**305**	**229**
Dividends	(93)	(85)	(69)	(36)
Capital expenditures	(331)	(334)	(289)	(234)
Free cash flow (bef. working cap. changes)	**(105)**	**(102)**	**(53)**	(41)
Changes in noncash work. cap. items	(32)	33	(108)	193
Regulatory assets/Liabilities	(58)	(69)	(30)	(1)
Net free cash flow	**(195)**	**(138)**	**(191)**	**151**
Acquisitions & long-term investments	0	0	0	(615)
Proceeds on asset sales	18	17	17	0
Net equity change	(4)	(4)	(5)	46
Net debt change	203	127	73	385
Other investing and financing	(4)	11	0	0
Change in cash	**17**	**13**	**(106)**	**(33)**
Total debt	2,292	2,202	1,984	1,892
Total debt in capital structure[1, 2]	62.3%	60.9%	60.9%	61.2%
Cash flow/Total debt[2]	13.9%	14.4%	15.3%	13.2%
EBIT gross interest coverage (times)[2]	2.45	2.59	2.93	3.08
Dividend payout ratio	73.0%	63.9%	54.2%	32.7%

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

2019 Summary

- Alectra's key credit metrics for 2019 weakened modestly but remained in line with the "A" rating.
    - While the debt-to-capital ratio was unchanged, both the cash flow-to-debt and EBIT-interest coverage ratios decreased modestly because of the higher debt load. However, both metrics remained in the "A" rating category.
- Cash flow from operations increased modestly, tracking the higher earnings for the year.
- Capital expenditures (capex) of $380 million increased largely because of land purchased for a new operations centre ($44 million).
- Dividends of $85 million were in line with the Company's dividend policy.
- Alectra had a net free cash flow deficit of $138 million in 2019 because of its large capex program. The Company funded this through a $200 million debenture issuance.
    - Proceeds from the issuance were also used to repay $70 million of outstanding CP.

2020 Summary and Outlook

- Alectra's key credit metrics declined modestly for LTM 2020 because of the timing of CP issuances.
    - Overall, the Company's key credit metrics are expected to remain stable for the year and be commensurate with the "A" rating.
- While DBRS Morningstar had expected operating cash flows to increase modestly for 2020, as a result of the ongoing coronavirus pandemic, cash flows are now expected to be more in line with 2019 results.
    - While collections from customers may be affected and lead to higher bad debts for the year, DBRS Morningstar expects that the deferred amounts may either be recovered from customers subsequently, or might be recovered through the OEB.
- Alectra had originally forecast gross capex of around $400 million for 2020, with the increase largely for new customer connections, overhead line rebuilds and underground cable replacement projects.
    - However, the Company has indicated that during the coronavirus pandemic, it has postponed some capex projects and is focusing on essential critical work for safety and reliability first.
- DBRS Morningstar expects any net free cash flow deficits from the ongoing capex program to be funded through debt issuances.
    - 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.

Debt and Liquidity

Liquidity

(CAD millions - as at March 31, 2020)	Amount	Drawn/CPs/LOCs	Available	Expiry
Cash & cash equivalents	17	0	**17**	
364-day committed revolving credit facility	500	266	**234**	Oct. 2020
Uncommitted credit facility	100	0	**100**	Demand
Total	**617**	**266**	**351**	

- In May 2020, Alectra increased its 364-day committed revolving credit facility to $700 million, from the previous $500 million, and extended the maturity date to October 2021.

  - This facility is used to backstop the Company's $500 million CP program, which was increased from $300 million in May 2020 ($266 million outstanding as at March 31, 2020).
  - 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, 2020).
- Additionally, Alectra had $5 million of bank indebtedness outstanding as at March 31, 2020.

Long-term Debt

Debentures			
(CAD millions - as at March 31, 2020)	**Amount**	**Rate**	**Maturity**
Senior Unsecured Debentures Series A	40	4.770%	Jul. 2020
Series A Senior Unsecured Debentures	110	4.521%	Apr. 2021
Senior Unsecured Debentures Series B	150	3.033%	Apr. 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
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	**1,996**		
Unamortized debt issuance costs	(8)		
Total long-term debt	**1,988**		

- Alectra’s long-term debt maturity is relatively well spread out, with a modest amount of debt maturing within the next five years.
- The Company’s long-term debt consists of the following:
  - Senior Unsecured Debentures totalling $1,830 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 April 2019, the Company issued $200 million of 3.458% Series 2019-1 Senior Unsecured Debentures due April 2049.
- Covenants on Alectra’s trust indenture and credit facilities include restrictions of 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 of not greater than 75% (in compliance as at March 31, 2020).

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 Custom IR (Horizon Utilities) will transition to a Price Cap IR following the expiry of its Custom IR term.
- In October 2018, the OEB approved AUC's MAADs application to merge with Guelph Hydro.
    - Similar to 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, where 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 Price Cap IR, AUC could file an incremental capital module (ICM) for each rate zone to request funding for incremental capital investment needs during the IR term.
- In its 2019 Electricity Distribution Rate (EDR) application, AUC requested a Price Cap adjustment of 1.2% (based on an inflation factor of 1.5%, productivity factor of 0.0%, and stretch factor of 0.3%) for each of the Brampton, Enersource, and PowerStream rate zones.
    - In December 2018, the OEB approved the 1.2% rate increases effective January 1, 2019.
    - In January 2019, the OEB approved $26.3 million of the requested $31.6 million in ICM funding.

- In December 2018, the OEB approved Guelph Hydro's application to increase rates by 1.2% effective January 1, 2019.
- In December 2018, the OEB approved the year-five update of the Horizon Utilities rate plan under Custom IR.
    - The OEB approved the 2019 revenue requirement of approximately $124.2 million, based on an allowed ROE of 8.98%.
    - For rates effective 2020, the Horizon Utilities rate zone will transition to a Price Cap IR.
- In its 2020 EDR application, AUC requested a Price Cap adjustment of 1.7% (based on an inflation factor of 2.0%, productivity factor of 0.0% and stretch factor of 0.3%) for each of the Brampton, Enersource, Guelph, Horizon Utilities, and PowerStream rate zones.
    - In December 2019, the OEB approved the 1.7% rate increases effective January 1, 2019.
    - Additionally, the OEB approved AUC's proposed ESM based on a weighted-average allowed ROE for the consolidated entity rather than using the ROE for each individual rate zone.
- In January 2020, the OEB denied AUC's proposal for a MAADs factor (M-factor) to fund incremental capex of $265 million over the latter five years of the deferral period.
    - The OEB indicated that AUC could instead file a cost-based application and terminate the deferral period or continue to request incremental funding under ICM.
    - In January 2020, AUC indicated that it would amend its 2020 EDR application to request ICM funding. However, AUC confirmed in April 2020 that because of the ongoing coronavirus pandemic, it would re-evaluate capex requirements and not seek ICM funding for the year.

Assessment of Regulatory Framework

Criteria	Score	Analysis
1. Deemed Equity	Excellent Good **Satisfactory** Below Average Poor	AUC has deemed equity component of capital structure of 40% in 2020, which is consistent with the other electricity distribution companies in Ontario.
2. Allowed ROE	Excellent Good **Satisfactory** Below Average Poor	AUC's deemed ROE for 2020 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	**Excellent** 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 **Good** 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. COS versus IRM	Excellent Good **Satisfactory** 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 **Below Average** 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). Further, 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 **Good** 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 **Satisfactory** Below Average Poor	From 2002 to 2005, as a result of rising rates during Ontario's utility deregulation phase, a province-wide distribution rate freeze was imposed. There have been no subsequent province-wide rate freezes.

Balance Sheet							
(CAD millions)	**Mar. 31**	**Dec. 31**	**Dec. 31**		**Mar. 31**	**Dec. 31**	**Dec. 31**
Assets	**2020**	**2019**	**2018**	**Liabilities & Equity**	**2020**	**2019**	**2018**
Cash & equivalents	17	29	16	Short-term debt	272	182	274
Accounts receivable	342	284	323	Accounts payable	336	374	368
Inventories	31	29	21	Current portion L.T.D.	42	42	1
Prepaid expenses & other	246	283	303	Other current liabilities.	155	152	136
Total Current Assets	**636**	**625**	**663**	**Total Current Liabilities.**	**805**	**750**	**779**
Net fixed assets	3,417	3,402	3,052	Long-term debt	1,978	1,978	1,709
Future income tax assets	3	3	3	Deferred income taxes	51	48	45
Goodwill & Intangibles	761	761	720	Other long-term liabilities	541	533	433
Investments & others	270	265	217	Shareholders' equity	1,712	1,747	1,689
Total Assets	**5,086**	**5,056**	**4,655**	**Total Liabilities. & Equity**	**5,086**	**5,056**	**4,655**

Ratios	**12 months ending March 31**	**For the year ended December 31**		
Balance Sheet & Liquidity & Capital Ratios	**2020**	**2019**	**2018**	**2017**
Current ratio	0.79	0.83	0.85	0.95
Total debt in capital structure	57.3%	55.8%	54.0%	53.4%
Total debt in capital structure[1, 2]	62.3%	60.9%	60.9%	61.2%
Cash flow/Total debt	13.9%	14.4%	15.4%	13.2%
Cash flow/Total debt[2]	13.9%	14.4%	15.3%	13.2%
(Cash flow - dividends)/Capex	0.68	0.69	0.82	0.82
Dividend payout ratio	73.0%	63.9%	54.2%	32.7%
Coverage Ratios (times)				
EBIT gross interest coverage	2.45	2.59	2.97	3.12
EBIT gross interest coverage[2]	2.45	2.59	2.93	3.08
EBITDA gross interest coverage	4.26	4.40	4.84	5.15
Fixed-charges coverage	2.45	2.59	2.93	3.08
Profitability Ratios				
EBITDA margin	53.5%	54.5%	56.8%	55.7%
EBIT margin	30.8%	32.2%	34.9%	33.7%
Profit margin	19.5%	20.4%	21.4%	20.1%
Return on equity	9.3%	9.9%	10.2%	9.9%
Return on capital	4.1%	4.5%	4.8%	4.7%

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	2019	2018	2017	2016	2015
Issuer Rating	A	A	A	A	NR	NR
Senior Unsecured Debentures	A	A	A	A	NR	NR
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	NR	NR	NR

Previous Actions

- "DBRS Morningstar Notes Alectra Inc.'s Commercial Paper Limit Increase", May 28, 2020
- "DBRS Confirms Alectra Inc. at "A" and R-1 (low), Stable Trends", June 27, 2019.

Previous Report

- Alectra Inc.: Rating Report, July 4, 2019.

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.

About DBRS Morningstar

DBRS Morningstar is a global credit ratings business with approximately 700 employees in eight offices globally.

On July 2, 2019, Morningstar, Inc. completed its acquisition of DBRS. Combining DBRS' strong market presence in Canada, the U.S., and Europe with Morningstar Credit Ratings' U.S. footprint has expanded global asset class coverage and provided investors with an enhanced platform featuring thought leadership, analysis, and research. DBRS and Morningstar Credit Ratings are committed to empowering investor success, serving the market through leading-edge technology and raising the bar for the industry.

Together as DBRS Morningstar, we are the world's fourth-largest credit ratings agency and a market leader in Canada, the U.S., and Europe in multiple asset classes. We rate more than 2,600 issuers and 54,000 securities worldwide and are driven to bring more clarity, diversity, and responsiveness to the ratings process. Our approach and size provide the agility to respond to customers' needs, while being large enough to provide the necessary expertise and resources.

The DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(CRA, NRSRO affiliate, DRO affiliate). Morningstar Credit Ratings, LLC is a NRSRO affiliate of DBRS, Inc.

For more information on regulatory registrations, recognitions and approvals of the DBRS group of companies and Morningstar Credit Ratings, LLC, please see: http://www.dbrsmorningstar.com/research/highlights.pdf.

The DBRS group and Morningstar Credit Ratings, LLC are wholly-owned subsidiaries of Morningstar, Inc.

© 2020 Morningstar. All rights reserved. The information upon which DBRS ratings and other types of credit opinions and reports are based is obtained by DBRS from sources DBRS believes to be reliable. DBRS does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS ratings, other types of credit opinions, reports and any other information provided by DBRS are provided "as is" and without representation or warranty of any kind. DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or noninfringement of any of such information. In no event shall DBRS or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS or any DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. No DBRS entity is an investment advisor. DBRS does not provide investment, financial or other advice. Ratings, other types of credit opinions, other analysis and research issued or published by DBRS are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities. A report with respect to a DBRS rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS may receive compensation for its ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. DBRS is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS. ALL DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT http://www.dbrsmorningstar.com/about/disclaimer. ADDITIONAL INFORMATION REGARDING DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON http://www.dbrsmorningstar.com.

MORNINGSTAR | DBRS

Rating Report
Alectra Inc.

DBRS Morningstar
June 22, 2021

Contents

1 Ratings
1 Rating Update
2 Financial Information
2 Issuer Description
2 Rating Considerations
4 Corporate Structure
5 Earnings and Outlook
6 Financial Profile
7 Debt and Liquidity
9 Regulation
13 Ratings History
13 Previous Actions
13 Previous Report

Commercial Paper Limit
$500 million

Tom Li
+1 416 597-7378
tom.li@dbrsmorningstar.com

Biao Gong
+1 416 597-7557
biao.gong@dbrsmorningstar.com

Ratings

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

Rating Update

On June 21, 2021, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating and Senior Unsecured Debentures rating of Alectra Inc. (Alectra or the Company) at "A" and its Commercial Paper (CP) rating at R-1 (low). All trends are Stable. The confirmations are based on the stable nature of Alectra's regulated electricity distribution operations in Ontario. The Stable trends reflect the Company's key credit metrics that, despite some weakness in 2020, remain in line with the current rating category.

Alectra's business risk assessment continues to be underpinned by its reasonable regulation under the Ontario Energy Board (OEB). DBRS Morningstar notes that there were no material changes in the regulatory environment in 2020. Alectra continues to operate under the Price Cap Incentive Rate-Setting (IR) mechanism whereby rates increase annually by inflation less productivity and stretch factors (1.9% for 2021). DBRS Morningstar does not foresee any material changes to Alectra's business risk assessment in the medium term as the Company is allowed to defer rebasing until 2027, with productivity gains from the merger and acquisition of the predecessor utilities largely accruing to the shareholders.

In January 2021, Alectra acquired Holland Power Services Inc. (Holland Power), a power restoration services company, for share consideration of approximately $52 million plus an additional $28 million for working capital. DBRS Morningstar does not consider this acquisition to have a material impact on the Company's risk profile as regulated activities will continue to contribute more than 90% of earnings and cash flows. Alectra's debt-to-capital and cash flow-to-debt ratios weakened in 2020, however, as the funding for the acquisition, largely through commercial paper (CP), was issued in December 2020. Cash flows for the year were also weaker as the Company expensed expected credit losses of $19 million and higher cleaning costs of $4 million related to the ongoing Coronavirus Disease (COVID-19) pandemic. DBRS Morningstar expects Alectra's debt-to-capital and cash flow-to-debt ratios to recover to historical levels in 2021. 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			
	2021	**2020**	**2019**	**2018**	**2017**
Total debt in capital structure (%)[1, 2]	61.8	62.2	60.9	60.9	61.2
Cash flow/Total debt (%)[2]	13.5	12.5	14.4	15.3	13.2
EBIT gross interest coverage (x)[2]	2.82	2.69	2.59	2.93	3.08

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 95% 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, 2021 (LTM 2021), all three of the Company's key credit metrics of cash flow-to-debt, debt-to-capital, and EBIT-interest coverage (13.5%, 61.8%, and 2.82 times (x), respectively) were in line with the "A" ratings. While Alectra's key credit metrics were weaker in 2020, they are expected to recover to historical levels in 2021.

Challenges

1. Operational challenges and performance pressure under 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 2020 and 2021 were reasonable at 0.0% and 0.3%, respectively, in both years.

2. Exposure to higher-risk nonregulated business

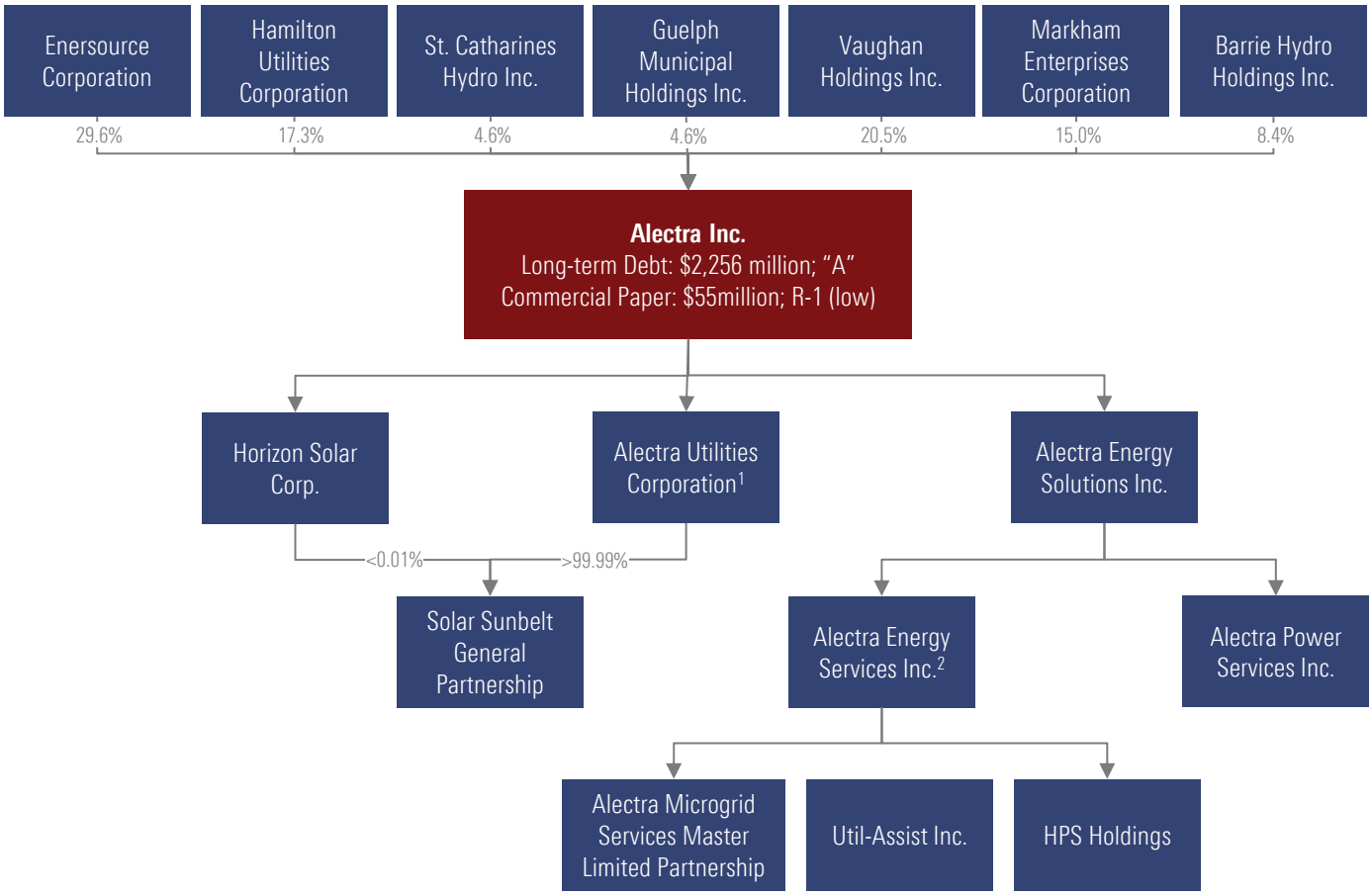
DBRS Morningstar considers the nonregulated business to be higher risk than Alectra's core regulated electricity distribution business. This is largely because of the greater volume risk associated with nonregulated operations. Nonregulated operations for the Company include solar generation, a submetering business, and Holland Power. DBRS Morningstar notes that, although commodity price risk for the generation business has been mitigated through long-term contracts with the Independent Electricity System Operator (IESO; rated A (high) with a Stable trend by DBRS Morningstar), increasing exposure to the nonregulated segment could result in greater volatility in Alectra's earnings and cash flows. In 2020, nonregulated operations accounted for approximately 6% of total EBITDA and is expected to increase to around 10% following the acquisition of Holland Power. 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, 2021.
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 $272 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, which provides power restoration services along the eastern seaboard of the U.S. and Canada, for share consideration of approximately $52 million plus an additional $28 million for working capital.

Earnings and Outlook

	12 mos. March 31	For the year ended December 31			
(CAD millions where applicable)	**2021**	**2020**	**2019**	**2018**	**2017**
Net Sales	691	671	653	596	546
EBITDA	385	371	356	339	304
EBIT	229	218	210	208	184
Gross interest expense	81	81	81	70	59
Net income before nonrecurring items	150	144	133	127	110
Reported net income	106	79	64	109	74
Return on equity (%)	10.6	10.0	9.9	10.2	9.9
Rate base[1]	N/A	3,362	3,212	2,886	2,731
Deemed common equity (%)	40.0	40.0	40.0	40.0	40.0
Allowed ROE (%)[2]	8.95	8.95	8.95	8.95	8.91
Achieved regulatory ROE (%)	N/A	4.80	7.21	7.69	8.49

1 Rate base amounts are based on actual RRR filings; 2019 and 2020 amounts include Guelph Hydro.
2 Based on weighted-average of last OEB-approved rate base.

2020 Summary

- Alectra's earnings remained stable in 2020, with revenues benefitting from the annual increases in distribution rates and higher streetlighting revenues from LED projects. This was partly offset by lower consumption and demand for the year, driven by the impact of the ongoing pandemic.
  - Regulated activities accounted for 94% of EBITDA 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 $44 million, expected credit losses expense of $19 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 as the Company (per OEB direction) excludes merger savings in this calculation.

2021 Summary and Outlook

- Earnings for LTM 2021 increased from the annual adjustments to distribution rates and approval of incremental capital module (ICM) funding of around $11 million.
- DBRS Morningstar expects Alectra's earnings to be lower in 2021 because of lower income from streetlighting and consulting projects, partly offset by contributions from Holland Power.
    - DBRS Morningstar notes that around 68% of Alectra's revenues are fixed, including all revenues from residential customers, which are fully decoupled. DBRS Morningstar also expects bad debt expenses to be much more manageable in 2021.
    - DBRS Morningstar notes that the OEB has approved all LDCs establishing deferral accounts related to the coronavirus pandemic, including one for lost revenues. Recovery of any amounts deferred will be subject to OEB approval.
    - Overall, DBRS Morningstar expects Alectra's earnings to 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)	**2021**	**2020**	**2019**	**2018**	**2017**
Net income before nonrecurring items	150	144	133	127	110
Depreciation & amortization	168	165	158	140	124
Deferred income taxes and other	(2)	(10)	26	38	(5)
Cash flow from operations	**316**	**299**	**317**	**305**	**229**
Dividends paid	(74)	(82)	(85)	(69)	(36)
Capital expenditures	(277)	(278)	(334)	(289)	(234)
Free cash flow (before working capital changes)	**(36)**	**(61)**	**(102)**	**(53)**	**(41)**
Changes in noncash working capital items	81	(125)	33	(108)	193
Regulatory assets/liabilities	(21)	(44)	(69)	(30)	(1)
Net free cash flow	**24**	**(230)**	**(138)**	**(191)**	**151**
Acquisitions & long-term investments	(81)	(7)	0	0	(615)
Proceeds on asset sales	32	33	17	17	0
Net equity change	(3)	(4)	(4)	(5)	46
Net debt change	(41)	193	127	73	385
Other investing & financing	83	7	11	0	0
Change in cash	**14**	**(8)**	**13**	**(106)**	**(33)**
Total debt	2,339	2,399	2,202	1,984	1,892
Total debt in capital structure (%)[1,2]	61.8	62.2	60.9	60.9	61.2
Cash flow/Total debt (%)[2]	13.5	12.5	14.4	15.3	13.2
EBIT gross interest coverage (x)[2]	2.82	2.69	2.59	2.93	3.08
Dividend payout ratio (%)	49.3	57.0	63.9	54.2	32.7

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

2020 Summary

- Alectra's key credit metrics weakened in 2020 because of a higher debt balance and lower cash flow from operations.
    - DBRS Morningstar notes that Alectra issued $80 million of CP in December 2020 to fund the acquisition of Holland Power (completed in January 2021), which contributed to the weaker debt-to-capital and cash flow-to-debt metrics for the year.
    - Overall, the Company's key credit metrics remained in line with the "A" rating category.
- Cash flow from operations decreased because of the higher expected credit losses for the period.
- Net capital expenditures (capex) decreased compared with 2019, which included $44 million for land purchased for a new operations centre.
- Dividends of $82 million were in line with the Company's dividend policy.
- Alectra had a net free cash flow deficit of $230 million in 2020 because of its large capex program and the timing of customer collections. The Company funded this deficit through its CP program.
    - Alectra also repaid $40 million of debentures during the year.

2021 Summary and Outlook

- DBRS Morningstar expects the Company's key credit metrics to return to historical levels in 2021.
    - Alectra's key credit metrics strengthened in LTM 2021 because of higher cash flow from operations.
    - 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 $280 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.
    - Alectra issued $300 million of debentures in February 2021, with proceeds used to partly repay the outstanding CP balance.

Debt and Liquidity

Liquidity

(CAD millions as at March 31, 2021)	Amount	Drawn/Letter of Credit	Available	Expiry
Cash & cash equivalents	31	0	**31**	N/A
364-day committed revolving credit facility	700	89	**611**	Oct. 2022
Uncommitted credit facility	100	0	**100**	Demand
Total	**831**	**89**	**742**	

- In May 2020, Alectra increased its 364-day committed revolving credit facility to $700 million from the previous $500 million.
    - This facility is used to backstop the Company's $500 million CP program, which was increased from $300 million in May 2020 ($55 million outstanding as at March 31, 2021).
    - 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, 2021).

Long-term Debt

(CAD millions as at March 31, 2021)	Amount	Rate (%)	Maturity
Series A Senior Unsecured Debentures	110	4.521	Apr. 2021
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	**2,256**		
Unamortized debt issuance costs	(9)		
Total long-term debt	**2,247**		

- Alectra's long-term debt maturity is relatively well spread out, with a modest amount of debt maturing within the next five years.
- The Company's long-term debt consists of the following:
    - Senior Unsecured Debentures totalling $2,090 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 of 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, 2021).

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 2020 EDR application, AUC requested a Price Cap adjustment of 1.7% (based on an inflation factor of 2.0%, productivity factor of 0.0%, and stretch factor of 0.3%) for each of the Brampton, Enersource, Guelph, Horizon Utilities, and PowerStream rate zones.
    - In December 2019, the OEB approved the 1.7% rate increases effective January 1, 2020.
    - Additionally, the OEB approved AUC's proposed ESM based on a weighted-average allowed ROE for the consolidated entity rather than using the ROE for each individual rate zone.

- In January 2020, the OEB denied AUC's proposal for a MAADs factor (M-factor) to fund incremental capex of $265 million over the latter five years of the deferral period.
    - The OEB indicated that AUC could instead file a cost-based application and terminate the deferral period or continue to request incremental funding under ICM.
    - In January 2020, AUC indicated that it would amend its 2020 EDR application to request ICM funding. However, AUC confirmed in April 2020 that, because of the ongoing coronavirus pandemic, it would re-evaluate capex requirements and not seek ICM funding for the year.
- In its 2021 EDR application, AUC requested a Price Cap adjustment of 1.9% (based on an inflation factor of 2.2%, productivity factor of 0.0%, and 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.

Assessment of Regulatory Framework

Criteria	Score	Analysis
1. Deemed Equity	Excellent Good **Satisfactory** Below Average Poor	AUC has deemed equity component of capital structure of 40% in 2021, which is consistent with the other electricity distribution companies in Ontario.
2. Allowed ROE	Excellent Good **Satisfactory** Below Average Poor	AUC's deemed ROE for 2021 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	**Excellent** 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 **Good** 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. COS versus Incentive Rate Mechanism	Excellent Good **Satisfactory** 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 **Below Average** 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). Further, 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 **Good** 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 **Satisfactory** Below Average Poor	From 2002 to 2005, as a result of rising rates during Ontario's utility deregulation phase, a province-wide distribution rate freeze was imposed. There have been no subsequent province-wide rate freezes.

Balance Sheet

(CAD millions)	Mar. 31	Dec. 31	Dec. 31		Mar. 31	Dec. 31	Dec. 31
Assets	**2021**	**2020**	**2019**	**Liabilities & Equity**	**2021**	**2020**	**2019**
Cash & equivalents	31	21	29	Short-term borrowings	57	416	182
Accounts receivable	327	319	278	Accounts payable	370	384	374
Inventories	40	31	29	Current portion L.T.D.	114	114	42
Prepaid expenses & other	247	374	289	Other current liabilities	151	146	152
Total current assets	**645**	**745**	**625**	**Total current liabilities**	**692**	**1,060**	**750**
Net fixed assets	3,625	3,600	3,430	Long-term debt	2,168	1,869	1,978
Future income tax assets	3	3	3	Deferred income taxes	80	68	48
Goodwill & intangibles	794	761	761	Other long-term liabilities	624	617	533
Investments & others	235	241	237	Shareholders' equity	1,741	1,736	1,747
Total assets	**5,304**	**5,350**	**5,056**	**Total liabilities & equity**	**5,304**	**5,350**	**5,056**

Ratios

	12 mos. ended March 31	For the year ended December 31			
Balance Sheet & Liquidity & Capital Ratios	**2021**	**2020**	**2019**	**2018**	**2017**
Current ratio (x)	0.93	0.70	0.83	0.85	0.95
Total debt in capital structure (%)	57.3	58.0	55.8	54.0	53.4
Total debt in capital structure (%)[1, 2]	61.8	62.2	60.9	60.9	61.2
Cash flow/Total debt (%)	13.5	12.5	14.4	15.4	13.2
Cash flow/Total debt (%)[2]	13.5	12.5	14.4	15.3	13.2
(Cash flow-dividends)/Capex (x)	0.87	0.78	0.69	0.82	0.82
Dividend payout ratio (%)	49.3	57.0	63.9	54.2	32.7
Coverage Ratios (x)					
EBIT gross interest coverage	2.82	2.69	2.59	2.97	3.12
EBIT gross interest coverage[2]	2.82	2.69	2.59	2.93	3.08
EBITDA gross interest coverage	4.73	4.58	4.40	4.84	5.15
Fixed-charge coverage	2.82	2.69	2.59	2.93	3.08
Profitability Ratios (%)					
EBITDA margin	55.7	55.3	54.5	56.8	55.7
EBIT margin	33.2	32.5	32.2	34.9	33.7
Profit margin	21.7	21.5	20.4	21.4	20.1
Return on equity[1,2]	10.6	10.0	9.9	10.2	9.9
Return on capital[1,2]	4.4	4.3	4.5	4.8	4.7

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	2020	2019	2018	2017	2016
Issuer Rating	A	A	A	A	A	NR
Senior Unsecured Debentures	A	A	A	A	A	NR
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	NR	NR

Previous Actions

"DBRS Morningstar Assigns Rating of "A" with a Stable Trend to Alectra Inc.'s $300 Million Senior Unsecured Debentures," February 11, 2021.

- "DBRS Morningstar Confirms Alectra Inc. at “A” and R-1 (low), Stable Trends," June 29, 2020.

Previous Report

- Alectra Inc.: Rating Report, July 9, 2020.

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.

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 3,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why DBRS Morningstar is the next generation of credit ratings.

Learn more at dbrsmorningstar.com.

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: https://www.dbrsmorningstar.com/research/225752/highlights.pdf.

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

© 2021 DBRS Morningstar. All Rights Reserved. The information upon which DBRS Morningstar ratings and other types of credit opinions and reports are based is obtained by DBRS Morningstar from sources DBRS Morningstar believes to be reliable. DBRS Morningstar does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS Morningstar ratings, other types of credit opinions, reports and any other information provided by DBRS Morningstar are provided "as is" and without representation or warranty of any kind. DBRS Morningstar hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS Morningstar or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Morningstar Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS Morningstar or any DBRS Morningstar Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. No DBRS Morningstar entity is an investment advisor. DBRS Morningstar does not provide investment, financial or other advice. Ratings, other types of credit opinions, other analysis and research issued or published by DBRS Morningstar are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities. A report with respect to a DBRS Morningstar rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS Morningstar may receive compensation for its ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. DBRS Morningstar is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS Morningstar shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS Morningstar. ALL DBRS MORNINGSTAR RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT https://www.dbrsmorningstar.com/about/disclaimer. ADDITIONAL INFORMATION REGARDING DBRS MORNINGSTAR RATINGS AND OTHER TYPES OF CREDIT OPINIONS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON https://www.dbrsmorningstar.com.

MORNINGSTAR | DBRS

Rating Report
Alectra Inc.

DBRS Morningstar
June 24, 2022

Contents

1 Ratings
1 Rating Update
2 Financial Information
2 Issuer Description
2 Rating Considerations
4 Corporate Structure
5 Earnings and Outlook
6 Financial Profile
7 Debt and Liquidity
8 Regulation
11 ESG Checklist
13 Ratings History
13 Previous Actions
13 Previous Report

Commercial Paper Limit
$700 million

Tom Li
+1 416 597-7378
tom.li@dbrsmorningstar.com

Biao Gong
+1 416 597-7557
biao.gong@dbrsmorningstar.com

Ratings

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

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 (low). 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 (%)[1, 2]	61.1	60.5	62.2	60.9	60.9
Cash flow/Total debt (%)[2]	12.7	13.8	12.5	14.4	15.3
EBIT gross interest coverage (x)[2]	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

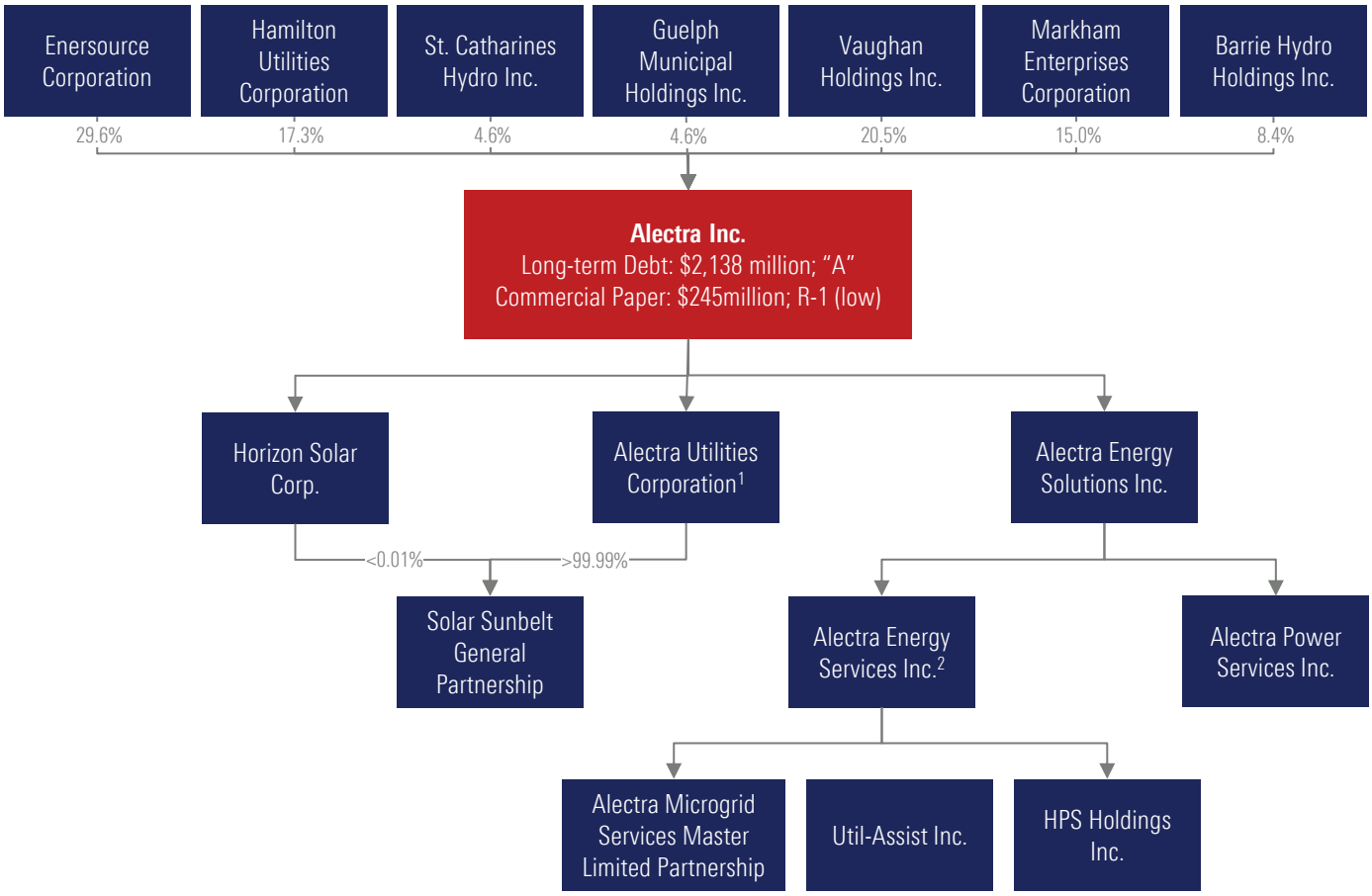
DBRS Morningstar considers the nonregulated business to be higher risk than Alectra's core regulated electricity distribution business. This is largely because of the greater volume risk associated with nonregulated operations. Nonregulated operations for the Company include solar generation, a submetering 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 ended 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[1]	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 (%)[2]	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 (%)[1,2]	61.1	60.5	62.2	60.9	60.9
Cash flow/Total debt (%)[2]	12.7	13.8	12.5	14.4	15.3
EBIT gross interest coverage (x)[2]	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

Liquidity

(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).

Long-term Debt

(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 **Satisfactory** 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 **Satisfactory** 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	**Excellent** 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 **Good** 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 **Satisfactory** 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 **Below Average** 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 **Good** 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 **Satisfactory** 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.

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		**Overall:**	**N**	**N**
	Emissions, Effluents, and Waste	Do we consider that the costs or risks for the issuer or its clients result, or could result, in changes to an issuerÆs financial, operational, and/or reputational standing?	N	N
	Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs and/or will such costs increase over time affecting the long term credit profile?	N	N
	Resource and Energy Management	Does the scarcity of sourcing key resources hinder the production or operations of the issuer, resulting in lower productivity and therefore 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
	Climate and Weather Risks	In the near term, will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact? In the long term, will the issuer's or client's business activities and infrastructure be materially affected financially by a 2C rise in temperature?	N	N
Social		**Overall:**	**N**	**N**
	Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services could pose 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 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
		Human Capital and Human Rights	**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	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could it result, in financial penalties or client attrition to the issuer?	N	N
	Occupational Health and Safety	Would the failure to address workplace hazards have a negative 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	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
Governance		**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
		Are there any political risks that could impact the issuer's financial position or its reputation?	N	N
		Bribery, Corruption, and Political Risks	**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
		Corporate / Transaction Governance	**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
		Are government officials exposed to public scrutiny and held to high ethical standards of conduct?	N	N
		Institutional Strength, Governance, and Transparency (Governments Only)	**N**	**N**
		Consolidated ESG Criteria Output:	**N**	**N**

Balance Sheet

(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 ended December 31			
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 (%)[1, 2]	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 (%)[2]	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[2]	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[1,2]	9.2	9.0	10.0	9.9	10.2
Return on capital[1,2]	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	A	A	A	A	A	A
Senior Unsecured Debentures	A	A	A	A	A	A
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	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.

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 3,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why DBRS Morningstar is the next generation of credit ratings.

Learn more at dbrsmorningstar.com.

MORNINGSTAR | DBRS

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: https://www.dbrsmorningstar.com/research/225752/highlights.pdf.

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

© 2022 DBRS Morningstar. The information upon which DBRS Morningstar credit ratings and other types of credit opinions and reports are based is obtained by DBRS Morningstar from sources DBRS Morningstar believes to be reliable. DBRS Morningstar does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS Morningstar credit ratings, other types of credit opinions, reports and any other information provided by DBRS Morningstar are provided "as is" and without representation or warranty of any kind and DBRS Morningstar assumes no obligation to update any such ratings, opinions, reports or other information. DBRS Morningstar hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS Morningstar or its directors, officers, employees, independent contractors, agents, affiliates and representatives (collectively, DBRS Morningstar Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of credit ratings, other types of credit opinions and reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS Morningstar or any DBRS Morningstar Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. IN ANY EVENT, TO THE EXTENT PERMITTED BY LAW, THE AGGREGATE LIABILITY OF DBRS MORNINGSTAR AND THE DBRS MORNINGSTAR REPRESENTATIVES FOR ANY REASON WHATSOEVER SHALL NOT EXCEED THE GREATER OF (A) THE TOTAL AMOUNT PAID BY THE USER FOR SERVICES PROVIDED BY DBRS MORNINGSTAR DURING THE TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO LIABILITY, AND (B) U.S. $100. DBRS Morningstar does not act as a fiduciary or an investment advisor. DBRS Morningstar does not provide investment, financial or other advice. Credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar (a) are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities; (b) do not take into account your personal objectives, financial situations or needs; (c) should be weighed, if at all, solely as one factor in any investment or credit decision; (d) are not intended for use by retail investors; and (e) address only credit risk and do not address other investment risks, such as liquidity risk or market volatility risk. Accordingly, credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar are not a substitute for due care and the study and evaluation of each investment decision, security or credit that one may consider making, purchasing, holding, selling, or providing, as applicable. A report with respect to a DBRS Morningstar credit rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS Morningstar may receive compensation for its credit ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS Morningstar. ALL DBRS MORNINGSTAR CREDIT RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DEFINITIONS, LIMITATIONS, POLICIES AND METHODOLOGIES THAT ARE AVAILABLE ON https://www.dbrsmorningstar.com. Users may, through hypertext or other computer links, gain access to or from websites operated by persons other than DBRS Morningstar. Such hyperlinks or other computer links are provided for convenience only. DBRS Morningstar does not endorse the content, the operator or operations of third party websites. DBRS Morningstar is not responsible for the content or operation of such third party websites and DBRS Morningstar shall have no liability to you or any other person or entity for the use of third party websites.

MORNINGSTAR | DBRS

Rating Report
Alectra Inc.

DBRS Morningstar
June 27, 2023

Contents

1 Ratings
1 Rating Update
2 Financial Information
2 Issuer Description
2 Rating Considerations
4 Corporate Structure
5 Earnings and Outlook
6 Financial Profile
7 Debt and Liquidity
8 Regulation
11 Environmental, Social, and Governance (ESG) Checklist
13 Rating History
13 Previous Actions
13 Previous Report

Commercial Paper Limit
$700 million

Tom Li
+1 416 597-7378
tom.li@dbrsmorningstar.com

Jasper Shi
+1 416 597-7415
jasper.shi@dbrsmorningstar.com

Ratings

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

Rating Update

On June 21, 2023, DBRS Limited (DBRS Morningstar) confirmed Alectra Inc.'s (Alectra or the Company) Issuer Rating and Senior Unsecured Debentures rating at "A," and the Commercial Paper (CP) rating at R-1 (low). All trends are Stable. The ratings of Alectra are based on the Company's regulated electricity distribution business in Ontario (88% of 2022 EBITDA), which provides a predictable source of earnings and cash flows. The Stable trend reflects Alectra's financial risk assessment, which remains supportive of the current ratings.

There were no material changes to Alectra's business risk assessment in 2022, which continues to be supported by a reasonable regulatory framework under the Ontario Energy Board (OEB). There were no material changes in regulatory environment as the Company continues to operate under a 10-year deferral period until 2027, with rates increasing annually largely by inflation. Additionally, the proportion of earnings from nonregulated activities has stabilized with Alectra expecting nonregulated activities to remain around 10% to 15% of EBITDA over the medium term. While capital expenditures (capex) over the next five years will continue to focus on regulated activities (92% of planned capex), DBRS Morningstar notes nonregulated opportunities may arise (such as the Independent Electricity System Operator (IESO) request for proposals for additional generation or storage assets), which could accelerate growth in this segment. DBRS Morningstar will continue to monitor the Company's plans for its nonregulated businesses. Should earnings from the nonregulated business exceed the 20% threshold on a sustained basis, Alectra's business risk assessment could be negatively affected.

Alectra's financial risk assessment remains supportive of the "A" ratings. The Company's key credit metrics weakened in 2022 because of lower cash flows and a higher debt load due in part to the regulatory lag in recovery of flowthrough energy costs. DBRS Morningstar expects Alectra to continue to fund its distributions and capex program in a prudent manner in order to maintain leverage in line with the regulatory capital structure (60% debt) and its key credit metrics in line with the current rating category. However, should key credit metrics weaken 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				
	2023	**2022**	**2021**	**2020**	**2019**	**2018**
Total debt in capital structure[1, 2] (%)	61.5	61.5	60.5	62.2	60.9	60.9
Cash flow/total debt[2] (%)	12.2	11.7	13.8	12.5	14.4	15.3
EBIT gross interest coverage[2] (times)	2.79	2.85	2.97	2.69	2.59	2.93

1 Equity excludes goodwill resulting from the amalgamation of PowerStream Holdings Inc., Horizon Holdings Inc., and Enersource Holdings Inc., and the acquisition of Guelph Hydro Electric Systems Inc..
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, 2023 (LTM 2023), the Company's key credit metrics of cash flow-to-debt, debt-to-capital, and EBIT-interest coverage (12.2%, 61.5%, and 2.79 times (x), respectively) were overall supportive of the "A" ratings.

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 2022 and 2023 were reasonable at 0.0% and 0.3%, respectively, in both years.

2. Exposure to higher-risk nonregulated business

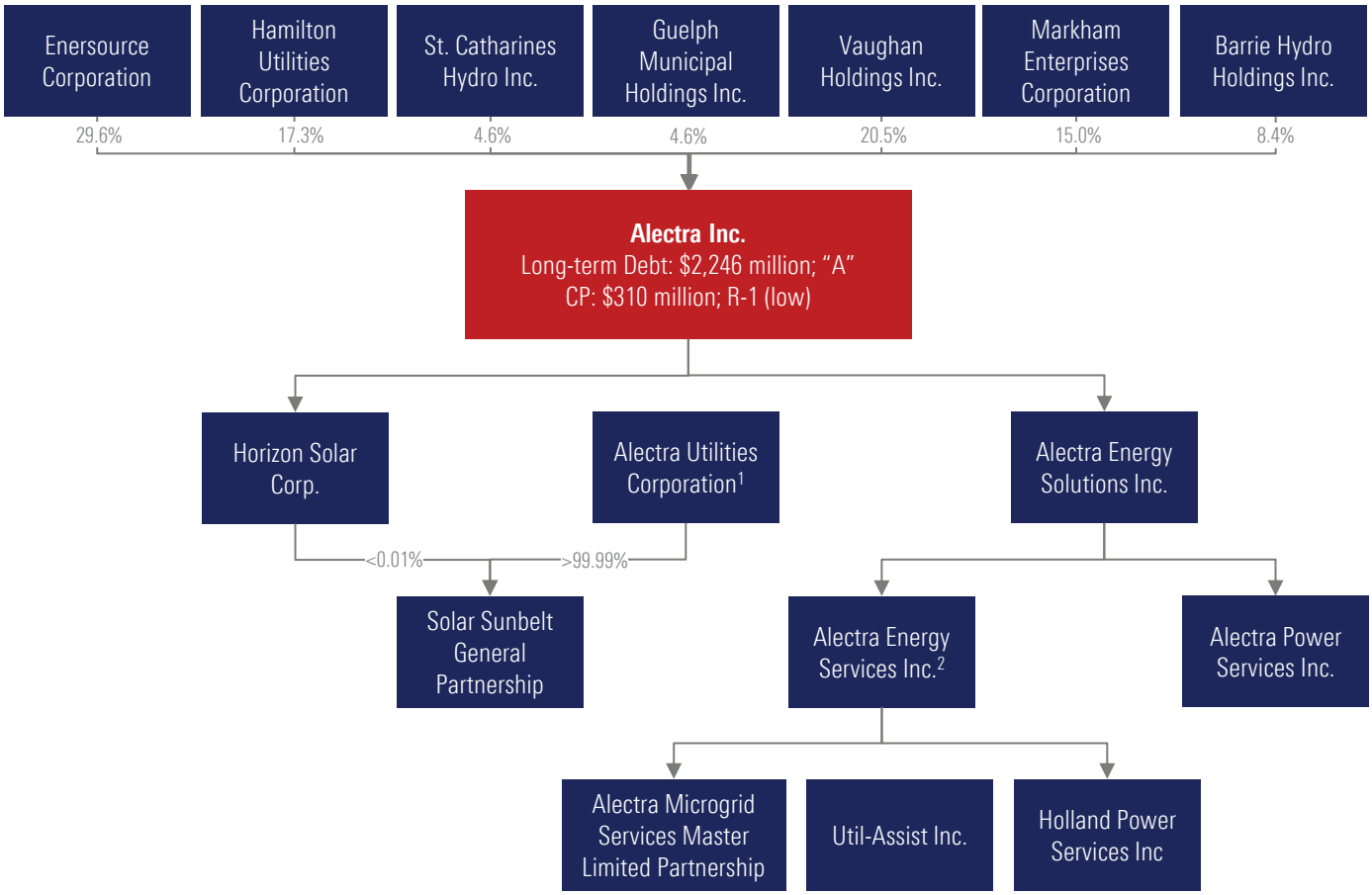
DBRS Morningstar considers the nonregulated business to be higher risk than Alectra's core regulated electricity distribution business. This is largely because of the greater volume risk associated with nonregulated operations. Nonregulated operations for the Company include solar generation, a submetering 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 2022, nonregulated operations accounted for approximately 12% of total EBITDA, and the Company has indicated this will likely increase up 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, 2023.
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 Hydro One Brampton Networks Inc.
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.
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 $337 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., 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 ended December 31				
(CAD millions where applicable)	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**
Net Sales	813	799	754	671	653	596
EBITDA	420	414	399	371	356	339
EBIT	243	239	232	218	210	208
Gross interest expense	87	84	78	81	81	70
Net income before nonrecurring items	145	144	136	144	133	127
Reported net income	33	40	105	79	64	109
ROE (%)	9.2	9.1	9.0	10.0	9.9	10.2
Rate base[1]	N/A	3,475	3,395	3,371	3,212	3,041
Deemed common equity (%)	40.0	40.0	40.0	40.0	40.0	40.0
Allowed ROE[2] (%)	8.95	8.95	8.95	8.95	8.95	8.95
Achieved regulatory ROE (%)	N/A	6.70	6.18	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.

2022 Summary

- Alectra's earnings have been predictable, supported by the Company's regulated activities (88% of 2022 EBITDA). Earnings from the nonregulated segment largely consist of solar generation assets under long-term Feed-In Tariff contracts with the IESO and a storm restoration business.
  - EBITDA and EBIT increased because of higher approved distribution rates and stronger results from the competitive businesses.
  - This increase was partly offset by higher labour costs because of the increased volume of storm response activities, higher depreciation from the higher asset base, and higher interest expense.
  - Net income before nonrecurring items increased modestly because of lower payments in lieu of income taxes for the year.

- Reported net income included DBRS Morningstar regulatory adjustments of $85 million and derecognition loss of $6 million.

2023 Summary and Outlook

- Earnings for LTM 2023 were largely in line with 2022.
- DBRS Morningstar expects Alectra's earnings to be steady in 2023.
    - Distribution revenues should continue to benefit from annual increases through the IR mechanism.
    - Earnings may see short-term modest pressure from inflation and the higher interest rate environment until rates are adjusted to account for these impacts.
    - 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)	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**
Net income before nonrecurring items	145	144	136	144	133	127
Depreciation & amortization	193	191	182	165	158	140
Deferred income taxes and other	(23)	(35)	9	(10)	26	38
Cash flow from operations	**315**	**300**	**327**	**299**	**317**	**305**
Dividends paid	(77)	(96)	(77)	(82)	(85)	(69)
Capex	(309)	(289)	(303)	(278)	(334)	(289)
Free cash flow (before working capital changes)	**(71)**	**(85)**	**(53)**	**(61)**	**(102)**	**(53)**
Changes in noncash working capital items	(8)	(6)	186	(120)	33	(108)
Regulatory assets/liabilities	(94)	(85)	(42)	(44)	(69)	(30)
Net free cash flow	**(173)**	**(176)**	**91**	**(225)**	**(138)**	**(191)**
Acquisitions & long-term investments	0	0	(98)	(7)	0	0
Proceeds on asset sales	4	3	31	33	17	17
Net equity change	(2)	(2)	(2)	(4)	(4)	(5)
Net debt change	157	187	(36)	193	127	73
Other investing & financing	5	4	20	7	11	0
Change in cash	**(9)**	**16**	**6**	**(3)**	**13**	**(106)**
Total debt	2,576	2,556	2,368	2,399	2,202	1,984
Total debt in capital structure[1,2] (%)	61.5	61.5	60.5	62.2	60.9	60.9
Cash flow/total debt[2] (%)	12.2	11.7	13.8	12.5	14.4	15.3
EBIT gross interest coverage[2] (x)	2.79	2.85	2.97	2.69	2.59	2.93
Dividend payout ratio (%)	53.1	66.7	56.6	57.0	63.9	54.2

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

2022 Summary

- Alectra's key credit metrics weakened slightly in 2022.
    - The Company's debt-to-capital and cash flow-to-debt metrics both weakened because of the higher debt load.
- Cash flow from operations decreased because of timing of cash collection.
- Net capex decreased modestly for the year.
- Dividends of $96 million were in line with the Company's dividend policy.
- Alectra issued $250 million of debentures in November 2022, with proceeds used to partly repay the outstanding CP balance.

2023 Summary and Outlook

- Alectra's key credit metrics were largely stable for LTM 2023.
    - The Company's EBIT interest coverage ratio weakened modestly because of higher interest rates on short term debt, while the cash flow-to-debt ratio improved because of stronger cash flows for the period.
- 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 $334 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

Liquidity

(CAD millions as at March 31, 2023)	Amount	Drawn/CP/Letter of Credit	Available	Expiry
Cash & cash equivalents	13	0	**13**	N/A
Committed revolving credit facility	700	310	**390**	Sep. 2027
Overdraft facility	100	0	**100**	Demand
Uncommitted credit facility	100	38	**62**	Demand
Total	**913**	**348**	**565**	

- 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 ($310 million outstanding as at March 31, 2023).
    - 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 ($38 million drawn as at March 31, 2023).

Long-term Debt

(CAD millions as at December 31, 2022)	Amount	Rate (%)	Maturity
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
Series 2022-1 Senior Unsecured Debentures	250	5.225	Nov.2052
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	**2,246**		
Unamortized debt issuance costs	(9)		
Total long-term debt	**2,237**		

- 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 $2,080 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 November 2022, the Company issued $250 million of 5.225% Series 2022-1 Senior Unsecured Debentures due November 14, 2052.
- 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, 2023).

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) 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 Incremental Capital Module (ICM) for each rate zone to request funding for incremental capital investment needs during the IR term.
- In its 2022 electricity distribution rate (EDR) application, AUC requested a Price Cap adjustment of 3.4% (based on an inflation factor of 3.7%, 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 2022, the OEB approved the 3.4% rate increases effective January 1, 2023.

Assessment of Regulatory Framework

Criteria	Score	Analysis
1. Deemed Equity	Excellent Good **Satisfactory** Below Average Poor	AUC has deemed an equity component of capital structure of 40% in 2023, which is consistent with the other electricity distribution companies in Ontario.
2. Allowed ROE	Excellent Good **Satisfactory** Below Average Poor	AUC's deemed ROE for 2023 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	**Excellent** 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 **Good** 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 IR Mechanism	Excellent Good **Satisfactory** 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 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 **Below Average** 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 **Good** 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 **Satisfactory** 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.

Environmental, Social, and Governance (ESG) Checklist

Environmental

There were no Environmental factors that had a relevant or significant effect on the credit analysis. DBRS Morningstar notes regulated utilities may be subject to extraordinary weather events; any expenditures arising from these events are expected to be recovered through rates. For more details about which Environmental factors could have an effect on the credit analysis, please refer to the checklist below.

Social

There were no Social factors that had a relevant or significant effect on the credit analysis. For more details about which Social factors could have an effect on the credit, please refer to the checklist below.

Governance

There were no Governance factors that had a relevant or significant effect on the credit analysis. For more details about which Governance factors could have an effect on the credit analysis, please refer to the checklist below.

A description of how DBRS Morningstar considers Environmental, Social, and Governance factors within the DBRS Morningstar analytical framework can be found in the *DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings* at https://www.dbrsmorningstar.com/research/396929.

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		**Overall:**	**N**	**N**
	Emissions,Effluents, and Waste	Do we consider the costs or risks result, or could result in changes to an issuer's financial, operational, and/or reputational standing?	**N**	**N**
	Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs?	**N**	**N**
	Resource and Energy Management	Does the scarcity of sourcing key resources hinder the production or operations of the issuer, resulting in lower productivity and therefore 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**
	Climate and Weather Risks	Will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact?	**N**	**N**
Social		**Overall:**	**N**	**N**
	Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services could pose 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 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**
		Human Capital and Human Rights:	**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	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could result, in financial penalties or client attrition to the issuer?	**N**	**N**
	Occupational Health and Safety	Would the failure to address workplace hazards have a negative 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	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**
Governance		**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**
		Are there any political risks that could impact the issuer's financial position or its reputation?	**N**	**N**
		Bribery, Corruption, and Political Risks:	**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 limit 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**
		Corporate / Transaction Governance:	**N**	**N**
	Institutional Strength, Governance, and Transparency (Governments Only)s	Compared with other governments, do institutional arrangements provide a higher or lesser degree of accountability, transparency, and effectiveness?	**N**	**N**
		Are regulatory and oversight bodies insufficiently protected from inappropriate political influence?	**N**	**N**
		Are government officials insufficiently exposed to public scrutiny or held to insufficiently high ethical standards of conduct?	**N**	**N**
		Institutional Strength, Governance, and Transparency (Governments Only)s:	**N**	**N**
		Consolidated ESG Criteria Output:	**N**	**N**

Balance Sheet

(CAD millions)	Mar. 31	Dec. 31	Dec. 31		Mar. 31	Dec. 31	Dec. 31
Assets	**2023**	**2022**	**2021**	**Liabilities & Equity**	**2023**	**2022**	**2021**
Cash & equivalents	13	48	32	Short-term borrowings	310	290	195
Accounts receivable	338	310	338	Accounts payable	455	477	466
Inventories	0	40	34	Current portion long-term debt	4	4	156
Prepaid expenses & other	320	308	253	Other current liabilities	161	163	145
Total current assets	**671**	**706**	**657**	**Total current liabilities**	**930**	**934**	**962**
Net fixed assets	4,012	3,977	3,807	Long-term debt	2,262	2,262	2,017
Future income tax assets	2	3	2	Deferred income taxes	109	107	97
Goodwill & intangibles	777	0	0	Other long-term liabilities	693	681	663
Investments & others	256	1,034	1,042	Shareholders' equity	1,724	1,736	1,769
Total assets	**5,718**	**5,720**	**5,508**	**Total liabilities & equity**	**5,718**	**5,720**	**5,508**

Ratios

	12 mos. ended March 31	For the year ended December 31				
Balance Sheet & Liquidity & Capital Ratios	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**
Current ratio (x)	0.72	0.76	0.68	0.70	0.83	0.85
Total debt in capital structure (%)	59.9	59.6	57.2	58.0	55.8	54.0
Total debt in capital structure[1, 2] (%)	61.5	61.5	60.5	62.2	60.9	60.9
Cash flow/total debt (%)	12.2	11.7	13.8	12.5	14.4	15.4
Cash flow/total debt (%)[2]	12.2	11.7	13.8	12.5	14.4	15.3
(Cash flow-dividends)/capex (x)	0.77	0.71	0.76	0.78	0.69	0.82
Dividend payout ratio (%)	53.1	66.7	56.6	57.0	63.9	54.2
Coverage Ratios (x)						
EBIT gross interest coverage	2.79	2.85	2.97	2.69	2.59	2.97
EBIT gross interest coverage[2]	2.79	2.85	2.97	2.69	2.59	2.93
EBITDA gross interest coverage	4.83	4.93	5.12	4.58	4.40	4.84
Fixed-charge coverage	2.79	2.85	2.97	2.69	2.59	2.93
Profitability Ratios (%)						
EBITDA margin	51.7	51.8	52.9	55.3	54.5	56.8
EBIT margin	29.9	29.9	30.8	32.5	32.2	34.9
Profit margin	17.8	18.0	18.0	21.5	20.4	21.4
ROE[1,2]	9.2	9.1	9.0	10.0	9.9	10.2
Return on capital[1,2]	4.4	4.4	4.4	4.3	4.5	4.8

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

Rating History

	Current	2022	2021	2020	2019	2018
Issuer Rating	A	A	A	A	A	A
Senior Unsecured Debentures	A	A	A	A	A	A
Commercial Paper	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

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, 2022.
- "DBRS Morningstar Assigns Rating of "A" with a Stable Trend to Alectra Inc.'s $250 Million Senior Unsecured Debentures," November 14, 2022.

Previous Report

- Alectra Inc.: Rating Report, June 24, 2022.

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.

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 4,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why DBRS Morningstar is the next generation of credit ratings.

Learn more at dbrsmorningstar.com.

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). DBRS Morningstar does not hold an Australian financial services license. DBRS Morningstar credit ratings, and other types of credit opinions and reports, are not intended for Australian residents or entities. DBRS Morningstar does not authorize their distribution to Australian resident individuals or entities, and accepts no responsibility or liability whatsoever for the actions of third parties in this respect. For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: https://www.dbrsmorningstar.com/research/225752/highlights.pdf.

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

© 2023 DBRS Morningstar. All Rights Reserved. The information upon which DBRS Morningstar credit ratings and other types of credit opinions and reports are based is obtained by DBRS Morningstar from sources DBRS Morningstar believes to be reliable. DBRS Morningstar does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS Morningstar credit ratings, other types of credit opinions, reports and any other information provided by DBRS Morningstar are provided "as is" and without representation or warranty of any kind and DBRS Morningstar assumes no obligation to update any such ratings, opinions, reports or other information. DBRS Morningstar hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS Morningstar or its directors, officers, employees, independent contractors, agents, affiliates and representatives (collectively, DBRS Morningstar Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of credit ratings, other types of credit opinions and reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS Morningstar or any DBRS Morningstar Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. IN ANY EVENT, TO THE EXTENT PERMITTED BY LAW, THE AGGREGATE LIABILITY OF DBRS MORNINGSTAR AND THE DBRS MORNINGSTAR REPRESENTATIVES FOR ANY REASON WHATSOEVER SHALL NOT EXCEED THE GREATER OF (A) THE TOTAL AMOUNT PAID BY THE USER FOR SERVICES PROVIDED BY DBRS MORNINGSTAR DURING THE TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO LIABILITY, AND (B) U.S. $100. DBRS Morningstar does not act as a fiduciary or an investment advisor. DBRS Morningstar does not provide investment, financial or other advice. Credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar (a) are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities; (b) do not take into account your personal objectives, financial situations or needs; (c) should be weighed, if at all, solely as one factor in any investment or credit decision; (d) are not intended for use by retail investors; and (e) address only credit risk and do not address other investment risks, such as liquidity risk or market volatility risk. Accordingly, credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar are not a substitute for due care and the study and evaluation of each investment decision, security or credit that one may consider making, purchasing, holding, selling, or providing, as applicable. A report with respect to a DBRS Morningstar credit rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS Morningstar may receive compensation for its credit ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS Morningstar. ALL DBRS MORNINGSTAR CREDIT RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DEFINITIONS, LIMITATIONS, POLICIES AND METHODOLOGIES THAT ARE AVAILABLE ON https://www.dbrsmorningstar.com. Users may, through hypertext or other computer links, gain access to or from websites operated by persons other than DBRS Morningstar. Such hyperlinks or other computer links are provided for convenience only. DBRS Morningstar does not endorse the content, the operator or operations of third party websites. DBRS Morningstar is not responsible for the content or operation of such third party websites and DBRS Morningstar shall have no liability to you or any other person or entity for the use of third party websites.

MORNINGSTAR | DBRS

PRESS RELEASE

JUNE 21, 2024

Morningstar DBRS Confirms Alectra Inc. at "A" and R-1 (low), Stable Trends

UTILITIES & INDEPENDENT POWER

DBRS Limited (Morningstar DBRS) confirmed the Issuer Rating and Senior Unsecured Debentures rating of Alectra Inc. (Alectra or the Company) at "A" and its Commercial Paper rating at R-1 (low). All trends are Stable.

KEY CREDIT RATING CONSIDERATIONS

Alectra's ratings are based on the Company's regulated electricity distribution business in Ontario (93% of 2023 EBITDA), which provides a predictable source of earnings and cash flows, and a reasonable financial risk assessment. There were no material changes to Alectra's business risk assessment in 2023 and none so far in 2024. The Company continues to operate under a 10-year deferral period until 2027 under the Ontario Energy Board with annual inflationary rate increases.

CREDIT RATING DRIVERS

Morningstar DBRS notes a positive rating action is unlikely at this time given the key credit metrics and the current regulatory environment. A negative rating action could occur if the Company's key credit metrics weaken to a level that no longer supports the "A" rating category (i.e., debt-to-capital above 65% and cash flow-to-debt below 12.5%) for a sustained period.

EARNINGS OUTLOOK

Given its regulated operations, Alectra's earnings have been relatively stable and predictable. Overall, the Company's earnings should remain steady through the current regulatory period, with a modest increase in earnings year over year. Morningstar DBRS expects any volatility in earnings to largely be from (1) fluctuations in weather conditions and (2) the nonregulated storm restoration business. Earnings from the nonregulated solar generation business are also expected to be relatively stable given the long-term Feed-In Tariff contracts with the Independent Electricity System Operator (IESO). Over the medium term, Morningstar DBRS expects the proportion of earnings from nonregulated activities to remain at around 10% to 15% of EBITDA. However, should earnings from this segment exceed the 20% threshold on a sustained basis, Alectra's business risk assessment could be negatively affected.

FINANCIAL OUTLOOK

Alectra's financial risk assessment has also been stable, with all key credit metrics supportive of the "A" rating category. Morningstar DBRS expects the Company to continue to manage its capital expenditures (capex; net $333 million planned for 2024) and dividends in a prudent manner in order to maintain leverage in line with the regulatory capital structure of 60% debt. While the majority of Alectra's capex over the next five years will continue to focus on regulated activities (94% of planned capex), Morningstar DBRS notes (1) the Company completed a tuck-in acquisition to its storm restoration business in June 2024 and (2) through a joint venture, the IESO awarded Alectra three projects to build a total of 80 megawatts of battery-based energy storage solutions. The Company's equity contribution to the joint venture is expected to be modest, with the remaining financing to be nonrecourse debt at the project level. As such, Morningstar DBRS does not expect these projects to have a meaningful impact on Alectra's earnings mix. Morningstar DBRS will continue to monitor the Company's plans for its nonregulated businesses.

CREDIT RATING RATIONALE

Alectra's credit ratings are supported by the stability of its regulated business, a strong franchise area with good growth, and the Company's reasonable financial profile. It is partly offset by exposure to the higher-risk nonregulated businesses, and the operational challenges and performance pressure under incentive rate-setting.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS

There were no Environmental/Social/Governance factors that had a significant or relevant effect on the credit analysis.

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (January 23, 2024) at https://dbrs.morningstar.com/research/427030.

BUSINESS RISK ASSESSMENT (BRA) AND FINANCIAL RISK ASSESSMENT (FRA)

(A) Weighting of BRA Factors

In the analysis of Alectra, the BRA factors are considered in the order of importance contemplated in the methodology.

(B) Weighting of FRA Factors

In the analysis of Alectra, the FRA factors are considered in the order of importance contemplated in the methodology.

(C) Weighting of the BRA and the FRA

In the analysis of Alectra, the BRA carries greater weight than the FRA.

Notes:

All figures are in Canadian dollars unless otherwise noted.

Morningstar DBRS applied the following principal methodology:

-- Global Methodology for Rating Companies in the Regulated Utility and Independent Power Producer Industries (April 15, 2024) https://dbrs.morningstar.com/research/431184.

Morningstar DBRS credit ratings may use one or more sections of the Morningstar DBRS Global Corporate Criteria (April 15, 2024), https://dbrs.morningstar.com/research/431186, which covers, for example, topics such as holding companies and parent/subsidiary relationships, guarantees, recovery, and common adjustments to financial ratios.

The following methodologies have also been applied:

-- Morningstar DBRS Global Corporate Criteria (April 15, 2024) https://dbrs.morningstar.com/research/431186 and

-- Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (January 23, 2024), https://dbrs.morningstar.com/research/427030.

The credit rating methodologies used in the analysis of this transaction can be found at: https://dbrs.morningstar.com/about/methodologies.

A description of how Morningstar DBRS analyzes corporate finance transactions and how the methodologies are collectively applied can be found at: https://dbrs.morningstar.com/research/431153.

The related regulatory disclosures pursuant to the National Instrument 25-101 Designated Rating Organizations are hereby incorporated by reference and can be found by clicking on the link under Related Documents or by contacting us at info-DBRS@morningstar.com.

The credit rating was initiated at the request of the rated entity.

The rated entity or its related entities did participate in the credit rating process for this credit rating action.

Morningstar DBRS had access to the accounts, management, and other relevant internal documents of the rated entity or its related entities in connection with this credit rating action.

This is a solicited credit rating.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. Morningstar DBRS trends and credit ratings are under regular surveillance.

Information regarding Morningstar DBRS credit ratings, including definitions, policies, and methodologies, is available on dbrs.morningstar.com or contact us at info-DBRS@morningstar.com.

DBRS Limited
DBRS Tower, 181 University Avenue, Suite 700
Toronto, ON M5H 3M7 Canada
Tel. +1 416 593-5577

Ratings

Alectra Inc.

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
21-Jun-24	Issuer Rating	Confirmed	A	Stb	CA
21-Jun-24	Senior Unsecured Debentures	Confirmed	A	Stb	CA
21-Jun-24	Commercial Paper	Confirmed	R-1 (low)	Stb	CA

ALL MORNINGSTAR DBRS CREDIT RATINGS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS. ADDITIONAL INFORMATION REGARDING DBRS RATINGS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON DBRS.MORNINGSTAR.COM.

Contacts

Tom Li
Senior Vice President, Sector Lead - Corporate Ratings, Energy & Natural Resources
+(1) 416 597 7378
tom.li@morningstar.com

Jasper Shi
Senior Analyst - Corporate Ratings, Energy & Natural Resources
+(1) 416 597 7415
jasper.shi@morningstar.com

The Morningstar DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). Morningstar DBRS does not hold an Australian financial services license. Morningstar DBRS credit ratings, and other types of credit opinions and reports, are not intended for Australian residents or entities. Morningstar DBRS does not authorize their distribution to Australian resident individuals or entities, and accepts no responsibility or liability whatsoever for the actions of third parties in this respect. For more information on regulatory registrations, recognitions and approvals of the Morningstar DBRS group of companies, please see: https://dbrs.morningstar.com/research/highlights.pdf.

The Morningstar DBRS group of companies are wholly-owned subsidiaries of Morningstar, Inc. © 2024 Morningstar DBRS. All Rights Reserved.

The information upon which Morningstar DBRS credit ratings and other types of credit opinions and reports are based is obtained by Morningstar DBRS from sources Morningstar DBRS believes to be reliable. Morningstar DBRS does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. Morningstar DBRS credit ratings, other types of credit opinions, reports and any other information provided by Morningstar DBRS are provided "as is" and without representation or warranty of any kind and Morningstar DBRS assumes no obligation to update any such ratings, opinions, reports or other information. Morningstar DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall Morningstar DBRS or its directors, officers, employees, independent contractors, agents, affiliates and representatives (collectively, Morningstar DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of credit ratings, other types of credit opinions and reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of Morningstar DBRS or any Morningstar DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. IN ANY EVENT, TO THE EXTENT PERMITTED BY LAW, THE AGGREGATE LIABILITY OF MORNINGSTAR DBRS AND THE MORNINGSTAR DBRS REPRESENTATIVES FOR ANY REASON WHATSOEVER SHALL NOT EXCEED THE GREATER OF (A) THE TOTAL AMOUNT PAID BY THE USER FOR SERVICES PROVIDED BY MORNINGSTAR DBRS DURING THE TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO LIABILITY, AND (B) U.S. $100. Morningstar DBRS does not act as a fiduciary or an investment advisor. Morningstar DBRS does not provide investment, financial or other advice.

Credit ratings, other types of credit opinions and other analysis and research issued by Morningstar DBRS (a) are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities; (b) do not take into account your personal objectives, financial situations or needs; (c) should be weighed, if at all, solely as one factor in any investment or credit decision; (d) are not intended for use by retail investors; and (e) address only credit risk and do not address other investment risks, such as liquidity risk or market volatility risk. Accordingly, credit ratings, other types of credit opinions and other analysis and research issued by Morningstar DBRS are not a substitute for due care and the study and evaluation of each investment decision, security or credit that one may consider making, purchasing, holding, selling, or providing, as applicable.

A report with respect to a Morningstar DBRS credit rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities.

Morningstar DBRS may receive compensation for its credit ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities.

This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of Morningstar DBRS. ALL MORNINGSTAR DBRS CREDIT RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DEFINITIONS, LIMITATIONS, POLICIES AND METHODOLOGIES THAT ARE AVAILABLE ON https://dbrs.morningstar.com. Users may, through hypertext or other computer links, gain access to or from websites operated by persons other than Morningstar DBRS. Such hyperlinks or other computer links are provided for convenience only. Morningstar DBRS does not endorse the content, the operator or operations of third party websites. Morningstar DBRS is not responsible for the content or operation of such third party websites and Morningstar DBRS shall have no liability to you or any other person or entity for the use of third party websites.

FitchRatings

RATING ACTION COMMENTARY

Fitch Assigns 'A-' First-Time IDR to ALECTRA INC.; Outlook Stable

Mon 14 Aug, 2023 - 4:35 PM ET

Fitch Ratings - Toronto - 14 Aug 2023: Fitch Ratings has assigned a first-time Long-Term Issuer Default Rating (IDR) of 'A-' to ALECTRA INC. (ALECTRA). The Rating Outlook is Stable. Fitch has also assigned an instrument rating of 'A' to ALECTRA's senior unsecured debt.

ALECTRA's ratings are supported by the company's large-scale regulated electric distribution operations in high growth areas of Ontario. Additionally, Fitch views the rate-setting mechanisms employed by ALECTRA's regulator, the Ontario Energy Board (OEB), to be highly constructive. While current FFO leverage is elevated, it is forecasted to improve to 5.2x with reducing regulatory lag and constructive rebasing expected in 2027. Fitch rates ALECTRA based on its standalone credit profile with no direct notching uplift related to municipal ownership.

Fitch has applied a one notch utility sector uplift from the IDR to the ratings of ALECTRA's senior unsecured debt. This assessment is based on ALECTRA's financing policy of raising debt exclusively at the parent level and the expectation that its business mix will remain predominantly regulated.

KEY RATING DRIVERS

Predominantly Regulated Utility Business: ALECTRA derived over 88% of consolidated 2022 EBITDA from Alectra Utilities Corporation, which is the largest municipally-owned electric distribution company in Canada. Fitch expects the company's predominately low-risk, regulated business mix to continue with 87%-90% of ALECTRA's EBITDA from regulated activities through 2027. Fitch expects 92% of ALECTRA's $1.5 billion five-year capex to be dedicated to regulated operations.

ALECTRA's non-utility operations remain largely limited to solar generation projects (4% of 2022 EBITDA) and other energy-based services (8% of 2022 EBITDA), which include storm restoration, consulting, metering, storage and street lighting. Fitch expects ALECTRA's nonregulated businesses to continue to be low capital intensity with minimal debt requirements and support ALECTRA's consolidated cash flows.

Favorable Service Territories: ALECTRA services over one million customers based in the Greater Golden-Horseshoe Area of Ontario, Canada, which has historically seen high population and economic growth. Fitch expects customer growth of around 0.7% annually to sustain during the forecast period, benefitting from a strong regional economy and Federal immigration targets.

Constructive Rate-Setting Mechanisms: Fitch expects the regulatory environment for ALECTRA under the OEB to remain constructive with several supportive mechanisms in place. ALECTRA currently operates under the Price Cap IR option, which is one of several performance-based rate options employed by the OEB when setting distribution rates. ALECTRA benefits from a forward-looking test years in base rate cases, multi-year formulaic rate plans, revenue decoupling and annual tariff adjustments tracking inflation and productivity savings.

Additionally, incremental capital tracker mechanisms and various annual rate riders are also a positive. ALECTRA's allowed ROE of 8.95% and equity capitalization of 40% are lower than U.S. averages though sufficiently offset, in Fitch's opinion, by the OEB's track record of predictable regulatory support.

Expected Moderation in Regulatory Lag: Despite Ontario's, favorable regulatory mechanisms, ALECTRA has experience some regulatory lag. The OEB historically authorizes recovery of pass through costs including cost-of-power in as long as 24 months. Increases in these costs have been exacerbated by macro-pressures like inflation and COVID-related deferrals leading to sizeable under recoveries and lower-than-authorized earned ROEs. However, Fitch believes that OEB's recent acceleration of rate application parameters ahead of normal timelines is a positive development that should help reduce regulatory lag and demonstrates OEB's credit supportive stature.

In conjunction with the 2017 amalgamation that formed ALECTRA, the company was allowed a 10-year rebasing deferral period that ends in 2026 for four (out of five) rate zones. The purpose of the deferral period, was to enable ALECTRA to realize post amalgamation synergies. Fitch believes that while the deferral period has allowed ALECTRA to retain amalgamation benefits, the deferred rebasing - has delayed recovery of

certain regulatory costs ordinarily recovered in cost-of-service applications. Fitch expects inflationary and customer bill pressures to continue to lead to lower earned ROEs in the near term. Fitch's 'A-' IDR is based upon a constructive outcome in the 2027 rebasing. Fitch considers the recent favorable cost-of-service application outcome for a larger provincial peer to underpin this view.

Improvement Expected in Credit Metrics: Fitch forecasts FFO leverage to average 5.6x and improve to 5.2x through 2027. Fitch expects recovery of some eligible costs with a reduced lag, especially power, coupled with continued customer growth, realization of amalgamation synergies as well as a constructive rebasing in 2027. Also, Fitch believes the regulatory support and lack of sectoral bankruptcies in Canada sufficiently offsets higher leverage relative to U.S. peers that arises out of lower allowed equity thickness.

Ontario Favorably Positioned for Decarbonization: Ontario derived only 10% of its electricity from fossil fuels in 2022 - significantly lower than the U.S. and most Canadian provinces. The province continues to demonstrate its support for nuclear generation, which is a zero-carbon electricity source, with plant refurbishments and investments in small modular reactors. As such, Fitch views the cost pressures from energy transition to be more manageable for Ontario.

Shareholder Relationship: ALECTRA is a private corporation owned by 1) seven municipalities of Ontario-Mississauga (26.6%), Hamilton (17.3%), Vaughan (20.5%), Markham (15%), Barrie (8.4%), Guelph (4.6%) and St. Catharine's (4.6%) and 2) the Ontario Municipal Employees' Retirement System- OMERS (3%). As such, Fitch deems ALECTRA to be a Government-Related Entity (GRE). The shareholders elects ALECTRA's board of directors. Through its election of directors, the shareholders collectively exercise legal control over the company. However, Fitch notes that no single shareholder has explicit control or special voting rights.

Additionally, after an initial investment at the time of the amalgamation in 2017, the shareholders have not provided any financial support to ALECTRA, leading to Fitch's assessment of a moderate strength of linkage. While Fitch views the socio-political implications of an ALECTRA default on the shareholder as moderate, ALECTRA's small relative contribution to overall operating budgets of these cities and a lack of guarantees causes Fitch to deem the incentives to support as weak. Due to these support considerations, Fitch rates ALECTRA based on its standalone credit profile with no direct notching uplift related to the government ownership.

Financing Structure: Fitch notes that there is no limitation on debt issuance at the subsidiaries in the lender agreements or regulatory orders. However, ALECTRA's instrument rating has been afforded the standard one notch uplift applicable to the utilities sector given management's express policy of raising debt solely at the parent. Additionally, the uplift is based on the expectation of ALECTRA's business mix remaining predominantly regulated. Any change in the financing policy or business mix would likely result in removal of the uplift.

DERIVATION SUMMARY

ALECTRA's Long-Term IDR is well positioned relative to Canadian peer parent holding companies ENMAX Corporation (BBB/Stable) and ATCO Limited (ATCO; BBB+/Stable). While ALECTRA operates an electric distribution only in Ontario, ENMAX operates T&D utilities in Alberta and Maine and ATCO operates T&D utilities in Alberta through its purely regulated subsidiary CU, Inc. (CU; A-/Stable).

Fitch views the regulatory environment in Maine (around 20%-25% of the forecasted EBITDA for ENMAX) as restrictive compared to Ontario. However, it views regulatory construct in Ontario to be comparable to Alberta (40%-45% of EBITDA for ENMAX and 85%-90% for ATCO). Notably, both employ a performance-based rate setting approach for distributors but ALECTRA has slightly higher allowed ROE and equity thickness. Further, the construct in Ontario has been somewhat tempered by the regulatory lag in the recent past, although this is expected to improve.

Regulatory lag coupled with deferred rebasing for ALECTRA is expected to keep its leverage slightly elevated at an average 5.6x and improve to 5.2x through 2027. ENMAX's leverage is forecasted to average lower at 5.4x through 2025 supported by rate case resolutions while ATCO is also expected to average lower at 5.2x through 2026.

However, ALECTRA's proportion of consolidated EBITDA from regulated utility operations is forecasted to remain in the 87%-90% range, higher than ENMAX's 60%-70% and comparable to ATCO's 85%-90%. This offers more predictability in cash flows for ALECTRA as compared to ENMAX which has a sizeable exposure to competitive non-regulated businesses.

ATCO's non-regulated businesses include cyclical segments like infrastructure, transport and logistics. Additionally, it also owns commodity exposed segments like generation and retail in higher risk geographies like Latin America. As compared to these, ALECTRA's non-

regulated businesses are Ontario based energy services and therefore viewed as lower risk given low capital intensity and higher margins.

KEY ASSUMPTIONS

--Continuation of the multi-year Incentive-Rate Setting framework for distribution rates;

--2027 to be the rebasing year for Horizon, Enersource, Brampton and PowerStream rate zones and 2029 for Guelph;

--Constructive rebasing outcomes in 2027 and 2029, in line with recent outcomes for other utilities in the province;

--Annual Adjustment Mechanisms to continue in line with the existing Price IR model;

--Regulated EBITDA to form 87%-90% of the total through 2027;

--Shareholder dividends consistent with the current policy of targeting 60% of the net income (MIFRS) excluding the Ring Fenced Solar Partnership income and targeting 80% of the solar net FCF while maintaining the regulated capital structure of 40% equity capitalization;

--Consolidated ALECTRA capex of $1.5 billion with over 90% towards utility operations;

--Annual customer growth of around 0.7% through 2026;

--Interest rates to remain elevated in 2023, moderate slightly in 2024 and remain stable in 2025-2026.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade

--FFO leverage below 4.8x for the period 2023-2026 on a sustained basis with regulated utility EBITDA continuing to form over 85% of the total on a sustained basis;

--Constructive rebasing outcome providing for an FFO leverage below 4.5x for 2027 and beyond on a sustainable basis;

--Further improvement in regulatory outcomes in Ontario providing for timely cost recoveries and earning of allowed ROE.

Factors that could, individually or collectively, lead to negative rating action/downgrade

--FFO leverage exceeding 5.8x on a sustained basis till 2026 and 5.5x post the rebasing in 2027;

--Debt financed acquisition or amalgamations with no clear path to deleveraging over the forecast period;

--Expansion into unregulated businesses leading to less than 85% EBITDA contribution on a sustained basis from regulated operations;

--Adverse regulatory outcomes especially for the next rebasing application;

--As it pertains to the instruments' ratings, any changes in ALECTRA's financial policy of raising debt solely at the parent level or introduction of any structural subordination to the debt structure or expansion into unregulated businesses leading to less than 85% EBITDA contribution on a sustained basis from regulated operations.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

LIQUIDITY AND DEBT STRUCTURE

Fitch considers the liquidity for ALECTRA to be adequate. Liquidity is primarily supported by the company's $700 million CP program backstopped by a $700 million committed unsecured revolving credit facility (RCF), maturing in 2027. Additionally, ALECTRA has a $100 million uncommitted credit facility (LC facility), $100 million overdraft facility and

another $100 million expansion option subject to mutual agreement between ALECTRA and its lenders.

At Dec. 31, 2022, the company had $290 million of CP issued. Including a Dec. 31, 2022 cash balance of around $48 million and excluding availability under the company's uncommitted facilities, total ALECTRA liquidity was approximately $458 million.

ALECTRA's near-term debt maturities are manageable with around $150 million in unsecured private debentures and $166 million promissory notes due to the cities of Markham, Barrie and Vaughan due in 2024 and private debentures of $675 million in 2027. Fitch expects ALECTRA to have continued access to capital markets to refinance the private debt as it comes due and expects the company to manage its debt in accordance with the regulated capital structure. The promissory notes from three of the shareholders also have extension options- a 12-year renewal and two 10-year extensions.

ALECTRA's debt is primarily fixed rate, which mitigates the risks associated with the current high interest rate environment.

ISSUER PROFILE

Ontario, Canada based ALECTRA INC. was formed in 2017 by amalgamation of three electric distributor utilities: 1) PowerStream, Inc. 2) Enersource Hydro Mississauga, Inc. and 3) Horizon Utilities Corporation. ALECTRA subsequently acquired Hydro One Brampton Networks, Inc. in 2017 and, Guelph Hydro Electric System, Inc. in 2019.

SUMMARY OF FINANCIAL ADJUSTMENTS

Fitch has adjusted ALECTRA's historical financial statements to reflect the effects of rate regulation in Canada and, in particular, the recognition of regulatory assets and liabilities and the changes in those assets and liabilities for FYs 2019 to 2022.

DATE OF RELEVANT COMMITTEE

21 July 2023

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING		
ALECTRA INC.	LT IDR	A- Rating Outlook Stable	New Rating
senior unsecured	LT	A	New Rating

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Simar Jolly
Associate Director
Primary Rating Analyst
+1 647 556 8268
simar.jolly@fitchratings.com
Fitch Ratings, Inc., Canada Subsidiary: Fitch Ratings Canada, Inc.
120 Adelaide Street West Suite 2500 Toronto

Barbara Chapman, CFA
Senior Director
Secondary Rating Analyst
+1 646 582 4886
barbara.chapman@fitchratings.com

Philip Smyth, CFA
Senior Director
Committee Chairperson

+1 212 908 0531
philip.smyth@fitchratings.com

MEDIA CONTACTS

Eleis Brennan
New York
+1 646 582 3666
eleis.brennan@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

Government-Related Entities Rating Criteria (pub. 30 Sep 2020)

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 09 Apr 2021) (including rating assumption sensitivity)

Corporate Rating Criteria (pub. 28 Oct 2022) (including rating assumption sensitivity)

Sector Navigators: Addendum to the Corporate Rating Criteria (pub. 12 May 2023)

Climate Vulnerability in Corporate Ratings Criteria (pub. 21 Jul 2023) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

ALECTRA INC.	-

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals,

actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular

insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2023 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

READ LESS

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for

regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Alectra's IDR at 'A-'; Outlook Stable

Tue 23 Jul, 2024 - 2:36 PM ET

Fitch Ratings - Toronto - 23 Jul 2024: Fitch Ratings has affirmed Alectra Inc.'s Long-Term Issuer Default Rating (IDR) at 'A-'. The Rating Outlook is Stable. Fitch has also affirmed the company's senior unsecured debt at 'A'.

The affirmation reflects Fitch's continued expectation that a constructive rebasing outcome in 2027 would lead to improvement of Alectra's elevated FFO leverage to 5.4x in 2028. The company's rating are also supported by its large-scale regulated electric distribution operations under a highly constructive regulator in high growth areas of Ontario. Fitch rates Alectra based on its standalone credit profile with no direct uplift related to municipal ownership.

KEY RATING DRIVERS

Regulated Business Remains Predominant: Fitch expects Alectra's predominantly low-risk, regulated business mix to continue with 87%-90% of EBITDA from regulated activities through 2028. Fitch expects Alectra to dedicate over 90% of its $1.7 billion capex through 2028 to regulated operations. Recent unregulated projects and investments include gas generation facilities, energy storage facilities, and the acquisition of a power restoration business. No single segment contributes more than 2% to Alectra's total EBITDA per Fitch estimates.

Fitch expects Alectra's non-regulated businesses will maintain low capital intensity with minimal debt requirements and support its consolidated cash flows. Any material changes in business mix or debt-funded acquisitions resulting in a sustained leverage increase could lead to negative rating actions.

Continued Expectation of Deleveraging: Alectra's 'A-' IDR continues to be premised upon a constructive outcome in the 2027 rebasing and the resulting subsequent improvement in

credit metrics. Fitch anticipates that Alectra's FFO leverage would remain elevated during the ongoing 10-year rebasing deferral period and then improve to 5.4x in 2028, which would be within Fitch's thresholds.

Fitch expects disposition of over-collected regulatory assets in 2027 will push the expected deleveraging by a year. In the interim, Fitch anticipates Alectra's leverage to remain elevated as earned ROEs continue to lag due to higher capex, the expiry of the Incremental Capital Module recovery mechanism in 2024, and higher operational costs. Nevertheless, constructive rebasing, customer growth, and continuing synergies should improve leverage post-rebasing. Fitch believes the regulatory support and lack of sectoral bankruptcies in Canada offset higher leverage relative to U.S. peers due to lower allowed equity thickness.

Constructive Regulatory Environment: Fitch expects the regulatory environment for Alectra under the Ontario Energy Board (OEB) to remain constructive. Alectra currently operates under the Price Cap performance-based rate-setting option and benefits from forward-looking test years in base rate cases, multi-year formulaic rate plans, revenue decoupling, and annual tariff adjustments tracking inflation and productivity savings.

Fitch believes the various annual rate riders, like those for power cost recoveries, allowed under OEB are also a credit positive. The OEB's 2023 acceleration of rate application parameters for some of the riders ahead of normal timelines has helped reduce regulatory lag and demonstrates OEB's credit-supportive stature. Alectra's allowed ROE of 8.95% and equity capitalization of 40% are lower than U.S. averages. However, Fitch believes these are sufficiently offset by the OEB's track record of predictable regulatory support.

Continuing Service Territory Growth: Alectra services over one million customers in the Greater Golden Horseshoe Area of Ontario, which has historically experienced high population and economic growth. Fitch expects customer growth of around 0.7% annually during the forecast period, supported by a strong regional economy and federal immigration targets.

Ontario Favorably Positioned for Decarbonization: Ontario derived only 13% of its electricity from fossil fuels in 2023, significantly lower than the U.S. and most Canadian provinces. The province has demonstrated support for nuclear generation, which is a zero-carbon electricity source, with plant refurbishments and investments in small modular reactors. Fitch views the cost pressures from energy transition to be more manageable for Ontario.

Shareholder Relationship: Alectra is a private corporation owned by seven municipalities of Ontario: Mississauga (26.6%), Hamilton (17.3%), Vaughan (20.5%), Markham (15%), Barrie (8.4%), Guelph (4.6%), and St. Catharines (4.6%) and by the Ontario Municipal Employees' Retirement System (OMERS) (3%). Fitch considers Alectra a Government-Related Entity (GRE). The shareholders elect Alectra's board of directors, allowing them to collectively exercise legal control over the company. However, no single shareholder has explicit control or special voting rights and, as such, is not involved in general decision-making or oversight.

After an initial investment at the time of the amalgamation in 2017, shareholders have no precedence of support to Alectra. Fitch believes a default by Alectra would have a limited impact on the continued provision of a key public service and the preservation of its government policy role. Fitch also believes Alectra's small relative contribution to the cities' operating budgets and a lack of guarantees limits contagion risk from a default by the company. Fitch has virtually no expectations of support for Alectra and rates the company based on its standalone credit profile with no direct uplift related to the municipal ownership.

Financing Structure: There are no limitations on debt issuance at the subsidiaries in the lender agreements or regulatory orders. However, Alectra's instrument rating benefits from the standard one-notch uplift applicable to the utilities sector, given management's express policy of raising debt solely at the parent. The uplift assumes that Alectra's business mix will remain predominantly regulated. Material changes to the financing policy or business mix would likely result in removal of the uplift.

DERIVATION SUMMARY

Alectra's Long-Term IDR is well positioned relative to Canadian peer parent holding companies Enmax Corporation (BBB/Stable) and ATCO Limited (BBB+/Stable). While Alectra operates an electric distribution only in Ontario, Enmax operates T&D utilities in Alberta and Maine, and ATCO operates T&D utilities in Alberta through its purely regulated subsidiary CU, Inc. (A-/Stable).

Fitch views the regulatory environment in Maine (just over 20% of the forecasted EBITDA for Enmax) as restrictive compared to Ontario while the regulatory construct in Ontario is comparable to Alberta (roughly 45% of forecasted EBITDA for Enmax and 80%-85% for ATCO). Both employ a performance-based rate setting approach for distributors, but Enmax has slightly higher allowed ROE and equity thickness. The construct in Ontario has

been somewhat tempered by the regulatory lag in the recent past, although this is expected to improve.

Regulatory lag coupled with deferred rebasing for Alectra is expected to remain elevated in the near term and improve to below its 5.5x sensitivity threshold in 2028 post the rate rebasing. Enmax's leverage is forecast to remain lower in the 4.6x-5.0x range through 2026 while ATCO's leverage is also expected to be in the 5.1x to 5.5x range over the period.

However, Alectra's proportion of consolidated EBITDA from regulated utility operations is forecast to remain in the 87%-90% range, higher than Enmax's 60%-70% and comparable to ATCO's 80%-85%. This offers more predictability in cash flows for Alectra compared to Enmax, which has a sizeable exposure to competitive non-regulated businesses.

ATCO's non-regulated businesses include cyclical segments like infrastructure, transport and logistics. Additionally, it owns commodity exposed segments like generation and retail in higher risk geographies such as Latin America. Compared to these peers, Alectra's non-regulated businesses are mainly Ontario-based energy services, which are lower risk due to low capital intensity and higher margins.

KEY ASSUMPTIONS

--Continuation of the multi-year Incentive-Rate Setting framework for distribution rates;

--Constructive rebasing outcomes in 2027 in line with recent outcomes for other utilities in the province;

--Annual Adjustment Mechanisms to continue in line with the existing Price IR model;

--Regulated EBITDA to form 87%-90% of the total through 2028;

--Shareholder dividends consistent with the current policy of targeting 60% of the net income (MIFRS) excluding the Ring Fenced Solar Partnership income and targeting 80% of the solar net FCF while maintaining the regulated capital structure of 40% equity capitalization;

--Consolidated Alectra capex of $1.7 billion through 2028 with over 90% towards utility operations;

--Annual customer growth of around 0.7%

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-- FFO leverage below 4.8x for the period 2023-2027 on a sustained basis with regulated utility EBITDA continuing to form over 85% of the total on a sustained basis;

--Constructive rebasing outcome providing for an FFO leverage below 4.5x for 2028 and beyond on a sustainable basis;

--Further improvement in regulatory outcomes in Ontario providing for timely cost recoveries and earning of allowed ROE.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--FFO leverage expected to exceed 5.8x on a sustained basis till 2027 and 5.5x following the rebasing in 2027;

--Debt financed acquisition or amalgamations with no clear path to deleveraging over the forecast period;

--Expansion into unregulated businesses leading to less than 85% EBITDA contribution on a sustained basis from regulated operations;

--Adverse regulatory outcomes especially for the next rebasing application;

--As it pertains to the debt ratings, any changes in Alectra's financial policy of raising debt solely at the parent level or introduction of any structural subordination to the debt structure or expansion into unregulated businesses leading to less than 85% EBITDA contribution on a sustained basis from regulated operations

LIQUIDITY AND DEBT STRUCTURE

Fitch considers Alectra's liquidity adequate. It is primarily supported by the company's $700 million CP program backstopped by a $700 million committed unsecured revolving credit facility (RCF), maturing in 2027. Additionally, Alectra has a $100 million uncommitted credit facility (overdraft facility) and another $200 million credit facility to support its LCs.

At March 31, 2024, the company had $410 million of CP issued. Including a March 31, 2024 cash balance of around $14 million and excluding availability under the company's uncommitted facilities, total Alectra liquidity was approximately $304 million.

Alectra's debt maturities are manageable with the near-term maturities being private debentures of $150 million in late 2024 and private debentures of $675 million in 2027. Fitch expects Alectra to have continued access to capital markets to refinance the private debt as it comes due. Fitch also expects the company to manage its debt in accordance with the regulated capital structure.

ISSUER PROFILE

Alectra Inc. was formed in 2017 by amalgamation of three Ontario, Canada electric distributor utilities: PowerStream, Inc., Enersource Hydro Mississauga, Inc., and Horizon Utilities Corporation. Alectra subsequently acquired Hydro One Brampton Networks, Inc. in 2017 and amalgamated with Guelph Hydro Electric System, Inc. in 2019.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING	PRIOR

Alectra Inc.	LT IDR Affirmed	A- Rating Outlook Stable		A- Rating Outlook Stable
senior unsecured	LT	A	Affirmed	A

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Simar Jolly
Associate Director
Primary Rating Analyst
+1 647 556 8268
simar.jolly@fitchratings.com
Fitch Ratings, Inc., Canada Subsidiary: Fitch Ratings Canada, Inc.
22 Adelaide Street West Suite 2810 Toronto

Barbara Chapman, CFA
Senior Director
Secondary Rating Analyst
+1 646 582 4886
barbara.chapman@fitchratings.com

Shalini Mahajan, CFA
Managing Director
Committee Chairperson
+1 212 908 0351
shalini.mahajan@fitchratings.com

MEDIA CONTACTS

Eleis Brennan
New York
+1 646 582 3666
eleis.brennan@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 13 Oct 2023) (including rating assumption sensitivity)

Corporate Rating Criteria (pub. 03 Nov 2023) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 21 Jun 2024)

Government-Related Entities Rating Criteria (pub. 09 Jul 2024)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Alectra Inc.	EU Endorsed, UK Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in

accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions

about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor,

for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2024 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

READ LESS

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit

Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

S&P Global
Ratings

RatingsDirect®

Alectra Inc.

Primary Credit Analyst:
Mayur Deval, Toronto (1) 416-507-3271; mayur.deval@spglobal.com

Secondary Contact:
Andrew Ng, Toronto + 1 (416) 507 2545; andrew.ng@spglobal.com

Research Contributor:
Debadrita Mukherjee, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

Table Of Contents

Credit Highlights

Outlook

Our Base-Case Scenario

Company Description

Business Risk

Financial Risk

Liquidity

Other Credit Considerations

Environmental, Social, And Governance

Government Influence

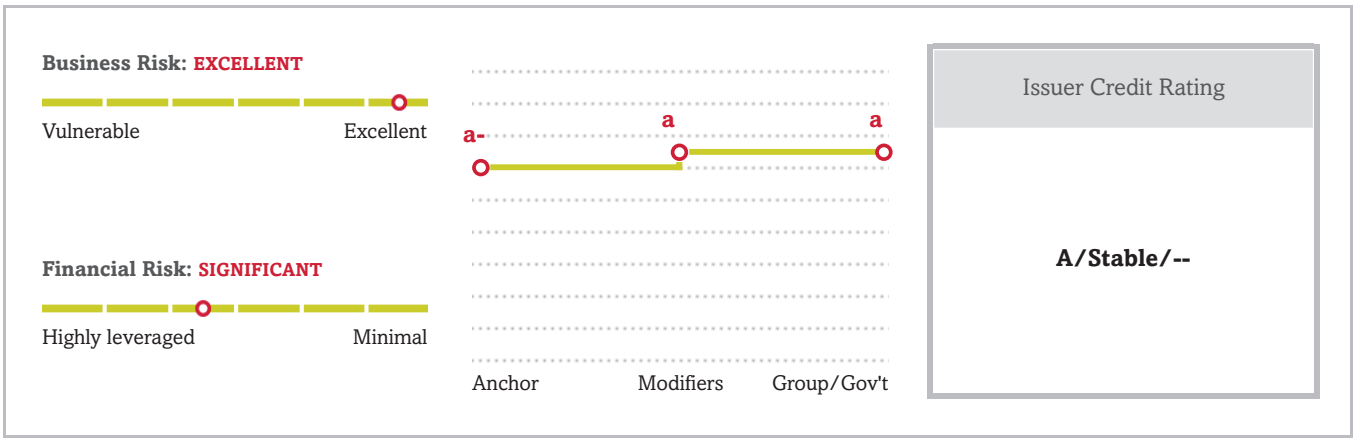
Issue Ratings - Subordination Risk Analysis

Ratings Score Snapshot

Table Of Contents (cont.)

Related Criteria

Alectra Inc.



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.

Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

S&P Global
Ratings

RatingsDirect®

Alectra Inc.

Primary Credit Analyst:
Mayur Deval, Toronto (1) 416-507-3271; mayur.deval@spglobal.com

Secondary Contact:
Andrew Ng, Toronto + 1 (416) 507 2545; andrew.ng@spglobal.com

Table Of Contents

Credit Highlights

Outlook

Our Base-Case Scenario

Company Description

Business Risk

Financial Risk

Liquidity

Environmental, Social, And Governance

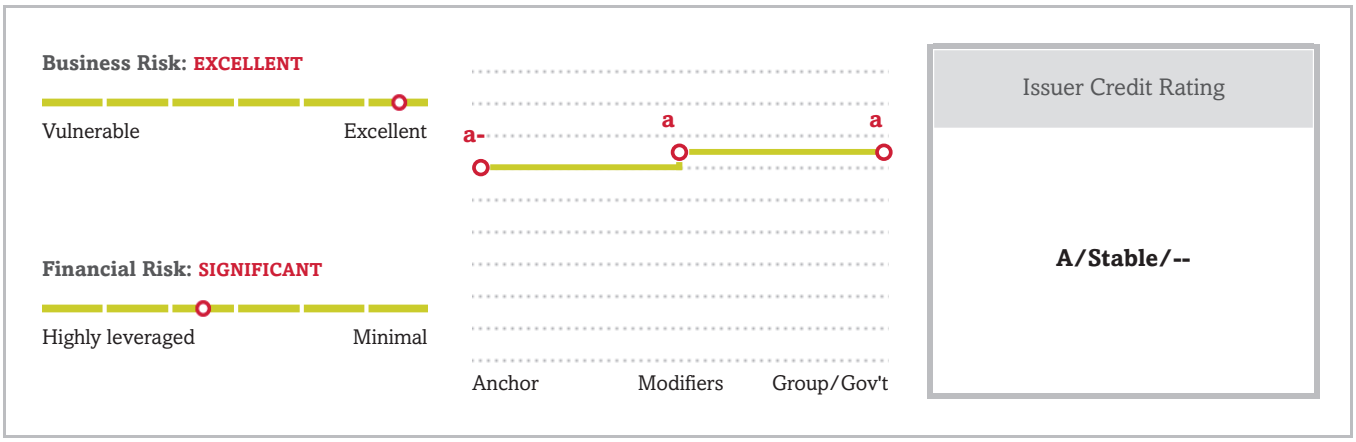
Government Influence

Issue Ratings - Subordination Risk Analysis

Ratings Score Snapshot

Related Criteria

Alectra Inc.



Credit Highlights

Overview

Key Strengths	Key Risks
Majority of cash flows from low-risk regulated electricity distribution operations.	Deferral of COVID-19 costs recovery could weaken financial measures modestly.
Credit-supportive regulatory environment.	Limited geographic and regulatory diversity.
Mostly residential customers with minimal concentration risk.	Negative discretionary cash flow indicating external funding needs.

In response to COVID-19, the Ontario Energy Board (OEB) prohibited the disconnection of residential customers through July 31, 2020, due to nonpayment. The OEB's order may increase write-offs and bad debts along with continuing to pay for power costs. This will increase working capital requirements and require incremental borrowing under revolving credit facilities and greater issuance of commercial paper. Financial measures will weaken from the higher debt and reduced operating cash flow. Ontario utilities are accruing these costs for future rate recovery.

Alectra's strategy remains consistent with harvesting synergies from amalgamated operations and grid modernization. Alectra's projected capital expenditures are mainly on projects required to meet customer service obligations, and System renewal expenditures relate to long-term plans to replace assets that are at the end, or nearing the end, of their useful lives. The regulated rate base additions further results in more stable and predictable cost recoveries with enhanced operating efficiency.

Ontario regulatory construct permits timely cost recovery. The OEB preapproves utilities' capital programs and has not disallowed rate recovery of preapproved capital spending. There is revenue decoupling for distribution operators and fixed-rate distribution tariffs. In addition, the utility's exposure to commodity costs is limited because it passes these costs through to customers.

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%-14% 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 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;
- Gross margin additions of about $10 million annually;
- Annual gross capital spending of about C$350 million–C$400 million per year through 2022;
- Dividends averaging about C$85 million annually;
- Negative discretionary cash flows indicate external funding needs; and
- All debt maturities are refinanced.

Key Metrics

	2019A	2020E	2021E
Adjusted FFO to debt (%)	11.5	12-14	12-14
Adjusted debt to EBITDA (x)	7.1	6-6.5	6-6.5
Adjusted FFO cash interest coverage (x)	4.5	4.5-5	4.5-5

FFO—Funds From Operations. E—Estimate. A—Actual.

Company Description

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

Business Risk: Excellent

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

We believe the OEB has provided 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. Additionally, the revenue collection deferrals due to COVID-19 relief actions may result in volatile profitability measures.

Alectra's non-utility operations include non-regulated solar generation and energy services businesses. We consider these operations riskier than 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%-14% range through 2022. This incorporates gross capital spending averaging about C$350 million-C$400 million per year, regular recoveries through a capital rate surcharge, and modest customer growth. We expect adjusted FFO to debt to average about 12%-14% 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 4x-5x range and the debt leverage to be relatively aggressive for a regulated utility. This is captured through adjusted debt to EBITDA in the 6.0x-6.5x range through 2022.

Alectra's credit metrics, including adjusted FFO to debt, was lower than expected in 2019 at about 11.5%. This reflects the treatment of regulatory assets under International Financial Reporting Standards (IFRS) accounting. In 2019, Alectra incurred a shortfall of about C$40 million because energy cost exceeded energy sales, creating a regulatory asset of a similar amount. Under IFRS, this regulatory asset is treated as an offset against energy sales, reducing net income and cash flow temporarily and resulting in a lower adjusted FFO to debt and other credit metrics. For 2019, adjusting for the net shortfall, the adjusted FFO to debt would be about 13% and adjusted debt to EBITDA would be about 6.3x. We expect the company to recover this amount in its next rate application since electricity cost is a

pass-through to ratepayers under the current tariff framework.

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.

To capture the company's adjusted FFO to debt financial measure being at the stronger end of the significant category, we apply a positive comparative rating analysis modifier.

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$310 million • Credit facility availability of C$500 million	• Debt maturities of C$180 million • Capital spending of about C$410 million • Dividends of about C$85 million

Environmental, Social, And Governance

Alectra's exposure to environmental risk is limited given that its operations are entirely in lower-risk electric distribution operations without commodity exposure. As such, from an environmental perspective, Alectra is better positioned than its counterparts with generation assets across North America. Social or governance factors have not had a material impact on the rating and are generally in line with peers'.

Government Influence

We believe there is a low likelihood that the utility's municipal 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, the cities might provide some temporary liquidity support but 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$2 billion of unsecured debt.

Analytical conclusions

We rate Alectra's senior unsecured debt the same as the issuer credit rating because it is the debt of a qualifying investment-grade utility.

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

- **Group 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
- ARCHIVE: General Criteria: Group Rating Methodology, Nov. 19, 2013
- ARCHIVE: 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: 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

Business Risk Profile	Financial 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 30, 2020)*

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.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

S&P Global
Ratings

RatingsDirect®

Research Update:

Alectra Inc. Outlook Revised To Negative On Revised Business Strategy, Weakened Financial Measures; 'A' Rating Affirmed

June 9, 2021

Rating Action Overview

- Alectra Inc. recently acquired power restoration company Holland Power Services Inc. (HPS) for C$52 million, net of C$28 million of working capital, using mostly debt to fund the transaction. This acquisition is consistent with the company's revised strategy to expand its unregulated business segment, thereby weakening the business risk profile.
- Alectra management indicated the revised strategy includes growth of unregulated operations, which is beyond the traditional strategy of focusing on regulated utility amalgamations within the Ontario jurisdiction.
- In addition to the revised strategy, we expect financial measures to weaken compared with our previous forecasts. The existing financial measures reflect higher deferral and variance account balances. Alectra also experienced lower distribution revenue resulting from the negative effect of the COVID-19 pandemic on load consumption, particularly from commercial and industrial customers. Financial measures could weaken further if the Ontario Energy Board (OEB) adopts a proposal that would limit the recovery of related incremental costs.
- We revised our outlook on Alectra to negative from stable and affirmed our 'A' long-term issuer credit rating.
- The negative outlook incorporates our expectation that the recent acquisition of HPS and Alectra's revised strategy will increase the EBITDA contribution from higher-risk unregulated operations, resulting in a somewhat weaker business risk profile. In addition, Alectra's financial measures will remain weaker for 2021 and 2022 from the negative cash flow impact of the COVID-19 pandemic. This includes our expectation that Alectra's funds from operations (FFO) to debt will be in the 11%-12% range through 2023.

PRIMARY CREDIT ANALYST

Mayur Deval
Toronto
(1) 416-507-3271
mayur.deval
@spglobal.com

SECONDARY CONTACTS

Daria Babitsch
New York
917-574-4573
daria.babitsch1
@spglobal.com

Omar El Gamal
Toronto
omar.elgamal
@spglobal.com

Rating Action Rationale

The negative outlook on Alectra reflects a weakening business risk profile due to the higher contribution from unregulated operations, especially after the acquisition of HPS. In January 2021, Alectra acquired HPS for C$52 million, net of C$28 million of working capital, using mostly debt. HPS is a power restoration business that contracts with public and private utilities in the eastern U.S. and Canada. HPS' financial performance is volatile since it depends heavily on storm activity and restoration work. We expect HPS to add C$15 million-C$20 million per year to Alectra's EBITDA. Following the acquisition, we forecast the overall contribution from higher-risk unregulated operations to be about 10%, weakening Alectra's business risk profile. In addition to HPS, the company's unregulated operations include contracted solar, a submetering business, consulting services, and street lighting businesses. Alectra's revised strategy in pursuit of growth beyond regulated operations and expansion into unregulated and competitive operations increases the likelihood of higher EBITDA contributions from riskier unregulated operations, resulting in increased business risk.

We expect Alectra's financial measures to remain lower for 2021 as the utility absorbs the negative effects of the COVID-19 pandemic, assuming OEB adopts its staff proposal. OEB staff issued a proposal regarding guidelines for rate recovery of incremental costs incurred during the COVID-19 pandemic. To assess if a utility should be given recovery of these COVID-19-related costs, the staff recommends that only if incremental costs incurred during the COVID-19 pandemic result in a utility's authorized return on equity declining by at least 300 basis points, the utility would be allowed to recover up to 50%. On a case-by-case basis, if the utility demonstrates that its financial viability would still be compromised if the recovery was only limited to 50%, the OEB could consider a higher recovery rate. Based on the OEB staff's proposal, there is a high degree of uncertainty regarding the recovery of incremental costs.

Outlook

The negative outlook reflects S&P Global Ratings' assessment that Alectra's business risk profile has weakened from growth in unregulated businesses. Our baseline forecast for the next 24 months assumes Alectra's adjusted FFO to debt to be in the 11%-12% range.

Downside scenario

We could lower the ratings on Alectra if its financial performance weakens such that its adjusted FFO to debt remains consistently below 12% or its business risk weakens further from an increase in its riskier unregulated operations.

Upside scenario

We could revise our outlook on Alectra to stable if its financial measures strengthen including FFO to debt remaining consistently at or above 12% with no further weakening of the business risk profile.

Company Description

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

Our Base-Case Scenario

- Continued costs recovered through annual filings and incremental capital module riders;
- Modest customer growth in its service territory;
- Gross margin additions averaging about C$17 million annually through 2023;
- Total capital spending of about C$320 million–C$430 million per year through 2023;
- Dividends averaging about C$75 million annually;
- Negative discretionary cash flow indicates external funding needs; and
- All debt maturities are refinanced.

Liquidity

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

- Cash and liquid investments of about C$30 million;
- Estimated cash FFO of about C$315 million; and
- Credit facility availability of C$700 million.

Principal liquidity uses

- Debt maturities of about C$165 million;
- Capital outflows of about C$3 million;
- Capital spending of about C$405 million; and
- Dividends of about C$75 million.

Environmental, Social, And Governance

Alectra's exposure to environmental risk is limited given that its operations are entirely in lower-risk electric distribution operations without commodity exposure. As such, from an environmental perspective, Alectra is better positioned than its counterparts with generation assets across North America. Social and governance factors have not had a material effect on the rating and are generally in line with that of peers.

Issue Ratings - Subordination Risk Analysis

Capital structure

Alectra's capital structure consists of about C$2.4 billion of unsecured debt.

Analytical conclusions

We rate Alectra's senior unsecured debt at the same level as our long-term issuer credit rating because priority debt does not exceed 50% of the company's consolidated debt, after which point Alectra's debt could be considered structurally subordinated.

Ratings Score Snapshot

Issuer Credit Rating: A/Negative/--

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

Likelihood of government support: Low (no impact)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March

28, 2018

- 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: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Alectra Inc.		
Issuer Credit Rating	A/Negative/--	A/Stable/--
Issue-Level Ratings Affirmed		
Alectra Inc.		
Senior Unsecured	A	

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

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

S&P Global
Ratings

RatingsDirect®

Research Update:

Alectra Inc. Downgraded To 'A-' On Elevated Business Risk, Outlook Stable

May 27, 2022

Rating Action Overview

- Since Alectra Inc.'s 2021 acquisition of non-utility power restoration company, Holland Power Services Inc. (HPS), its higher risk non-utility business has grown disproportionally and we now expect it to consistently account for about 10% of the company's consolidated EBITDA.
- We are revising downward our comparable rating analysis modifier to neutral from positive to reflect the company's increasing exposure to its higher-risk non-utility businesses and our expectation that its financial measures will generally trend towards the lower end of the range for its financial risk profile category.
- We lowered our issuer credit rating on Alectra to 'A-' from 'A' and our issue-level rating on its senior unsecured debt to 'A-' from 'A'.
- The stable outlook incorporates our expectation that the company's regulated utility business will consistently account for about 90% of its consolidated EBITDA. We also forecast that Alectra's consolidated financial measures will be at the lower end of the range for the significant financial risk profile category, including funds from operations (FFO) to debt of 13%-15% through 2024.

PRIMARY CREDIT ANALYST

Omar El Gamal
Toronto
+1 4165072523
omar.elgamal
@spglobal.com

SECONDARY CONTACT

Mayur Deval
Toronto
(1) 416-507-3271
mayur.deval
@spglobal.com

Rating Action Rationale

We downgraded Alectra to reflect the increased contribution from its non-utility business. Following the first year of operations by HPS--which the company acquired in January 2021--and management's strategic shift to expand its non-utility business, we now expect that non-utility operations will consistently contribute about 10% of Alectra's consolidated EBITDA through 2024. Prior to the HPS acquisition, we expected the non-utility businesses to account for closer to 5% of the company's consolidated EBITDA. We assess HPS as higher risk than the regulated utility business because its business is heavily dependent on storm activity and restoration work, which will increase the volatility of Alectra's financial performance.

We assess Alectra's financial risk profile as significant using our medial volatility financial benchmark table. We believe that Alectra's strategic decision to disproportionally expand its higher risk non-utility businesses has increased its business risk, which we incorporate by using more stringent benchmarks to assess its financial risk profile. Previously, we assessed the company's financial risk using our low volatility financial benchmark table. The change in benchmark tables does not affect our significant assessment of the company's financial risk profile.

The stable outlook indicates our expectation that the company's regulated business will contribute about 90% of its consolidated EBITDA through 2024. This reflects our expectation that Alectra will not pursue a further expansion of its non-utility business and that its financial measures will remain consistent with the significant financial risk profile category, including FFO to debt of 13%-15% through 2024. Additionally, even if it expands the non-utility businesses at a marginally faster rate than the utility business, we expect its utility operations to provide ratings stability assuming the non-utility business does not approach 15% of the company's consolidated EBITDA.

We assess Alectra at the higher-end of the range of the excellent business risk profile category. This is predicated on the company's lower-risk regulated electric distribution utility business that comprises a large (over 1 million customers) and mostly residential customer base, which provides it with cash flow stability. We view Ontario's regulatory construct as generally constructive, with a fixed-base return on equity and revenue decoupling for residential customers.

Outlook

The stable outlook on Alectra reflects our expectation that its regulated utility business will consistently contribute about 90% of its consolidated EBITDA. Our base-case forecast through 2024 assumes FFO to debt of 13%-15%.

Downside scenario

We could lower our ratings on Alectra over the next 12-24 months if its financial performance weakens, such that its FFO to debt remains consistently below 13%, or we believe its business risk has increased. This could occur if the company disproportionally grows its non-utility businesses, such that it approaches about 15% of its consolidated EBITDA, or if our assessment of Ontario's regulatory environment weakens.

Upside scenario

We could raise our rating on Alectra over the next 12-24 months if its financial measures improve, including FFO to debt of consistently above 18%, without any further increase in its business risk. We could also raise our rating if its non-utility businesses' contribution to its consolidated EBITDA decreases such that it approaches 5%.

Company Description

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

Our Base-Case Scenario

- Gross margin grows by an average of about 6% annually through 2024 due to the company's continued use of regulatory mechanisms, such as the incremental capital module, as well as an expansion in its unregulated business;
- Modest load growth;
- Operation and maintenance expenses rise by an average of about 6% per year through 2024;
- The company begins to recover previously unrecovered energy costs starting in 2023;
- Capital spending averaging C$380 million per year through 2024;
- Negative discretionary cash flow after dividends of about C$100 million in 2022, with minimal deficits in 2023 and 2024; and
- All debt maturities are refinanced.

Liquidity

We assess the company's liquidity as adequate because we believe its liquidity sources will likely be more than 1.1x its uses over the next 12 months and meet its cash outflows even if its EBITDA declines by 10%. Our assessment also reflects the company's generally prudent risk management, sound relationships with banks, and generally satisfactory standing in the credit markets.

Principal liquidity sources:

- Cash and liquid investments of about C$40 million;
- Estimated cash FFO of about C$400 million; and
- Credit facility availability of C$700 million.

Principal liquidity uses:

- Debt maturities, including outstanding commercial paper, of about C$345 million;
- Capital spending of about C$420 million; and
- Dividends of about C$75 million.

Issue Ratings - Subordination Risk Analysis

Capital structure

- Alectra's capital structure comprises about C$2.3 billion of unsecured debt.

Analytical conclusions

- We rate Alectra's senior unsecured debt at the same level as our issuer credit rating because its

priority debt does not exceed 50% of its consolidated debt, after which point we would likely consider its debt to be structurally subordinated.

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: Neutral (no impact)

Stand-alone credit profile: a-

- Likelihood of government support: Low (no impact)

ESG credit indicators: E-2; S-2; G-2

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- 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

- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Downgraded; Outlook Action

	To	From
Alectra Inc.		
Issuer Credit Rating	A-/Stable/--	A/Negative/--
Issue-Level Ratings Lowered		
Alectra Inc.		
Senior Unsecured	A-	A

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

Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

S&P Global
Ratings

RatingsDirect®

Research Update:

Alectra Inc. Outlook Revised To Negative On Heightened Regulatory Lag; 'A-' Ratings Affirmed

May 11, 2023

Rating Action Overview

- The financial performance of the Ontario local distribution companies (LDC), regulated by the Ontario Energy Board (OEB), has gradually weakened, primarily reflecting regulatory lag. We view this development as negative for the credit quality of these companies, which could lead to our reassessing Ontario's regulatory framework.
- We therefore affirmed our ratings on Alectra Inc. (Alectra), including the 'A-' issuer credit rating, and revised the outlook to negative from stable.
- The negative outlook reflects the possibility that we could reassess our view of the Ontario regulatory framework because of regulatory lag that has weakened financial performance, increased cash flow volatility, and weakened financial predictability for Alectra.

PRIMARY CREDIT ANALYST

Omar El Gamal, CFA
Toronto
+1 4165072523
omar.elgamal
@spglobal.com

SECONDARY CONTACTS

Matthew L O'Neill
New York
+ 1 (212) 438 4295
matthew.oneill
@spglobal.com

Mayur Deval
Toronto
(1) 416-507-3271
mayur.deval
@spglobal.com

Rating Action Rationale

We have historically assessed the Ontario regulatory framework as one of the most credit-supportive regulatory jurisdictions for utilities. Despite the OEB only authorizing its LDCs an average return on equity (ROE) and a significantly below average capital structure, reflecting a 40% equity ratio, we have consistently assessed the Ontario regulatory framework as one of the most credit-supportive regulatory jurisdictions for LDCs because they have consistently been able to earn at or close to their authorized ROE. However, this has gradually weakened because of rising regulatory lag, which is the timing difference between when costs are incurred and when regulators allow those costs to be fully recovered from ratepayers. During the past two years, transmission costs and wholesale market charges have significantly increased. Although we expect the LDCs to entirely recover these costs from ratepayers, it has taken them as long as 24 months to fully recover these costs, which has eroded financial performance. In general, regulatory jurisdictions that we assess as most credit supportive have a regulatory construct in place that consistently minimizes regulatory lag.

Alectra's financial measures have weakened. Alectra's financial performance materially weakened in 2022, reflecting regulatory lag. In 2022, funds from operations (FFO) to debt was 8.8%, significantly below our downgrade threshold of 13%. As a company based in Canada, Alectra's financial statements are prepared in accordance with International Financial Reporting Standards. Under our base case of annual capital expenditures of C$400 million, annual dividend payments to its municipal owners, and the recovery of previously incurred costs, we expect financial measures will improve over the next three years. Specifically, we expect FFO to debt to reflect 12%-14% over that period.

We assess Alectra's business risk profile as excellent. We base this on the company's lower-risk regulated electric LDC business that reflects around 90% of consolidated EBITDA, partially constrained by its non-utility businesses. We assess Alectra's non-utility business (about 10% of EBITDA) as higher risk than the regulated utility business because its heavy dependence on storm activity and restoration work, which increases the volatility of Alectra's financial performance. Our assessment of Alectra's business risk profile also reflects its large customer base (about 1.1 million customers), consisting of mostly residential customers that provide a degree of cash flow stability, and our assessment of the Ontario regulatory construct as highly supportive. However, should we reassess Ontario's regulatory construct downward, we would likely reconsider our assessment of Alectra's business risk profile within its excellent business risk profile category.

Outlook

The negative outlook on Alectra reflects our view that we could downgrade the company over the next 12 months, pending our review of the Ontario regulatory jurisdiction. Our outlook also incorporates our expectations that financial measures will improve, with FFO to debt of 12%-14% through 2025.

Downside scenario

We could lower our ratings on Alectra over the next 12 months if we revise downward our assessment of Ontario's regulatory jurisdiction and Alectra's FFO to debt is consistently below 14%. We could also downgrade Alectra if we maintain our assessment of Ontario's regulatory jurisdiction and Alectra's FFO to debt is consistently below 13%. We could also lower the rating if the company expands its riskier unregulated operations further.

Upside scenario

We could revise our outlook to stable and affirm the ratings on Alectra over the next 12 months if we revise downward our assessment of Ontario's regulatory jurisdiction and Alectra's FFO to debt is consistently greater than 14%. We could also revise the outlook to stable if our assessment of Ontario's regulatory jurisdiction is unchanged and Alectra's FFO to debt is consistently greater than 13%.

Company Description

Alectra is an investment holding company that owns Alectra Utilities Corp. (about 90% of EBITDA), and Alectra Energy Solutions Inc. (about 10% of EBITDA).

Our Base-Case Scenario

- Continued rate increases in conjunction with annual rate increases, recovery of energy costs.
- Recovery of large energy cost variances of 2021 and 2022 in 2023 and 2024.
- We forecast that that energy sales variance would be between C$60 million to C$80 million in 2023.
- Capital spending averaging about C$400 million per year through 2025.
- Minimal discretionary cash flow deficits through 2025.
- No material disallowance of costs.
- All debt maturities are refinanced, and discretionary cash flow deficits funded by debt.

Liquidity

As of Dec. 31, 2022, we assess Alectra's liquidity as adequate, which reflects our expectation that sources will cover uses by 1.1x over the coming 12 months. Additionally, we anticipate its net sources will remain positive even if consolidated EBITDA declines 10%. We believe the predictable regulatory framework for Alectra provides cash flow stability even in times of economic stress. This supports our use of slightly lower thresholds than for a typical corporate issuer to assess the company's liquidity. In addition, Alectra has the ability to absorb high-impact, low-probability events, given that it maintains about C$700 million in committed credit facilities that mature beyond 12 months. We also believe the company can significantly lower its robust capital spending during stress, which would reduce the need for refinancing under such conditions.

Our assessment also reflects the company's prudent risk management, sound relationships with its banks, and satisfactory standing in the credit markets. Overall, we believe 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 maturities in 2024, totaling about C$315 million coming due, and we expect the company to proactively address these maturities well in advance of their scheduled due date.

Principal liquidity sources

- Committed credit facilities availability of C$700 million;
- Cash FFO of about C$440 million; and
- Cash balance of about C$50 million.

Principal liquidity uses

- Debt maturities of about C$290 million;
- Capital expenditure of about C$430 million; and
- Dividend payments of about C$75 million.

Ratings Score Snapshot

Issuer credit rating: A-/Negative/--

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: Neutral (no impact)

Stand-alone credit profile: a-

- Group credit profile: a-
- Entity status within group: Core (no impact)
- Government-related entity: Low (no impact)

ESG credit indicators: E-2, S-2, G-2

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- 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

- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Alectra Inc.		
Issuer Credit Rating	A-/Negative/--	A-/Stable/--
Issue-Level Ratings Affirmed		
Alectra Inc.		
Senior Unsecured	A-	

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

Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

S&P Global
Ratings

Research

Research Update:

Alectra Inc. Outlook Revised To Stable From Negative Due To Expectation Of Reduced Regulatory Lag; Ratings Affirmed

March 20, 2024

Rating Action Overview

- We concluded our review of Ontario's regulatory construct and determined to maintain our assessment as a most credit supportive regulatory jurisdiction.
- Our assessment reflects the Ontario Energy Board's (OEB) proactively addressing regulatory lag and we now believe that its utilities, including Alectra Inc., will maintain consistent financial measures sufficient for the current ratings.
- We therefore revised our outlook to stable from negative and affirmed our ratings on Alectra, including our 'A-' issuer credit rating and senior unsecured rating.
- The stable outlook on Alectra reflects our expectation that its financial measures will remain consistent, such that funds from operations (FFO) to debt is greater than 13%. The stable outlook also reflects our expectation that the regulated utility business will consistently contribute about 90% of consolidated EBITDA. Under our base case we expect consolidated FFO to debt of 14%-16% through 2026.

PRIMARY CREDIT ANALYST

Omar El Gamal, CFA
Toronto
+1 4165072523
omar.elgamal
@spglobal.com

SECONDARY CONTACT

Matthew L O'Neill
New York
+ 1 (212) 438 4295
matthew.oneill
@spglobal.com

Rating Action Rationale

Our assessment of Ontario's regulatory environment remains unchanged as a most credit supportive regulatory jurisdiction. During 2023, OEB proactively addressed regulatory lag, particularly related to the timely recovery of rising transmission-related costs. Previously, local distribution companies' (LDCs) recovery of transmission costs included a regulatory lag of about 24 months distribution companies (LDCs) in Ontario experienced regulatory lag of about 24 months in recovering the transmission costs increases. Regulatory lag is the timing difference between when costs are incurred by the LDCs and when they ultimately recover such costs from ratepayers. Because of inflation and rising transmission capital spending, transmission costs were significantly increasing and the regulatory lag was materially weakening the financial measures of Ontario's LDCs.

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

However, beginning in 2024, the OEB allowed the LDCs to implement new preliminary transmission rates at about the same time that the OEB authorizes such rates for the transmission companies, substantially reducing the regulatory lag. Overall, we view the OEB's proactiveness to quickly address this regulatory lag as constructive and consistent with our view of Ontario's regulatory construct as a most credit supportive regulatory jurisdiction. As such, we expect Alectra's financial measures will be more consistent and reflect FFO to debt of 14% to 16% through 2026.

Alectra's financial risk profile assessment remains significant . Alectra's financial measures considerably improved in 2023. For 2022, FFO to debt was about 9% but in 2023 this increased to about 14%. The improvement was due to lower deferred 2023 transmission costs and higher recovery of previously deferred 2021 transmission costs. We expect financial performance to consistently remain above Alectra's downgrade threshold of FFO to debt of 13% through 2026. This incorporates annual rate increases, our expectation of minimal regulatory lag, and a consistent level of annual capital expenditures at about C$400 million to C$500 million. Furthermore, we expect 2024 financial measures to significantly improve, reflecting FFO to debt at 17% to 19% before normalizing to 14% to 16%, beginning in 2025. The near-term improvement reflects about C$130 million of authorized deferred costs recoveries. Alectra currently operates under a rate case freeze through 2026 that we assess as negative for credit quality. We expect that Alectra will file a new rate case in 2026.

We continue to assess Alectra's business risk profile as excellent. Our assessment reflects the company's lower-risk regulated electric LDC business that accounts for about 90% of consolidated EBITDA. The nonutility businesses (about 10% of EBITDA) have higher business risk compared to the lower-risk utility because the nonutility businesses rely on storm activity and restoration work, which increases the volatility of Alectra's financial performance. Our assessment of Alectra's business risk profile also reflects its large customer base (about 1.1 million customers), consisting of mostly residential customers that provide a degree of cash flow stability, and our assessment of the Ontario regulatory construct as a most credit supportive regulatory jurisdiction.

Outlook

The stable outlook on Alectra reflects our expectation that its financial measures will remain consistent, such that FFO to debt is greater than 13%. The stable outlook also reflects our expectation that the regulated utility business will consistently contribute about 90% of consolidated EBITDA. Under our base case we expect consolidated FFO to debt of 14%-16% through 2026.

Downside scenario

We could lower our ratings on Alectra within the next 24 months if its financial performance weakens, such that its FFO to debt remains consistently below 13%, or we believe its business risk has increased. This could occur if the company disproportionally expands its nonutility businesses, such that it approaches about 15% of its consolidated EBITDA.

Upside scenario

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

We could raise our rating on Alectra within the next 24 months if its financial measures improve, including FFO to debt consistently above 18%, without any further increase to business risk. We could also raise our rating if its nonutility businesses' contribution to its consolidated EBITDA decreases such that it approaches 5%.

Company Description

Alectra is an investment holding company that owns Alectra Utilities Corp. (about 90% of EBITDA), and Alectra Energy Solutions Inc. (about 10% of EBITDA).

Our Base-Case Scenario

- Continued rate increases driven by annual rate increases, and recoveries of deferred costs.
- Recovery of large historical transmission cost deferrals in 2024.
- Minimal energy costs deferrals through 2026.
- Capital spending averaging about C$400 to C$500 million per year through 2026.
- Minimal Discretionary cash flow deficits through 2026.
- No material disallowance of costs.
- All debt maturities are refinanced, and discretionary cash flow deficits funded by debt.

Liquidity

As of Dec. 31, 2023, we assess Alectra's liquidity as adequate, which reflects our expectation that sources will cover uses by 1.1x over the coming 12 months. Additionally, we anticipate its net sources will remain positive even if consolidated EBITDA declines 10%. We believe the predictable regulatory framework for Alectra provides cash flow stability even in times of economic stress. This supports our use of slightly lower thresholds than for a typical corporate issuer to assess the company's liquidity. In addition, Alectra has the ability to absorb high-impact, low-probability events, given that it maintains about C$700 million in committed credit facilities that mature beyond 12 months. We also believe the company can significantly lower its capital spending during stress, which would reduce the need for refinancing under such conditions. Furthermore, our assessment reflects the company's generally prudent risk management, sound relationships with its banks, and satisfactory standing in the credit markets. Overall, we believe 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 maturities in 2024, totaling about C$315 million coming due, and we expect the company to proactively address these maturities well in advance of their scheduled due date.

Principal liquidity sources include:

- Committed credit facilities availability of C$700 million;
- Cash FFO of about C$680 million; and,
- Cash of about C$20 million

Principal liquidity uses include:

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

- Debt maturities of about C$690 million
- Capital expenditure of about C$450 million; and
- Dividend payments of about C$80 million.

Issue Ratings - Subordination Risk Analysis

Capital structure

Alectra's capital structure comprises about C$2.6 billion of unsecured debt.

Analytical conclusions

We rate Alectra's senior unsecured debt at the same level as our issuer credit rating because its priority debt does not exceed 50% of its consolidated debt.

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)

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

- Management and governance: Neutral (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: a-

- Likelihood of government support: Low (no impact)

Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- 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
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Alectra Inc.		
Issuer Credit Rating	A-/Stable/--	A-/Negative/--
Issue-Level Ratings Affirmed		
Alectra Inc.		
Senior Unsecured	A-	

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

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 criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

© S&P Global Ratings. All rights reserved. No reprint or dissemination without S&P Global Ratings' permission. See Terms of Use/Disclaimer on the last page.

Copyright © 2024 Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

MORNINGSTAR | DBRS

Rating Report
Elexicon Corporation

DBRS Morningstar
May 11, 2020

Contents

1 Rating Update
2 Issuer Description
2 Rating Considerations
3 Corporate Structure
4 Earnings and Outlook
5 Financial Profile
6 Debt
7 Regulation
8 Assessment of Regulatory Framework
9 Balance Sheet
10 Rating History
10 Previous Rating Action

Adam Provencher, CFA
Assistant Vice President
Infrastructure, Power & Utilities
+1 416 597-7476
adam.provencher@dbrsmorningstar.com

Tom Li
Vice President
Infrastructure, Power & Utilities
+1 416 597-7378
tom.li@dbrsmorningstar.com

Vipin Pal
Assistant Vice President
Infrastructure, Power & Utilities
+1 416 597-7572
vipin.pal@dbrsmorningstar.com

Rating

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable

Rating Update

On May 4, 2020, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating of Elexicon Corporation (Elexicon or the Company) at "A" with a Stable trend. Elexicon was formed on April 1, 2019, through an amalgamation of Veridian Corporation and Whitby Hydro Energy Corporation (Whitby Hydro). Elexicon's rating continues to be supported by its stable regulated operations, reasonable financial profile and supportive shareholders.

DBRS Morningstar expects that the Coronavirus Disease (COVID-19) pandemic will likely negatively affect Elexicon's earnings for 2020 due to lower revenues from commercial and industrial customers. The coronavirus pandemic also exposes Elexicon to increased uncertainty due to the Province of Ontario (the Province; rated AA (low) with a Stable trend by DBRS Morningstar) mandating that through July 31, 2020, Ontario electricity customers cannot be disconnected for failing to pay their bills, which can lead to an increase in customer defaults and bad debts. DBRS Morningstar expects that any defaults will eventually be recovered through the rates. DBRS Morningstar also notes that Elexicon will continue to remit payments for transmission fees and energy costs to the Independent Electricity System Operator (the IESO; rated A (high) with a Stable trend by DBRS Morningstar), which may place moderate pressure on Elexicon's liquidity.. However, Elexicon has mitigated its liquidity risk by increasing its operating credit facility from $40 million to $100 million until September 30, 2020.

Elexicon's financial risk profile was strong in 2019, with all key credit metrics supportive of the current rating category. DBRS Morningstar expects that Elexicon's financial ratios will deteriorate moderately in the near term as the Company completes the Seaton Municipal Transformer Station project (Seaton TS; estimated cost of $40 million). However, financial metrics are expected to remain in the "A" category and supportive of the rating going forward. Additionally, approximately 49% of Elexicon's total debt outstanding was owed to its shareholders which provides the Company with additional flexibility. DBRS Morningstar does not expect that it will take a positive rating action on Elexicon in the near term. However, a negative rating action could occur if the coronavirus pandemic results in higher-than-expected payment defaults, which then significantly strain the Company's liquidity and credit metrics.

`

Financial Information

	2019[1]
Cash flow/Total debt (%)	20
Total debt in capital structure (%)	43
EBIT interest coverage (times)	3.10

1 2019 is for the nine months ending December 31, 2019.

Issuer Description

Elexicon is a municipally owned holding company that owns and operates Elexicon Energy Inc. (EEI), which is primarily a regulated electricity distribution company that services more than 168,000 residents and business in Eastern Ontario. Elexicon is 32.0% owned by the Town of Whitby, 27.9% by the City of Pickering, 21.8% by the Town of Ajax, 9.3% by the Municipality of Clarington, and 9.0% by the City of Belleville.

Rating Considerations

Strengths

1. Stable regulated operations

The vast majority of Elexicon's earnings are generated from its regulated distribution business, which operates under a reasonable regulatory framework. DBRS Morningstar notes, however, that the Company has begun to invest in some non-regulated projects, such as rooftop solar, combined heat and power (CHP), and other energy management and procurement consulting services. DBRS Morningstar expects these activities to remain modest in the medium term and to not exceed 10% of revenues over the long term.

2. Reasonable financial profile

Elexicon's key credit metrics are reasonable for the "A" rating category. While the cash flow-to-debt ratio is expected to be weaker for 2020 as the Company completes the Seaton TS project, DBRS Morningstar expects that the financial metrics will remain appropriate for the rating level.

3. Supportive shareholders

Approximately 49% of Elexicon's total debt is owed to its shareholders in the form of promissory notes, which are subordinate to the Company's external debt. DBRS Morningstar believes the owner municipalities would refrain from taking actions on their subordinated notes that would impair Elexicon's ability to meet its senior unsecured obligations.

Challenges

1. Performance pressure under Price Cap IR

Under the Price Cap Incentive Rate-setting method (Price Cap IR), annual rate increases are limited by a regulatory formula that includes inflation, a productivity factor, and a stretch factor. The Company must achieve productivity at least equal to the regulatory productivity (0.0% in 2020) and stretch factor (0.3% for the Veridian and 0.6% for the Whitby Hydro service areas in 2020), and any unfunded amortization combined to achieve the allowed return on equity (ROE).

`

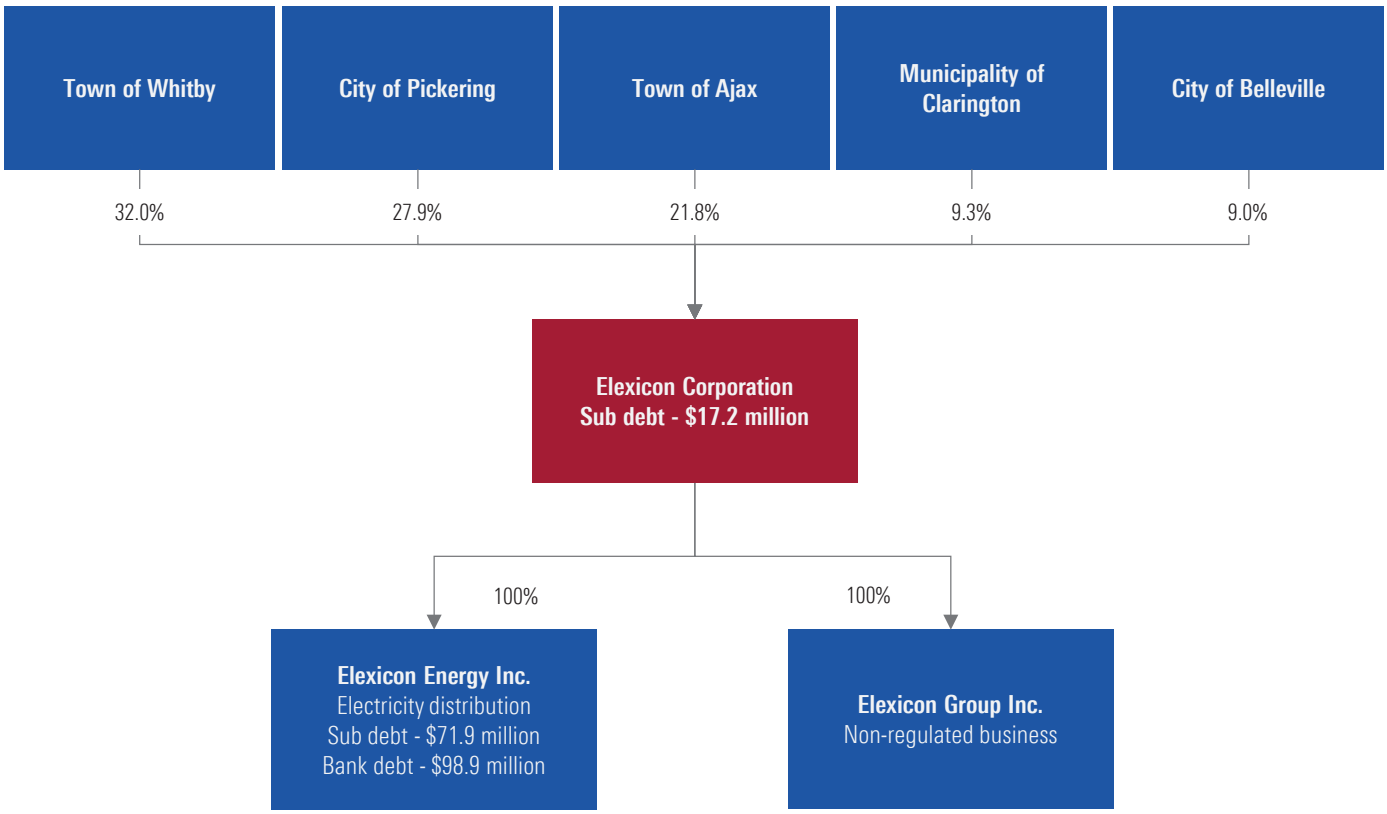
2. Merger Risk

Elexicon faces risks with consolidating the core business systems (i.e., customer information, financial, IT networks, and system control centres) of Veridian and Whitby Hydro as well as combining employees from both predecessor companies. The Company is tracking well against its integration plan. If Elexicon fails to achieve its integration plan it would erode the synergetic benefits expected from the merger.

3. Limited access to equity markets

Five municipalities own the Company; as a result, Elexicon does not have access to the public equity markets. As such, any significant capital expenditures (capex) will likely be debt-funded, which could negatively impact key credit metrics. If equity funding is required, it must be provided by the shareholders.

Corporate Structure



- Elexicon Corporation is the holding Company and also holds two small CHP generation assets.
- EEI is predominantly a regulated electricity distribution company that services 10 municipalities and over 168,000 customers in Eastern Ontario. EEI also holds four existing small scale solar generation assets (representing less than 1% of total assets). EEI's customer base consists of primarily of residential and

`

small commercial customers which provide for relatively higher stability in demand. EEI accounts for the vast majority of Elexicon's revenues and earnings.

- Elexicon Group holds unregulated business lines including energy management and procurement consulting services, CHP solutions, and specialty metering. Elexicon Group's unregulated operations are expected to grow in the future but are not expected to exceed 10% of Elexicon's total revenues.
- DBRS Morningstar views Elexicon as a consolidated credit. To avoid structural subordination risk, external debt at Elexicon Corporation will have to account for less than 10% of total debt. There is currently no existing external debt at this level.
- The subordinated debt at Elexicon and EEI rank equally and behind the bank debt.

Earnings and Outlook

CAD millions	**2019**[1]
Net revenues	60.0
EBITDA	28.0
EBIT	13.8
Interest expense	4.5
Net income before nonrecurring items	9.5
Reported net income	7.3
Return on equity (%)	5.20

1 2019 is for the nine months ending December 31, 2019.

2019 Summary

- Elexicon benefits from predictable earnings through EEI's rate regulated operations.
- The first nine months of operations were aligned with DBRS Morningstar's expectations.
- Transition costs for the merger totaled $3 million in 2019.

Outlook

- Earnings are expected to remain relatively steady in 2020 but could slightly decrease due to the coronavirus pandemic reducing demand from industrial and commercial customers.
- Transition costs are expected to total approximately $2 million for 2020.
- Following the merger, Elexicon will continue to operate under the existing IR mechanism until 2029.
- The OEB ordered all local distribution companies to establish deferral accounts to track incremental costs and lost revenues related to the coronavirus pandemic. This should allow for the recovery of incremental costs and lost revenues related to the coronavirus pandemic, subject to OEB approval.

Financial Profile

CAD millions	**2019**[1]
Net income before non-recurring items	9.5
Depreciation & amortization	13.8
Deferred income taxes and other	5.0
Cash flow from operations	28.4
Dividends paid	(5.6)
Capital expenditures	(27.0)
Free cash flow (bef. working cap. changes)	(4.3)
Changes in non-cash work. cap. items	(9.1)
Change in regulatory assets/liabilities	(9.2)
Net free cash flow	(22.5)
Net equity change	(1.0)
Net debt change	24.6
Other investing and financing	0.3
Change in cash	1.4
Total debt	188.1
Cash and equivalents	7.1
Total debt in capital structure (%)	43
Debt excluding shareholder loan / Capital (%)	23
Cash flow/Total debt (%)	20
EBIT gross interest coverage (times)	3.10
Dividend payout ratio (%)	59
Total debt	188.1

1 2019 is only for the nine months ending December 31, 2019.

2019 Summary

- Elexicon's key credit metrics for the first nine months were largely in line with DBRS Morningstar expectations for the "A" rating category.
- Capex of $27 million was largely for the replacement and rehabilitation of aging infrastructure and was largely funded with debt.

Outlook

- The Company is expected to spend capex of $41 million on average over the next five years.
- DBRS Morningstar expects that Elexicon will fund any free cash flow deficits through debt issuance or by drawing on its credit facility.
- Capex is expected to remain elevated in the near term as the Company completes the Seaton TS project.
- The Company's dividend policy is at least $11.3 million, $11.3 million, and $11.4 million for the first, second, and third fiscal year. Thereafter the dividend target is 52.5% of EEI's and EGI's net income plus 52.5% of the after-tax interest income in the Company earned on any promissory notes issued to the Company from EEI or other wholly owned subsidiaries. DBRS Morningstar expects that any dividends paid out will be done in a prudent manner

`

Debt

Debt Repayments (CAD millions)	December 31
	2019
Notes payable to shareholders, due on demand	89.1
Long-term debt from Bank maturing March 2, 2045	37.1
Long-term debt from Bank maturing December 31, 2024	55.0
Subtotal	181.3
Less: Current portion	-0.9
Total Long-Term Debt	180.4

- EEI has the following external debt:
    - $40.0 million uncommitted revolving demand credit facility ($6.8 million outstanding).
    - $41.0 million committed reducing term facility ($37.1 million outstanding).
    - $130.0 million committed or demand revolver facility ($55.0 million outstanding).
- The bank debt facilities have financial covenants including:
    - Debt to capitalization ratio of no greater than 60%.
    - Debt service coverage ratio of not less than 1.20x.
    - EEI has been in compliance with all of the covenants.
- Shareholder promissory notes include:
    - $17.2 at Elexicon; and
    - $71.9 million at EEI.
    - The noteholders have a right to demand repayment of the notes (in whole or in part) at any time upon six months' prior written notice to the Company.
    - The shareholders have waived their right to demand repayment of any portion of the principal of their notes before January 1, 2021.
    - The noteholders are not expected to exercise their option to demand early debt repayment for the foreseeable future.

Long-term Debt Maturities (CAD millions)	2020	2021	2022	2023	2024	Thereafter	Total
Principal repayments	0.9	90.1	1.0	1.0	56.0	32.3	181.3

As at December 31, 2019.

- Elexicon's third-party long term debt maturities are relatively well spread out.

`

Regulation

- EEI is regulated by the Ontario Energy Board (OEB) under the *Ontario Electricity Act, 1998*.
- In July 2018, Veridian and Whitby Hydro filed a Mergers, Acquisitions, Amalgamations, and Divestitures (MAADs) application with the OEB. The OEB approved the application largely as submitted in December 2018 with the following:
    - The local distribution company (LDC) can defer rebasing for up to 10 years following the closing of the merger. This will allow the LDC to keep all efficiency gains for five years before being subject to an earnings-sharing mechanism of any returns in excess of 300 basis points above the allowed ROE for the latter five years.
    - During the deferral period, Veridian and Whitby Hydro's rates and franchise areas will remain as separate rate zones.
- The Veridian and Whitby Hydro rate zones will operate under Price Cap IR where the LDC is subject to a formula price cap that allows for an annual increase in distribution rates based on inflation less productivity and utility-specific stretch factors, which can be reset annually.
    - Under Price Cap IR, the EEI can file an Incremental Capital Module (ICM) for each rate zone to request funding for incremental capital investment needs during the Price Cap IR term.
    - EEI is allowed to fully recover its purchased power costs on a monthly basis, eliminating its exposure to power price risk. DBRS Morningstar views this as a positive factor in the current regulatory framework in Ontario.
- The LDC has a deemed equity component of 40% and a debt component of 60%, which is composed of 56% long-term debt and 4% short-term debt.
- Almost all of the LDC's residential customers have transitioned to 100% fixed rates which eliminates a significant portion of the volume risk faced by Ontario distribution utilities, as revenues from residential customers will no longer fluctuate as a result of weather sensitivities.

Veridian Rate Zone

- Veridian's most recent cost-of-service (COS) application was in 2014, where the OEB approved revenue requirement of $53.9 million, a rate base of $238.1 million, and ROE of 9.36%.
- On October 15, 2019, Elexicon filed a Price Cap IR application for the Veridian Rate Zone. Distribution rates effective May 1, 2020, are based on 2019 rates, adjusted for a price cap adjustment of 1.7% (inflation escalator of 2.0%, productivity factor of 0.0% and stretch factor of 0.3%). Due to the uncertainty about the coronavirus pandemic, the Company postponed implementation of its new rates until November 1, 2020.

Whitby Hydro Rate Zone

- Whitby Hydro's most recent COS application was for 2010, where the OEB approved revenue requirement of $20.2 million, a rate base of $75.8 million, and ROE of 9.66%.
- On December 12, 2019, the OEB approved Elexicon's 2020 Annual IR Index application for the Whitby Hydro Rate Zone with rates effective January 1, 2020, based on 2019 rates and adjusted for a price cap adjustment of 1.4% (inflation escalator of 2.0%, productivity factor of 0.0%, and stretch factor of 0.6%).

`

Assessment of Regulatory Framework

Criteria	Score	Analysis
1. Deemed Equity	Excellent Good **Satisfactory** Below Average Poor	The OEB allows Elexicon to have a deemed equity of 40% which is consistent with other electricity distribution companies in Ontario.
2. Allowed ROE	Excellent **Good** Satisfactory Below Average Poor	The Veridian and Whitby Hydro rate zones continue to have allowed ROEs of 9.36% and 9.66%, respectively, which are in line with other distribution companies in Ontario. Any difference in ROE between Elexicon and other distribution companies is mainly because of the timing of the regulatory filings and the interest environment prevalent at that time
3. Energy Cost Recovery	**Excellent** Good Satisfactory Below Average Poor	There is no power risk for Elexicon 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 Elexicon collects payments from its customers on a monthly basis.
4. Capital and Operating Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Some capital costs are pre-approved at the time of the COS application. Subsequent capital spending after the base year will not be approved until the next rate application and approval of the rate base. If incremental capital costs are significant and prudent, Elexicon can file under ICM to request the recovery of the costs. Additionally, rate cases incorporate future test years, which reduces some regulatory lag for the cost recoveries. DBRS Morningstar considers the inputs for the annual price cap adjustment as reasonable for the Company to recover its operating costs. All residential customers are charged a fully fixed monthly fee which significantly reduces volume risk.
5. COS versus IRM	Excellent Good **Satisfactory** Below Average Poor	Elexicon is regulated under the Price Cap IR framework. As a result of the merger Elexicon does not have to file a COS application until 2029. Elexicon can file an ICM if there are significant and prudent incremental capital needs.
6. Political Interference	Excellent Good Satisfactory **Below Average** 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 (Elexicon is owned by five municipalities). Further, stakeholders such as the IESO are also effectively government owned. As a result, the government has direct and indirect influence on Ontario's electricity industry.
7. Stranded Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Electricity distribution companies in Ontario have a limited history of stranded costs. Most prudently incurred or budgeted capex is approved by the OEB.
8. Rate Freeze	Excellent Good **Satisfactory** Below Average Poor	Rising rates from 2002 to 2005 from Ontario's utility deregulation phase resulted in a province-wide distribution rate freeze being imposed. There have been no subsequent province-wide rate freezes.

Balance Sheet (CAD millions)			
Assets	**2020**	**Liabilities & Equity**	**2020**
Cash & equivalents	7.1	S.T. borrowings	6.8
Accounts receivable	71.7	Current portion L.T. debt	0.9
Inventories	4.4	Accounts payable & deferred tax	62.2
Prepaid expenses & others	1.8	Other current liab.	17.6
Total Current Assets	**84.9**	**Total Current Liab.**	**87.4**
Net fixed assets	436.6	Long-term debt	180.4
Future income tax assets	0.1	Regulatory liabilities	2.6
Goodwill & intangibles	69.6	Deferred income taxes	2.6
Regulatory assets	15.1	Other L.T. liab.	88.8
Investments & others	0.1	Shareholders' equity	244.8
Total Assets	**606.6**	**Total Liab. & SE**	**606.6**

Balance Sheet, Liquidity, and Capital Ratios	
	2020
Current ratio (times)	0.97
Total debt in capital structure (%)	43.4
Cash flow/Total debt (%)	20.1
(Cash flow-dividends)/Capex (times)	0.84
Dividend payout ratio (%)	58.6
Coverage Ratios (times)	
EBIT gross interest coverage	3.10
EBITDA gross interest coverage	6.27
Fixed-charges coverage	3.10
Profitability Ratios	
EBITDA margin (%)	46.6
EBIT margin (%)	23.1
Profit margin (%)	15.9
Return on equity (%)	5.2
Return on capital (%)	3.9

`

Rating History

	2020	2019	2018	2017	2016
Issuer Rating	A	A	N/R	N/R	N/R

Previous Action

- Assigned Issuer Rating of "A" with Stable trend, April 1, 2019

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.

About DBRS Morningstar

DBRS Morningstar is a global credit ratings business with approximately 700 employees in eight offices globally.

On July 2, 2019, Morningstar, Inc. completed its acquisition of DBRS. Combining DBRS' strong market presence in Canada, the U.S., and Europe with Morningstar Credit Ratings' U.S. footprint has expanded global asset class coverage and provided investors with an enhanced platform featuring thought leadership, analysis, and research. DBRS and Morningstar Credit Ratings are committed to empowering investor success, serving the market through leading-edge technology and raising the bar for the industry.

Together as DBRS Morningstar, we are the world's fourth-largest credit ratings agency and a market leader in Canada, the U.S., and Europe in multiple asset classes. We rate more than 2,600 issuers and 54,000 securities worldwide and are driven to bring more clarity, diversity, and responsiveness to the ratings process. Our approach and size provide the agility to respond to customers' needs, while being large enough to provide the necessary expertise and resources.

MORNINGSTAR | DBRS

The DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(CRA, NRSRO affiliate, DRO affiliate). Morningstar Credit Ratings, LLC is a NRSRO affiliate of DBRS, Inc.

For more information on regulatory registrations, recognitions and approvals of the DBRS group of companies and Morningstar Credit Ratings, LLC, please see: http://www.dbrsmorningstar.com/research/highlights.pdf.

The DBRS group and Morningstar Credit Ratings, LLC are wholly-owned subsidiaries of Morningstar, Inc.

© 2020 Morningstar. All rights reserved. The information upon which DBRS ratings and other types of credit opinions and reports are based is obtained by DBRS from sources DBRS believes to be reliable. DBRS does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS ratings, other types of credit opinions, reports and any other information provided by DBRS are provided "as is" and without representation or warranty of any kind. DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS or any DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. No DBRS entity is an investment advisor. DBRS does not provide investment, financial or other advice. Ratings, other types of credit opinions, other analysis and research issued or published by DBRS are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities. A report with respect to a DBRS rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS may receive compensation for its ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. DBRS is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS. ALL DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT http://www.dbrsmorningstar.com/about/disclaimer. ADDITIONAL INFORMATION REGARDING DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON http://www.dbrsmorningstar.com.

`

MORNINGSTAR | DBRS

Rating Report
Elexicon Corporation

DBRS Morningstar
May 10, 2021

Contents

1 Rating Update
2 Issuer Description
2 Rating Considerations
3 Corporate Structure
4 Earnings and Outlook
5 Financial Profile
6 Debt
7 Regulation
8 Assessment of Regulatory Framework
9 Balance Sheet
10 Rating History
10 Previous Rating Action

Adam Provencher, CFA
Assistant Vice President
+1 416 597-7476
adam.provencher@dbrsmorningstar.com

Tom Li
Vice President
+1 416 597-7378
tom.li@dbrsmorningstar.com

Jiaona Quan
Senior Analyst
+1 647 655 0222
jiaona.quan@dbrsmorningstar.com

Rating

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable

Rating Update

On May 5, 2021, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating of Elexicon Corporation (Elexicon or the Company) at "A" with a Stable trend. Elexicon was formed on April 1, 2019, through the amalgamation of Veridian Corporation and Whitby Hydro Energy Corporation (Whitby Hydro). Elexicon's rating continues to be supported by its stable regulated operations, reasonable financial profile, and supportive shareholders.

In 2020, the coronavirus pandemic resulted in Elexicon having increased costs and customer defaults compared with 2019. However, these increased costs did not materially affect the company's financial results. DBRS Morningstar notes that, as the coronavirus pandemic and associated restrictions continue into 2021, it remains unclear how this will affect revenues and customer defaults in 2021. However, any further increased costs and customer defaults would largely be mitigated by Elexicon's liquidity position and reasonable financial profile.

Elexicon's financial risk profile remained strong in 2020, with all key credit metrics supportive of the current rating category. DBRS Morningstar expects that Elexicon's financial ratios will deteriorate moderately in the near term as the Company completes the Seaton Municipal Transformer Station project (Seaton TS; estimated cost of $40 million) and other capital expenditure (capex) projects that are expected to be partially financed with debt. However, DBRS Morningstar also expects that the Company's financial metrics will remain in the "A" category and supportive of the rating in the future. DBRS Morningstar notes that a significant portion of Elexicon's total debt outstanding is owed to its shareholders, which provides the Company with additional flexibility.

DBRS Morningstar does not expect to take a positive rating action on Elexicon in the near term. However, a negative rating action could occur if the Company's key credit metrics deteriorate to a level no longer in line with the current ratings or its liquidity position becomes significantly strained from high payment defaults because of the continuing coronavirus pandemic.

Financial Information

	2020	2019[1]
Cash flow/Total debt (%)	17.6	20.1
Total debt in capital structure (%)	48.3	43.4
EBIT interest coverage (times)	3.47	3.17

1 2019 is for the nine months ended December 31, 2019.

Issuer Description

Elexicon is a municipally owned holding company that owns and operates Elexicon Energy Inc. (EEI), which is primarily a regulated electricity distribution company that services more than 171,000 residents and businesses in Eastern Ontario. Elexicon is 32.0% owned by the Town of Whitby, 27.9% by the City of Pickering, 21.8% by the Town of Ajax, 9.3% by the Municipality of Clarington, and 9.0% by the City of Belleville.

Rating Considerations

Strengths

1. Stable regulated operations

The vast majority of Elexicon's earnings are generated from its regulated distribution business, which operates under a reasonable regulatory framework. DBRS Morningstar notes, however, that the Company has begun to invest in some nonregulated projects, such as rooftop solar, combined heat and power (CHP), and other energy management and procurement consulting services. DBRS Morningstar expects these activities to remain modest in the medium term and to not exceed 10% of revenues over the long term.

2. Reasonable financial profile

Elexicon's key credit metrics are reasonable for the "A" rating category. The cash flow-to-debt ratio is expected to be weaker in the future as the Company funds capex with increased debt. DBRS Morningstar expects that the financial metrics will remain appropriate for the rating level.

3. Supportive shareholders

Approximately 39% of Elexicon's total debt is owed to its shareholders in the form of promissory notes, which are subordinate to the Company's external debt. DBRS Morningstar believes the owner municipalities would refrain from taking actions on their subordinated notes as that would impair Elexicon's ability to meet its senior unsecured obligations.

Challenges

1. Performance pressure under Price Cap IR

Under the Price Cap Incentive Rate-setting method (Price Cap IR), annual rate increases are limited by a regulatory formula that includes inflation, a productivity factor, and a stretch factor. The Company must achieve productivity at least equal to the regulatory productivity (0.0% in 2021), stretch factor (0.3% for the Veridian and 0.6% for the Whitby Hydro service areas in 2021), and any unfunded amortization combined to achieve the allowed return on equity (ROE).

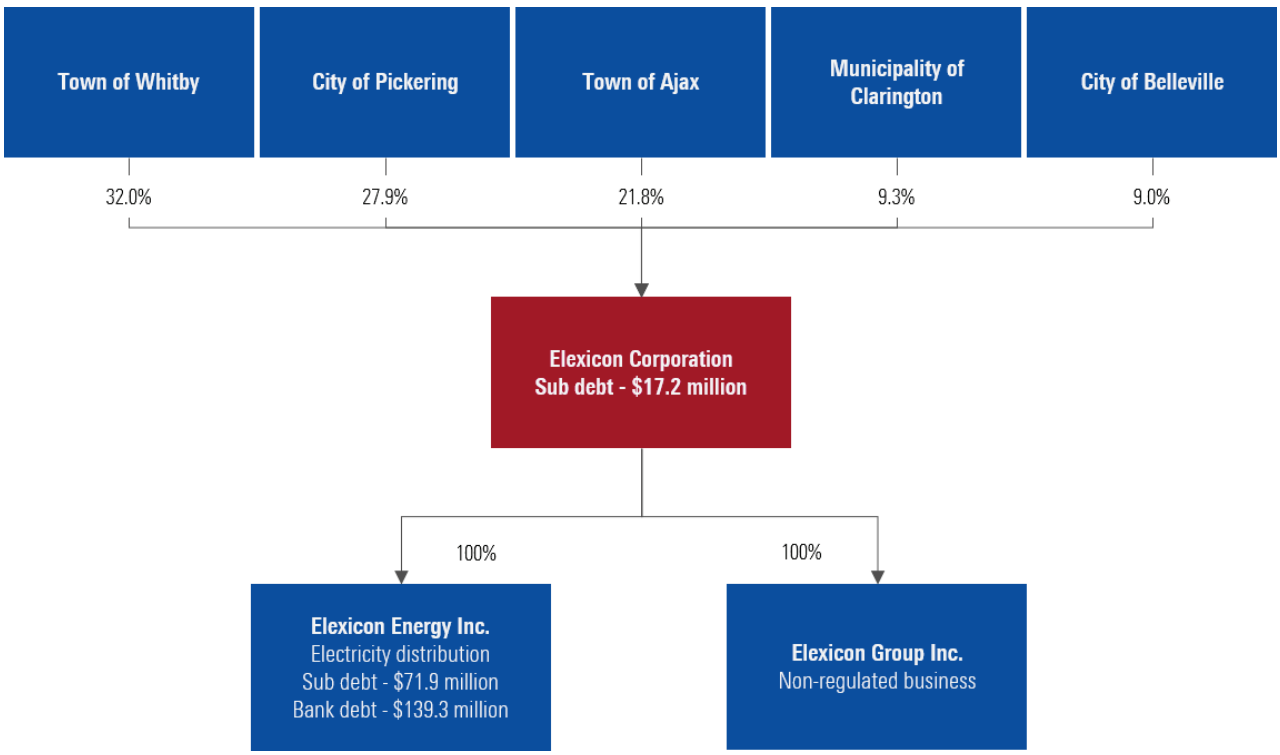
2. Merger Risk

The Company is tracking well against its integration plan and has completed the integration of its financial, customer service information, and staffing systems. DBRS Morningstar notes, however, that all synergies assumed in the merger business case have yet to be fully achieved. If Elexicon fails to achieve its integration plan it would erode the expected synergetic benefits from the merger.

3. Limited access to equity markets

Five municipalities own the Company; as a result, Elexicon does not have access to the public equity markets. As such, any significant capex will likely be debt funded, which could negatively impact key credit metrics. If equity funding is required, it must be provided by the shareholders.

Corporate Structure



- Elexicon Corporation is the holding Company and also holds two small CHP generation assets.
- EEI is predominantly a regulated electricity distribution company that services 10 municipalities and more than 171,000 customers in Eastern Ontario. EEI also holds four existing small scale solar generation assets (representing less than 1% of total assets). EEI's customer base consists primarily of residential and small commercial customers, which provide for relatively higher stability in demand. EEI accounts for the vast majority of Elexicon's revenues and earnings.

- Elexicon Group Inc. (EGI) holds unregulated business lines, including energy management and procurement consulting services, CHP solutions, and specialty metering. EGI's unregulated operations are expected to grow in the future but are not expected to exceed 10% of Elexicon's total revenues.
- DBRS Morningstar views Elexicon as a consolidated credit. To avoid structural subordination risk, external debt at Elexicon Corporation will have to account for less than 10% of total debt. Currently there is no external debt at this level.
- The subordinated debts at Elexicon and EEI rank equally and behind the bank debt.

Earnings and Outlook

CAD millions where applicable	**2020**	**2019**[1]
Net revenues	86.4	62.5
EBITDA	42.4	30.4
EBIT	23.2	16.3
Interest expense	6.7	5.1
Net income before nonrecurring items	17.3	10.5
Reported net income	12.5	7.3
Return on equity (%)	7.1	5.7

1 2019 is for the nine months ended December 31, 2019.

2020 Summary

- Elexicon benefits from predictable earnings through EEI's rate regulated operations.
- EBITDA for 2020 was aligned with DBRS Morningstar's expectations.

Outlook

- The continuing coronavirus pandemic restrictions are expected to result in continuing lower demand from industrial and commercial customers, however, earnings are expected to remain relatively steady compared with 2020.
- Elexicon will continue to operate under the existing IR mechanism until 2029.
- The Ontario Energy Board (OEB) ordered all local distribution companies to establish deferral accounts to track incremental costs and lost revenues related to the coronavirus pandemic. Elexicon has fully incorporated all coronavirus-related costs with no assumed recovery in the Company's 2020 results.

Financial Profile

CAD millions where applicable	2020	2019[1]
Net income before nonrecurring items	17.3	10.5
Depreciation & amortization	18.4	13.8
Deferred income taxes and other	4.6	4.0
Cash flow from operations	**40.3**	**28.4**
Dividends paid	(11.3)	(5.6)
Capital expenditures	(34.8)	(27.0)
Free cash flow (bef. working cap. changes)	**(5.9)**	**(4.3)**
Changes in non-cash work. cap. items	(21.5)	(9.1)
Change in regulatory assets/liabilities	(12.5)	(9.2)
Net free cash flow	**(39.9)**	**(22.5)**
Net equity change	0.0	(1.0)
Net debt change	40.5	24.6
Other investing and financing	0.1	0.3
Change in cash	**0.7**	**1.4**

Total debt	228.5	188.1
Cash and equivalents	7.8	7.1
Total debt in capital structure (%)	48.3	43.4
Debt excluding shareholder loan / Capital (%)	29.4	22.9
Cash flow/Total debt (%)	17.6	20.1
EBIT gross interest coverage (times)	3.47	3.17
Dividend payout ratio (%)	65.3	53.1

1 2019 is only for the nine months ended December 31, 2019.

2020 Summary

- Elexicon's key credit metrics in 2020 were supportive of the current ratings.
- Capex of $35 million was largely for the replacement and rehabilitation of aging infrastructure and was funded with debt.

Outlook

- The Company is expected to spend $47 million on average capex over the next five years.
    - Capex is expected to remain elevated in the near term as the Company continues work on the Seaton TS project which is expected to be completed in Q2 2022.
- DBRS Morningstar expects that Elexicon will fund any free cash flow deficits through debt issuances or by drawing on its credit facility.
- The Company's dividend policy is at least $11.4 million for 2021. Thereafter the dividend target is 52.5% of EEI's and EGI's net income plus 52.5% of the after-tax interest income the Company earned on any promissory notes issued to Elexicon from EEI or other wholly owned subsidiaries. DBRS Morningstar expects that any dividends will be paid out in a prudent manner.

Debt

Debt Repayments (CAD millions)	December 31 2020	December 31 2019
Notes payable to shareholders, due on demand	89.1	89.1
Loan payable to Town of Cobourg Holding Inc., maturing in February 2044	0.1	–
Long-term debt from Bank maturing on March 2, 2045	36.2	37.1
Long-term debt from Bank maturing on December 31, 2024	90.0	55.0
Subtotal	**215.4**	**181.3**
Less: Current portion	(0.9)	(0.9)
Total Long-Term Debt	**214.5**	**180.4**

- EEI has the following external debt:
  - $40.0 million uncommitted revolving demand credit facility ($13.1 million outstanding).
  - $41.0 million committed reducing term facility ($36.2 million outstanding).
  - $130.0 million committed or demand revolver facility ($90.0 million outstanding).
- The bank debt facilities have financial covenants including:
  - Debt to capitalization ratio of no more than 60%.
  - Debt service coverage ratio of not less than 1.20 times (x).
  - EEI has been in compliance with all of the covenants.
- Shareholder promissory notes include:
  - $17.2 million at Elexicon; and
  - $71.9 million at EEI.
  - The noteholders have a right to demand repayment of the notes (in whole or in part) at any time upon six months' prior written notice to the Company.
  - The shareholders have waived their right to demand repayment of any portion of the principal of their notes before January 1, 2022.
  - The noteholders are not expected to exercise their option to demand early debt repayment for the foreseeable future.

Long-Term Debt Maturities (CAD millions)	2021	2022	2023	2024	2025	Thereafter	Total
Principal repayments	0.9	90.1	1.0	91.1	1.1	31.2	**215.4**

As at December 31, 2020.

- Elexicon's third-party long term debt maturities are relatively well spread out.

Regulation

- EEI is regulated by the OEB under the Ontario Electricity Act, 1998.
- In July 2018, Veridian and Whitby Hydro filed a Mergers, Acquisitions, Amalgamations, and Divestitures application with the OEB. The OEB approved the application largely as submitted in December 2018 with the following:
    - EEI can defer rebasing for up to 10 years following the closing of the merger. This will allow the EEI to keep all efficiency gains for five years before being subject to an earnings-sharing mechanism of any returns in excess of 300 basis points above the allowed ROE for the latter five years.
    - During the deferral period, Veridian and Whitby Hydro's rates and franchise areas will remain as separate rate zones.
- The Veridian and Whitby Hydro rate zones will operate under Price Cap IR where the EEI is subject to a formula price cap that allows for an annual increase in distribution rates based on inflation less productivity and utility-specific stretch factors, which can be reset annually.
    - Under Price Cap IR, the EEI can file an Incremental Capital Module (ICM) for each rate zone to request funding for incremental capital investment needs during the Price Cap IR term.
    - EEI is allowed to fully recover its purchased power costs on a monthly basis, eliminating its exposure to power price risk. DBRS Morningstar views this as a positive factor in the current regulatory framework in Ontario.
- EEI has a deemed equity component of 40% and a debt component of 60%, which is composed of 56% long-term debt and 4% short-term debt.
- Almost all of EEI's residential customers have transitioned to 100% fixed rates, which eliminates a significant portion of the volume risk faced by Ontario distribution utilities as revenues from residential customers will no longer fluctuate as a result of weather sensitivities.

Veridian Rate Zone

- Veridian's most recent cost-of-service (COS) application was in 2014, where the OEB approved revenue requirement of $53.9 million, a rate base of $238.1 million, and ROE of 9.36%.
- On December 17, 2020, Elexicon filed a Price Cap IR application for the Veridian Rate Zone. Distribution rates effective January 1, 2021. The OEB approved a price cap adjustment of 1.9% (inflation escalator of 2.2%, productivity factor of 0.0%, and stretch factor of 0.3%).

Whitby Hydro Rate Zone

- Whitby Hydro's most recent COS application was for 2010, where the OEB approved revenue requirement of $20.2 million, a rate base of $75.8 million, and ROE of 9.66%.
- On December 10, 2020, the OEB approved Elexicon's 2021 Annual IR Index application for the Whitby Hydro Rate Zone with rates effective January 1, 2021. The OEB approved a price cap adjustment of 1.6% (inflation escalator of 2.2%, productivity factor of 0.0%, and stretch factor of 0.6%).

Assessment of Regulatory Framework

Criteria	Score	Analysis
1. Deemed Equity	Excellent Good **Satisfactory** Below Average Poor	The OEB allows EEI to have a deemed equity of 40% which is consistent with other electricity distribution companies in Ontario.
2. Allowed ROE	Excellent **Good** Satisfactory Below Average Poor	The Veridian and Whitby Hydro rate zones continue to have allowed ROEs of 9.36% and 9.66%, respectively, which are in line with other distribution companies in Ontario. Any difference in ROE between EEI and other distribution companies is mainly because of the timing of the regulatory filings and the interest environment prevalent at that time
3. Energy Cost Recovery	**Excellent** Good Satisfactory Below Average Poor	There is no power risk for EEI 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 EEI collects payments from its customers on a monthly basis.
4. Capital and Operating Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Some capital costs are pre-approved at the time of the COS application. Subsequent capital spending after the base year will not be approved until the next rate application and approval of the rate base. If incremental capital costs are significant and prudent, EEI can file under ICM to request the recovery of the costs. Additionally, rate cases incorporate future test years, which reduces some regulatory lag for the cost recoveries. DBRS Morningstar considers the inputs for the annual price cap adjustment as reasonable for EEI to recover its operating costs. All residential customers are charged a fully fixed monthly fee which significantly reduces volume risk.
5. COS versus IRM	Excellent Good **Satisfactory** Below Average Poor	EEI is regulated under the Price Cap IR framework. As a result of the merger EEI does not have to file a COS application until 2029. EEI can file an ICM if there are significant and prudent incremental capital needs.
6. Political Interference	Excellent Good Satisfactory **Below Average** 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 (Elexicon is owned by five municipalities). Further, stakeholders such as the Independent Electricity System Operator are also effectively government owned. As a result, the government has direct and indirect influence on Ontario's electricity industry.
7. Stranded Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Electricity distribution companies in Ontario have a limited history of stranded costs. Most prudently incurred or budgeted capex is approved by the OEB.
8. Rate Freeze	Excellent Good **Satisfactory** Below Average Poor	Rising rates in 2002–05 from Ontario's utility deregulation phase resulted in a province-wide distribution rate freeze being imposed. There have been no subsequent province-wide rate freezes.

Balance Sheet (CAD millions)					
Assets	**2020**	**2019**	**Liabilities & Equity**	**2020**	**2019**
Cash & equivalents	7.8	7.1	S.T. borrowings	13.1	6.8
Accounts receivable	85.0	71.7	Current portion L.T. debt	0.9	0.9
Inventories	5.2	4.4	Accounts payable & deferred tax	54.0	62.2
Prepaid expenses & others	0.6	1.8	Other current liab.	20.6	17.6
Total Current Assets	**98.5**	**84.9**	**Total Current Liab.**	**88.7**	**87.4**
Net fixed assets	463.6	436.6	Long-term debt	214.5	180.4
Future income tax assets	0.0	0.1	Regulatory liabilities	1.8	2.6
Goodwill & intangibles	71.8	69.6	Deferred income taxes	7.4	2.6
Regulatory assets	26.9	15.1	Other L.T. liab.	103.5	88.8
Investments & others	0.1	0.1	Shareholders' equity	245.0	244.8
Total Assets	**661.0**	**606.6**	**Total Liab. & SE**	**661.0**	**606.6**

Balance Sheet, Liquidity, and Capital Ratios		
	2020	**2019**
Current ratio (x)	1.11	0.97
Total debt in capital structure (%)	48.3	43.4
Cash flow/Total debt (%)	17.6	20.1
(Cash flow-dividends)/Capex (x)	0.83	0.84
Dividend payout ratio (%)	65.3	53.1
Coverage Ratios (x)		
EBIT gross interest coverage	3.47	3.17
EBITDA gross interest coverage	6.35	5.91
Fixed-charges coverage	3.47	3.17
Profitability Ratios		
EBITDA margin (%)	49.1	48.7
EBIT margin (%)	26.8	26.1
Profit margin (%)	20.0	16.9
Return on equity (%)	7.1	5.7
Return on capital (%)	4.8	4.3

Rating History

	2021	2020	2019	2018	2017
Issuer Rating	A	A	A	N/R	N/R

Previous Action

- DBRS Morningstar Confirms Elexicon Corporation at "A" with a Stable Trend, May 5, 2020.

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.

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 3,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why DBRS Morningstar is the next generation of credit ratings.

Learn more at dbrsmorningstar.com.

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: https://www.dbrsmorningstar.com/research/225752/highlights.pdf.

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

© 2021 DBRS Morningstar. All Rights Reserved. The information upon which DBRS Morningstar ratings and other types of credit opinions and reports are based is obtained by DBRS Morningstar from sources DBRS Morningstar believes to be reliable. DBRS Morningstar does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS Morningstar ratings, other types of credit opinions, reports and any other information provided by DBRS Morningstar are provided "as is" and without representation or warranty of any kind. DBRS Morningstar hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS Morningstar or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Morningstar Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS Morningstar or any DBRS Morningstar Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. No DBRS Morningstar entity is an investment advisor. DBRS Morningstar does not provide investment, financial or other advice. Ratings, other types of credit opinions, other analysis and research issued or published by DBRS Morningstar are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities. A report with respect to a DBRS Morningstar rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS Morningstar may receive compensation for its ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. DBRS Morningstar is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS Morningstar shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS Morningstar. ALL DBRS MORNINGSTAR RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT https://www.dbrsmorningstar.com/about/disclaimer. ADDITIONAL INFORMATION REGARDING DBRS MORNINGSTAR RATINGS AND OTHER TYPES OF CREDIT OPINIONS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON https://www.dbrsmorningstar.com.

MORNINGSTAR | DBRS

Rating Report
Elexicon Corporation

DBRS Morningstar
August 23, 2022

Contents

1 Rating Update
2 Financial Information
2 Issuer Description
2 Rating Considerations
3 Corporate Structure
4 Earnings and Outlook
5 Financial Profile
6 Debt
7 Regulation
8 Assessment of Regulatory Framework
9 Balance Sheet
10 ESG Checklist
11 Rating History
11 Previous Rating Action

Adam Provencher, CFA
Assistant Vice President
+1 416 597-7476
adam.provencher@dbrsmorningstar.com

Tom Li
Vice President
+1 416 597-7378
tom.li@dbrsmorningstar.com

Jiaona Quan
Senior Analyst
+1 416 597-7308
jiaona.quan@dbrsmorningstar.com

Rating

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable

Rating Update

On July 29, 2022, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating of Elexicon Corporation (Elexicon or the Company) at "A" with a Stable trend. Elexicon was formed on April 1, 2019, through the amalgamation of Veridian Corporation and Whitby Hydro Energy Corporation (Whitby Hydro). Elexicon's rating continues to be supported by its stable regulated operations and reasonable financial profile.

Elexicon's financial risk profile weakened moderately in 2021 compared with 2020 as a result of its increased total debt and modestly weaker net income. DBRS Morningstar expects that Elexicon's income will improve in 2023 following the addition of the Seaton Municipal Transformer Station project (Seaton TS; estimated cost of $40 million) to Elexicon's rate base in Q4 2022. The Ontario Energy Board (OEB) approved the addition of Seaton TS through an incremental capital module (ICM) in December 2021. DBRS Morningstar expects that Elexicon will complete average annual capital expenditures (capex) of $48 million per year over the next five years, which is line with historical levels. Capex is expected to be funded prudently with a combination of debt and equity with Elexicon targeting a debt to capital structure near the OEB's deemed 60:40 debt to equity level.

DBRS Morningstar expects Elexicon's operating efficiency will underperform its OEB approved regulated return on equity (ROE) over the medium term. Underperformance is expected because of higher inflation and increased operating costs from new corporate initiatives. DBRS Morningstar expects this underperformance to result in a modest deterioration in Elexicon's financial metrics going forward. DBRS Morningstar, however, expects the financial metrics to continue to support the rating over the medium term.

DBRS Morningstar does not expect to take a positive rating action on Elexicon in the near term. However, a negative rating action could occur if the Company's operating efficiency continues to deteriorate leading to key credit metrics no longer in line with the current rating. DBRS Morningstar notes that approximately 34% of Elexicon's total debt outstanding is owed to its shareholders, which provides the Company with some flexibility.

Financial Information

	12 mos. ended March 31[1]	For the year ended December 31		
	2022	**2021**	**2020**	**2019**[2]
Cash flow/total debt (%)	16.4	15.6	17.6	20.1
Total debt in capital structure (%)	51.0	50.8	48.3	43.4
EBIT interest coverage (x)	3.11	3.17	3.47	3.17

1 Unaudited

2 2019 is for the nine months ended December 31, 2019.

Issuer Description

Elexicon is a municipally owned holding company that owns and operates Elexicon Energy Inc. (EEI), which is primarily a regulated electricity distribution company that services more than 172,000 residents and businesses in Eastern Ontario. Elexicon is 32.0% owned by the Town of Whitby, 27.9% by the City of Pickering, 21.8% by the Town of Ajax, 9.3% by the Municipality of Clarington, and 9.0% by the City of Belleville.

Rating Considerations

Strengths

1. Stable regulated operations

The vast majority of Elexicon's earnings are generated from its regulated distribution business, which operates under a reasonable regulatory framework. DBRS Morningstar notes, however, that the Company has begun to invest in some nonregulated projects, such as rooftop solar, combined heat and power (CHP), and other energy management and procurement consulting services. DBRS Morningstar expects these activities to remain modest in the medium term and to not exceed 10% of revenues over the long term.

2. Reasonable financial profile

Elexicon's key credit metrics are reasonable for the "A" rating category. The cash flow-to-debt ratio is expected to be weaker in the future as the Company funds capex with increased debt. DBRS Morningstar expects that the financial metrics will remain appropriate for the rating level.

3. Supportive shareholders

Approximately 34% of Elexicon's total debt is owed to its shareholders in the form of promissory notes, which are subordinate to the Company's external debt. DBRS Morningstar believes the owner municipalities would refrain from taking actions on their subordinated notes as that would impair Elexicon's ability to meet its senior unsecured obligations.

Challenges

1. Performance pressure under Price Cap IR

Under the Price Cap Incentive Rate-setting method (Price Cap IR), annual rate increases are limited by a regulatory formula that includes inflation, a productivity factor, and a stretch factor. The Company must achieve productivity at least equal to the regulatory productivity (0.0% in 2022), stretch factor (0.3% for the Veridian and 0.6% for the Whitby Hydro service areas in 2021), and any unfunded amortization

combined to achieve the allowed ROE. DBRS Morningstar expects Elexicon's ROE to underperform the OEB's ROE over the medium term as a result of rising inflation, interest rates, and new corporate initiatives.

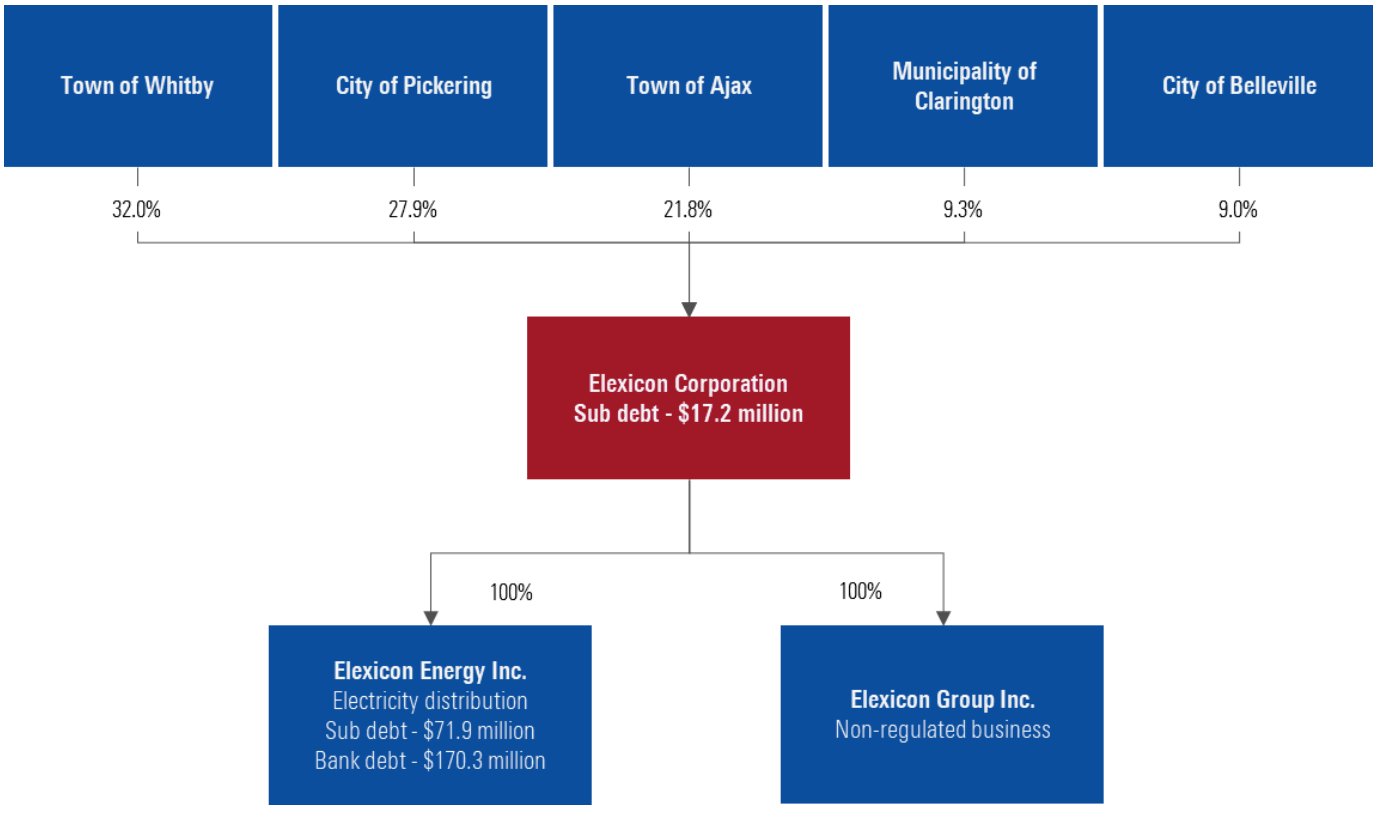
2. Merger Risk

The Company is tracking well against its integration plan and has completed the integration of its financial, customer service information, and staffing systems. DBRS Morningstar notes, however, that all synergies assumed in the merger business case have yet to be fully achieved. If Elexicon fails to achieve its integration plan, it would erode the expected synergetic benefits from the merger.

3. Limited access to equity markets

Five municipalities own the Company; as a result, Elexicon does not have access to the public equity markets. As such, any significant capex will likely be debt funded, which could negatively affect key credit metrics. If equity funding is required, it must be provided by the shareholders.

Corporate Structure



- Elexicon Corporation is the holding Company and also holds two small CHP generation assets.
- EEI is predominantly a regulated electricity distribution company that services 10 municipalities and more than 172,000 customers in Eastern Ontario. EEI also holds four existing small scale solar generation assets (representing less than 1% of total assets). EEI's customer base consists primarily of residential and small commercial customers, which provide for relatively higher stability in demand. EEI accounts for the vast majority of Elexicon's revenues and earnings.
- Elexicon Group Inc. (EGI) holds unregulated business lines, including energy management and procurement consulting services, CHP solutions, and specialty metering. EGI's unregulated operations are expected to grow in the future but are not expected to exceed 10% of Elexicon's total revenues.
- DBRS Morningstar views Elexicon as a consolidated credit because Elexicon and EEI are operationally integrated, have a central treasury function, shared management team and operate under the same brand. Additionally, DBRS Morningstar views the consolidated approach as appropriate because there is no external debt at Elexicon.
- The subordinated debts at Elexicon and EEI rank equally and behind the bank debt.

Earnings and Outlook

CAD millions where applicable	12 mos. ended March 31[1]	For the year ended December 31		
	2022	**2021**	**2020**	**2019**[2]
Net revenues	92.3	89.9	86.4	62.5
EBITDA	41.6	41.3	42.4	30.4
EBIT	20.3	20.6	23.2	16.3
Interest expense	6.5	6.5	6.7	5.1
Net income before nonrecurring items	14.4	14.3	17.3	10.5
Reported net income	16.4	16.9	12.5	7.3
Return on equity (%)	5.7	5.8	7.1	5.7

1 Unaudited

2 2019 is for the nine months ended December 31, 2019.

2021 and Q1 2022 Summary

- Elexicon benefits from predictable earnings through EEI's rate regulated operations.
- EBITDA for 2021 and Q1 2022 were aligned with DBRS Morningstar's expectations.

Outlook

- Seaton TS is expected to reach completion in Q4, 2022 which is expected to be fully recognized in earnings for 2023.
- Elexicon will continue to operate under the existing IR mechanism until 2029.

Financial Profile

CAD millions where applicable	12 mos. ended March 31[1]	For the year ended December 31		
	2022	**2021**	**2020**	**2019**[2]
Net income before nonrecurring items	14.4	14.3	17.3	10.5
Depreciation & amortization	20.0	19.5	18.4	13.8
Deferred income taxes and other	9.5	6.7	4.6	4.0
Cash flow from operations	**43.9**	**40.5**	**40.3**	**28.4**
Dividends paid	(10.8)	(11.4)	(11.3)	(5.6)
Capital expenditures	(52.5)	(48.4)	(34.9)	(27.1)
Free cash flow (bef. working cap. changes)	**(19.4)**	**(19.2)**	**(5.9)**	**(4.3)**
Changes in noncash work. cap. items	12.9	6.1	(21.5)	(9.1)
Change in regulatory assets/liabilities	(13.3)	(12.7)	(12.5)	(9.2)
Net free cash flow	**(19.8)**	**(25.8)**	**(39.9)**	**(22.6)**
Net equity change	0.0	0.0	0.0	(1.0)
Net debt change	20.5	31.0	40.5	24.6
Other investing and financing	0.1	0.1	0.1	0.4
Change in cash	**0.8**	**5.3**	**0.7**	**1.4**
Total debt	267.3	259.5	228.5	188.1
Cash and equivalents	9.8	13.1	7.8	7.1
Total debt in capital structure (%)	51.0	50.8	48.3	43.4
Debt excluding shareholder loan / Capital (%)	34.0	33.4	29.4	22.9
Cash flow/Total debt (%)	16.4	15.6	17.6	20.1
EBIT gross interest coverage (x)	3.11	3.17	3.47	3.17
Dividend payout ratio (%)	75.3	79.5	65.3	53.1

1 Unaudited

2 2019 is only for the nine months ended December 31, 2019.

2021 and Q1 2022 Summary

- Elexicon's key credit metrics in 2021 and Q1 2022 were supportive of the current ratings.
- Capex of $48 million was largely used for the replacement and rehabilitation of aging infrastructure, system access due to customer growth, and the completion of Seaton TS.

Outlook

- The Company is expected to spend $48 million on average capex over the next five years.
- Capex is expected to remain elevated in the near term as the Company continues work on the Seaton TS project, which is expected to be completed in Q4 2022.
- DBRS Morningstar expects that Elexicon will fund any free cash flow deficits through debt issuances or by drawing on its credit facility.
- The dividend target is 52.5% of EEI's and EGI's net income plus 52.5% of the after-tax interest income the Company earned on any promissory notes issued to Elexicon from EEI or other wholly owned subsidiaries. DBRS Morningstar expects that any dividends will be paid out in a prudent manner.

Debt

Debt Repayments (CAD millions)	December 31	December 31	December 31
	2021	**2020**	**2019**
Notes payable to shareholders, due on demand	89.1	89.1	89.1
Loan payable to Town of Cobourg Holding Inc., maturing in February 2044	0.1	0.1	–
Long-term debt from Bank maturing on March 2, 2045	35.3	36.2	37.1
Long-term debt from Bank maturing on December 31, 2024	135.0	90.0	55.0
Subtotal	**259.5**	**215.4**	**181.3**
Less: Current portion	(1.0)	(0.9)	(0.9)
Total Long-Term Debt	**258.5**	**214.5**	**180.4**

- EEI has the following external debt:
  - $40.0 million uncommitted revolving demand credit facility (nil million outstanding).
  - $41.0 million committed reducing term facility ($35.3 million outstanding).
  - $170.0 million committed or demand revolver facility ($135.0 million outstanding).
- The bank debt facilities have financial covenants including:
  - Debt-to-capitalization ratio of no more than 60%.
  - Debt service coverage ratio of not less than 1.20 times (x).
  - EEI has been in compliance with all of the covenants.
- Shareholder promissory notes include:
  - $17.2 million at Elexicon; and
  - $71.9 million at EEI.
  - The noteholders have a right to demand repayment of the notes (in whole or in part) at any time upon 60 days' prior written notice to the Company.
  - The shareholders have waived their right to demand repayment of any portion of the principal of their notes before January 1, 2023.

Long-Term Debt Maturities (CAD millions)	**2022**	**2023**	**2024**	**2025**	**2026**	**Thereafter**	**Total**
Principal repayments	1.0	90.1	136.1	1.1	1.1	30.1	**259.5**

As at December 31, 2021.

- Elexicon's third-party long-term debt maturities are relatively well spread out.

Regulation

- EEI is regulated by the OEB under the Ontario Electricity Act, 1998.
- In July 2018, Veridian and Whitby Hydro filed a Mergers, Acquisitions, Amalgamations, and Divestitures application with the OEB. The OEB approved the application largely as submitted in December 2018 with the following:
    - EEI can defer rebasing for up to 10 years following the closing of the merger. This will allow the EEI to keep all efficiency gains for five years before being subject to an earnings-sharing mechanism of any returns in excess of 300 basis points above the allowed ROE for the latter five years.
    - During the deferral period, Veridian and Whitby Hydro's rates and franchise areas will remain as separate rate zones.
- The Veridian and Whitby Hydro rate zones will operate under Price Cap IR where the EEI is subject to a formula price cap that allows for an annual increase in distribution rates based on inflation less productivity and utility-specific stretch factors, which can be reset annually.
    - Under Price Cap IR, the EEI can file an Incremental Capital Module (ICM) for each rate zone to request funding for incremental capital investment needs during the Price Cap IR term.
    - EEI is allowed to fully recover its purchased power costs on a monthly basis, eliminating its exposure to power price risk. DBRS Morningstar views this as a positive factor in the current regulatory framework in Ontario.
- EEI has a deemed equity component of 40% and a debt component of 60%, which is composed of 56% long-term debt and 4% short-term debt.
- EEI's residential customers have transitioned to 100% fixed rates, which eliminates a significant portion of the volume risk faced by Ontario distribution utilities as revenues from residential customers will no longer fluctuate as a result of weather sensitivities.

Veridian Rate Zone

- Veridian's most recent cost-of-service (COS) application was in 2014, where the OEB approved revenue requirement of $53.9 million, a rate base of $238.1 million, and ROE of 9.36%.
- On December 16, 2021, Elexicon filed a Price Cap IR application for the Veridian Rate Zone. Distribution rates are effective January 1, 2022. The OEB approved a price cap adjustment of 3.0% (inflation escalator of 3.3%, productivity factor of 0.0%, and stretch factor of 0.3%).

Whitby Hydro Rate Zone

- Whitby Hydro's most recent COS application was for 2010, in which the OEB approved a revenue requirement of $20.2 million, a rate base of $75.8 million, and ROE of 9.66%.
- On December 16, 2021, the OEB approved Elexicon's 2022 Annual IR Index application for the Whitby Hydro Rate Zone with rates effective January 1, 2022. The OEB approved a price cap adjustment of 2.7% (inflation escalator of 3.3%, productivity factor of 0.0%, and stretch factor of 0.6%).

Assessment of Regulatory Framework

Criteria	Score	Analysis
1. Deemed Equity	Excellent Good **Satisfactory** Below Average Poor	The OEB allows EEI to have a deemed equity of 40%, which is consistent with other electricity distribution companies in Ontario.
2. Allowed ROE	Excellent **Good** Satisfactory Below Average Poor	The Veridian and Whitby Hydro rate zones continue to have allowed ROEs of 9.36% and 9.66%, respectively, which are in line with other distribution companies in Ontario. Any difference in ROE between EEI and other distribution companies is mainly because of the timing of the regulatory filings and the interest environment prevalent at that time.
3. Energy Cost Recovery	**Excellent** Good Satisfactory Below Average Poor	There is no power risk for EEI 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 EEI collects payments from its customers on a monthly basis.
4. Capital and Operating Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Some capital costs are pre-approved at the time of the COS application. Subsequent capital spending after the base year will not be approved until the next rate application and approval of the rate base. If incremental capital costs are significant and prudent, EEI can file under ICM to request the recovery of the costs. Additionally, rate cases incorporate future test years, which reduces some regulatory lag for the cost recoveries. DBRS Morningstar considers the inputs for the annual price cap adjustment as reasonable for EEI to recover its operating costs. All residential customers are charged a fully fixed monthly fee, which significantly reduces volume risk.
5. COS versus IRM	Excellent Good **Satisfactory** Below Average Poor	EEI is regulated under the Price Cap IR framework. As a result of the merger, EEI does not have to file a COS application until 2029. EEI can file an ICM if there are significant and prudent incremental capital needs.
6. Political Interference	Excellent Good Satisfactory **Below Average** 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 (Elexicon is owned by five municipalities). Further, stakeholders such as the Independent Electricity System Operator are also effectively government owned. As a result, the government has direct and indirect influence on Ontario's electricity industry.
7. Stranded Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Electricity distribution companies in Ontario have a limited history of stranded costs. Most prudently incurred or budgeted capex is approved by the OEB.
8. Rate Freeze	Excellent Good **Satisfactory** Below Average Poor	Rising rates in 2002–05 from Ontario's utility deregulation phase resulted in a province-wide distribution-rate freeze being imposed. There have been no subsequent province-wide rate freezes.

Balance Sheet							
(CAD millions)	Mar.31[1]	Dec.31	Dec.31		Mar.31	Dec.31	Dec.31
Assets	**2022**	**2021**	**2020**	**Liabilities & Equity**	**2022**	**2021**	**2020**
Cash & equivalents	9.8	13.1	7.8	S.T. borrowings	8.0	0.0	13.1
Accounts receivable	86.3	82.6	85.0	Current portion L.T. debt	1.0	1.0	0.9
Inventories	6.8	6.5	5.2	Accounts payable & deferred tax	56.0	61.9	54.0
Prepaid expenses & others	2.5	2.1	0.6	Other current liab.	22.6	22.3	20.6
Total Current Assets	**105.4**	**104.3**	**98.5**	**Total Current Liab.**	**87.5**	**85.2**	**88.7**
Net fixed assets	518.2	513.2	463.6	Long-term debt	258.3	258.5	214.5
Future income tax assets	0.2	0.2	0.0	Regulatory liabilities	8.2	1.4	1.8
Goodwill & intangibles	71.8	71.7	71.8	Deferred income taxes	15.7	13.1	7.4
Regulatory assets	46.8	39.2	26.9	Other L.T. liab.	116.7	119.4	103.5
Investments & others	0.4	0.1	0.1	Shareholders' equity	256.3	251.1	245.0
Total Assets	**742.8**	**728.7**	**661.0**	**Total Liab. & SE**	**742.8**	**728.7**	**661.0**

1 Unaudited

Balance Sheet, Liquidity, and Capital Ratios				
	12 mos. ended March 31[1]	For the year ended December 31		
	2022	**2021**	**2020**	**2019**
Current ratio (x)	1.20	1.22	1.11	0.97
Total debt in capital structure (%)	51.0	50.8	48.3	43.4
Cash flow/Total debt (%)	16.4	15.6	17.6	20.1
(Cash flow-dividends)/Capex (x)	0.63	0.60	0.83	0.84
Dividend payout ratio (%)	75.3	79.5	65.3	53.1
Coverage Ratios (x)				
EBIT gross interest coverage	3.11	3.17	3.47	3.17
EBITDA gross interest coverage	6.36	6.37	6.35	5.91
Fixed-charges coverage	3.11	3.17	3.47	3.17
Profitability Ratios				
EBITDA margin (%)	45.0	45.9	49.1	48.7
EBIT margin (%)	22.0	22.9	26.8	26.1
Profit margin (%)	15.6	15.9	20.0	16.9
Return on equity (%)	5.7	5.8	7.1	5.7
Return on capital (%)	3.7	3.8	4.8	4.3

1 Unaudited

Environmental, Social, and Governance Risk Factors

There were no environmental, social, or governance factors that had a significant or relevant effect on the credit ratings.

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		**Overall:**	**N**	**N**
	Emissions, Effluents, and Waste	Do we consider that the costs or risks for the issuer or its clients result, or could result, in changes to an issuerÆs financial, operational, and/or reputational standing?	**N**	**N**
	Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs and/or will such costs increase over time affecting the long term credit profile?	**N**	**N**
	Resource and Energy Management	Does the scarcity of sourcing key resources hinder the production or operations of the issuer, resulting in lower productivity and therefore 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**
	Climate and Weather Risks	In the near term, will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact? In the long term, will the issuer's or client's business activities and infrastructure be materially affected financially by a 2C rise in temperature?	**N**	**N**
Social		**Overall:**	**N**	**N**
	Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services could pose 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 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**
		Human Capital and Human Rights	**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	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could it result, in financial penalties or client attrition to the issuer?	**N**	**N**
	Occupational Health and Safety	Would the failure to address workplace hazards have a negative 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	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**
Governance		**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**
		Are there any political risks that could impact the issuer's financial position or its reputation?	**N**	**N**
		Bribery, Corruption, and Political Risks	**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**
		Corporate / Transaction Governance	**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**
		Are government officials exposed to public scrutiny and held to high ethical standards of conduct?	**N**	**N**
		Institutional Strength, Governance, and Transparency (Governments Only)	**N**	**N**
		Consolidated ESG Criteria Output:	**N**	**N**

Rating History

	Current	2021	2020	2019	2018
Issuer Rating	A	A	A	A	N/R

Previous Action

- DBRS Morningstar Confirms Elexicon Corporation at "A" with a Stable Trend, May 10, 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.

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 3,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why DBRS Morningstar is the next generation of credit ratings.

Learn more at dbrsmorningstar.com.

MORNINGSTAR | DBRS

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: https://www.dbrsmorningstar.com/research/225752/highlights.pdf.

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

© 2022 DBRS Morningstar. The information upon which DBRS Morningstar credit ratings and other types of credit opinions and reports are based is obtained by DBRS Morningstar from sources DBRS Morningstar believes to be reliable. DBRS Morningstar does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS Morningstar credit ratings, other types of credit opinions, reports and any other information provided by DBRS Morningstar are provided "as is" and without representation or warranty of any kind and DBRS Morningstar assumes no obligation to update any such ratings, opinions, reports or other information. DBRS Morningstar hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS Morningstar or its directors, officers, employees, independent contractors, agents, affiliates and representatives (collectively, DBRS Morningstar Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of credit ratings, other types of credit opinions and reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS Morningstar or any DBRS Morningstar Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. IN ANY EVENT, TO THE EXTENT PERMITTED BY LAW, THE AGGREGATE LIABILITY OF DBRS MORNINGSTAR AND THE DBRS MORNINGSTAR REPRESENTATIVES FOR ANY REASON WHATSOEVER SHALL NOT EXCEED THE GREATER OF (A) THE TOTAL AMOUNT PAID BY THE USER FOR SERVICES PROVIDED BY DBRS MORNINGSTAR DURING THE TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO LIABILITY, AND (B) U.S. $100. DBRS Morningstar does not act as a fiduciary or an investment advisor. DBRS Morningstar does not provide investment, financial or other advice. Credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar (a) are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities; (b) do not take into account your personal objectives, financial situations or needs; (c) should be weighed, if at all, solely as one factor in any investment or credit decision; (d) are not intended for use by retail investors; and (e) address only credit risk and do not address other investment risks, such as liquidity risk or market volatility risk. Accordingly, credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar are not a substitute for due care and the study and evaluation of each investment decision, security or credit that one may consider making, purchasing, holding, selling, or providing, as applicable. A report with respect to a DBRS Morningstar credit rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS Morningstar may receive compensation for its credit ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS Morningstar. ALL DBRS MORNINGSTAR CREDIT RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DEFINITIONS, LIMITATIONS, POLICIES AND METHODOLOGIES THAT ARE AVAILABLE ON https://www.dbrsmorningstar.com. Users may, through hypertext or other computer links, gain access to or from websites operated by persons other than DBRS Morningstar. Such hyperlinks or other computer links are provided for convenience only. DBRS Morningstar does not endorse the content, the operator or operations of third party websites. DBRS Morningstar is not responsible for the content or operation of such third party websites and DBRS Morningstar shall have no liability to you or any other person or entity for the use of third party websites.

MORNINGSTAR | DBRS

Rating Report
Elexicon Corporation

DBRS Morningstar
July 5, 2023

Contents

1 Rating
1 Rating Update
1 Financial Information
1 Issuer Description
2 Rating Considerations
3 Corporate Structure
4 Earnings and Outlook
5 Financial Profile
6 Debt
7 Regulation
8 Assessment of Regulatory Framework
9 Balance Sheet
10 Environmental, Social, and Governance Risk Factors
12 Rating History
12 Previous Action

Adam Provencher, CFA
Vice President
+1 416 597-7476
adam.provencher@dbrsmorningstar.com

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

Rating

Debt	Rating	Rating Action	Trend
Issuer Rating	A	Confirmed	Stable

Rating Update

On June 23, 2023, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating of Elexicon Corporation (Elexicon or the Company) at "A" with a Stable trend. Elexicon was formed on April 1, 2019, through the amalgamation of Veridian Corporation (Veridian) and Whitby Hydro Energy Corporation (Whitby Hydro). Elexicon's rating continues to be supported by its stable regulated operations and reasonable financial profile.

DBRS Morningstar expects Elexicon to have approximately $60 million of capital expenditures (capex) per year over the next five years. A significant portion of this capex will likely support residential customer growth in Elexicon's franchise area. DBRS Morningstar expects this capex to be funded with debt and equity that will bring Elexicon's leverage near the Ontario Energy Board's (OEB) deemed 60:40 debt-to-equity level. DBRS Morningstar also believes Elexicon's operating efficiency will underperform its OEB-approved regulated return on equity (ROE) until the next rate rebasing in 2029 because of higher inflation and increased operating costs from new corporate initiatives.

DBRS Morningstar does not expect to take a positive rating action on Elexicon in the near term. However, a negative rating action could occur if the Company's cash flow to debt decreases below the 10% level. DBRS Morningstar notes that approximately 28% of Elexicon's total debt outstanding is owed to its shareholders, which provides the Company with some financial flexibility.

Financial Information

	For the year ended December 31		
	2022	**2021**	**2020**
Cash flow/total debt (%)	12.4	15.6	17.6
Total debt in capital structure (%)	54.4	50.8	48.3
EBIT interest coverage (x)	2.14	3.17	3.47

Issuer Description

Elexicon is a municipally owned holding company that owns and operates Elexicon Energy Inc. (EEI), which is primarily a regulated electricity distribution company that services more than 175,000 residents and businesses in Eastern Ontario. Elexicon is 32.0% owned by the Town of Whitby, 27.9% by the City of

Pickering, 21.8% by the Town of Ajax, 9.3% by the Municipality of Clarington, and 9.0% by the City of Belleville.

Rating Considerations

Strengths

1. Stable regulated operations

The vast majority of Elexicon's earnings are generated from its regulated distribution business, which operates under a reasonable regulatory framework. DBRS Morningstar notes, however, that the Company owns some nonregulated projects, such as rooftop solar, combined heat and power (CHP), and other energy management and procurement consulting services. DBRS Morningstar expects these activities to remain modest in the medium term and to not exceed 10% of revenue over the long term.

2. Supportive shareholders

Approximately 28% of Elexicon's total debt is owed to its shareholders in the form of promissory notes, which are subordinate to the Company's external debt. DBRS Morningstar believes the owner municipalities would refrain from taking actions on their subordinated notes as that would impair Elexicon's ability to meet its senior unsecured obligations.

3. Strong franchise area with good growth

Elexicon operates in a growing franchise area and expects to connect tens of thousands of new customers over the next two decades. Additionally, residential customers represent an above-average contribution to Elexicon's distribution revenue compared with the average Ontario regulated utility, which reduces Elexicon's exposure to revenue variability.

Challenges

1. Performance pressure under Price Cap IR

Under the Price Cap Incentive Rate-setting method (Price Cap IR), annual rate increases are limited by a regulatory formula that includes inflation, a productivity factor, and a stretch factor. The Company must achieve productivity at least equal to the regulatory productivity (0.0% in 2022) and stretch factor (0.3% for the Veridian and 0.3% for the Whitby Hydro service areas per 2023 rate adjustments) to achieve the allowed ROE. DBRS Morningstar expects Elexicon's ROE to underperform the OEB's ROE until the next rebasing because of rising inflation, interest rates, and new corporate initiatives.

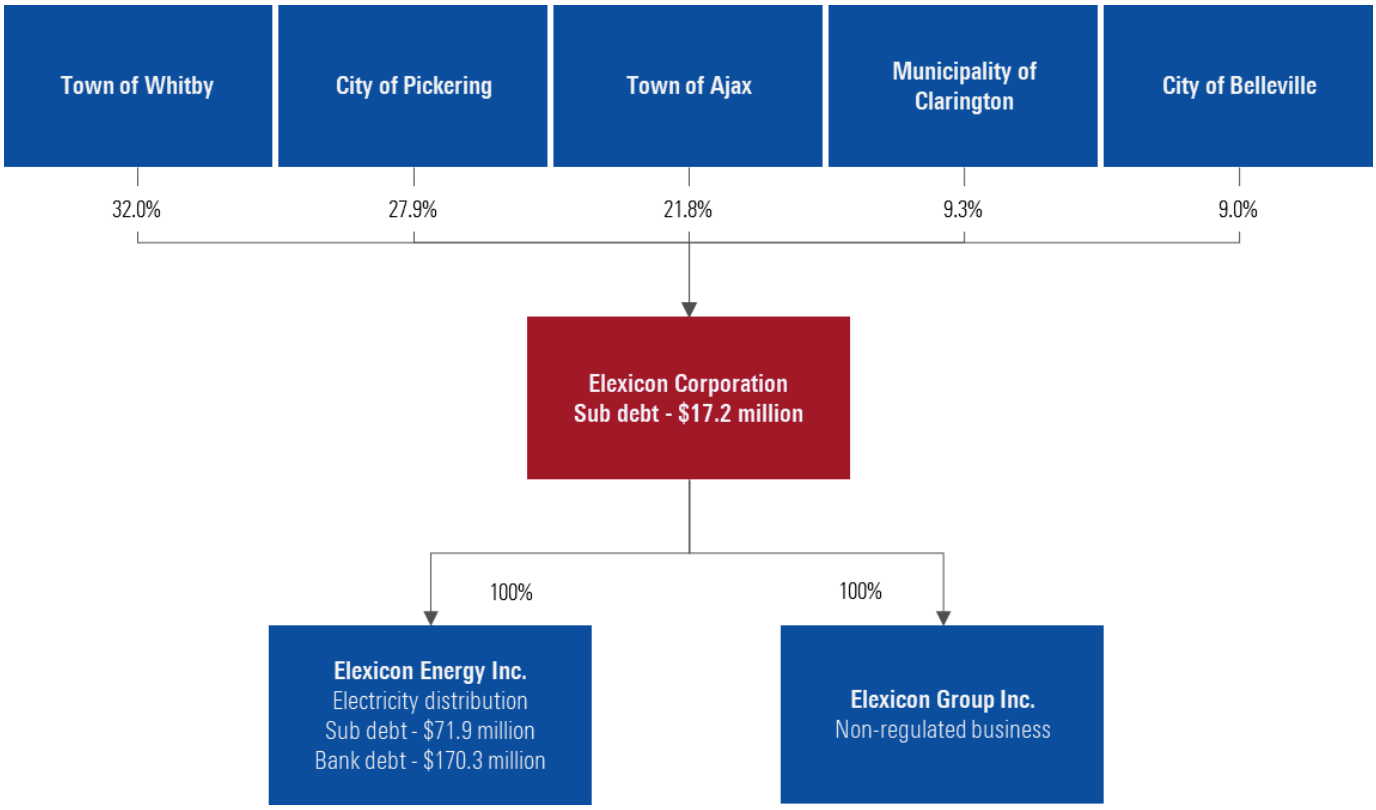
2. Capex risk and increased leverage

The Company expects to spend on average $60 million on capex per year over the next five years, which significantly exceeds 2021 and 2020 capex levels. This increased capex will require increased borrowing, which will result in weak financial metrics over the medium term.

3. Limited access to equity markets

Five municipalities own the Company; as a result, Elexicon does not have access to the public equity markets. As such, any significant capex will likely be debt funded, which could negatively affect key credit metrics. If equity funding is required, it must be provided by the shareholders.

Corporate Structure



- Elexicon is the holding company and also holds two small CHP generation assets.
- EEI is predominantly a regulated electricity distribution company that services 10 municipalities and more than 175,000 customers in Eastern Ontario. EEI also holds four existing small-scale solar generation assets (representing less than 1% of total assets). EEI's customer base consists primarily of residential and small commercial customers, which provide for relatively higher stability in demand. EEI accounts for the vast majority of Elexicon's revenue and earnings.
- Elexicon Group Inc. (EGI) holds unregulated business lines, including energy management and procurement consulting services, CHP solutions, and specialty metering. EGI's unregulated operations are likely to grow in the future but not exceed 10% of Elexicon's total revenue.
- DBRS Morningstar views Elexicon as a consolidated credit because Elexicon and EEI are operationally integrated, have a central treasury function, share a management team, and operate under the same brand. Additionally, DBRS Morningstar views the consolidated approach as appropriate because there is only a $5.0 million revolving credit facility at Elexicon. If the external debt at Elexicon increases materially above this level. DBRS Morningstar may reconsider the consolidated approach.
- The subordinated debt at Elexicon and EEI rank equally and behind the bank debt.

Earnings and Outlook

(CAD millions where applicable)	For the year ended December 31		
	2022	**2021**	**2020**
Net revenue	95.9	89.9	86.4
EBITDA	43.5	41.3	42.4
EBIT	20.8	20.6	23.2
Interest expense	9.7	6.5	6.7
Net income before nonrecurring items	11.2	14.3	17.3
Reported net income	16.8	16.9	12.5
Return on equity (%)	4.3	5.8	7.1

2022 Summary

- Elexicon benefits from predictable earnings through EEI's rate regulated operations.
- EBITDA for 2022 was aligned with DBRS Morningstar's expectations.

Outlook

- Elexicon's net income will likely weaken moderately in 2023 because of increased operating costs, interest expenses, and depreciation.
- Elexicon will continue to operate under the existing Price Cap IR mechanism until 2029.
- DBRS Morningstar expects Elexicon to underperform its deemed ROE until its next rate rebasing in 2029.

Financial Profile

(CAD millions where applicable)	For the year ended December 31		
	2022	**2021**	**2020**
Net income before nonrecurring items	11.2	14.3	17.3
Depreciation & amortization	21.4	19.5	18.4
Deferred income taxes and other	6.3	6.7	4.6
Cash flow from operations	**38.8**	**40.5**	**40.3**
Dividends paid	(9.4)	(11.4)	(11.3)
Capital expenditures	(83.0)	(48.4)	(34.9)
Free cash flow (bef. working cap. changes)	**(53.6)**	**(19.2)**	**(5.9)**
Changes in noncash work. cap. Items	1.0	6.1	(21.5)
Change in regulatory assets/liabilities	(10.8)	(12.7)	(12.5)
Net free cash flow	**(63.3)**	**(25.8)**	**(39.9)**
Net equity change	0.0	0.0	0.0
Net debt change	53.5	31.0	40.5
Other investing and financing	0.4	0.1	0.1
Change in cash	**(9.4)**	**5.3**	**0.7**
Total debt	313.0	259.5	228.5
Cash and equivalents	3.7	13.1	7.8
Total debt in capital structure (%)	54.4	50.8	48.3
Debt excluding shareholder loan/capital (%)	38.9	33.4	29.4
Cash flow/total debt (%)	12.4	15.6	17.6
EBIT gross interest coverage (x)	2.14	3.17	3.47
Dividend payout ratio (%)	84.4	79.5	65.3

2022

- Capex of $83 million was largely used for the replacement and rehabilitation of aging infrastructure, customer system access because of customer growth, and the completion of Seaton TS.

Outlook

- The Company expects to spend $60 million on average of capex each year over the next five years.
- Capex will likely remain elevated in the near term as the Company continues to invest in system renewal, new customer connections, and other upgrades.
- DBRS Morningstar believes Elexicon will fund any free cash flow deficits through issuing debt or by drawing on its credit facility.
- The dividend target is 52.5% of EEI's and EGI's net income plus 52.5% of the aftertax interest income the Company earned on any promissory notes issued to Elexicon from EEI or other wholly owned subsidiaries. DBRS Morningstar projects any dividends will be paid out in a prudent manner.

Debt

Debt Repayments (CAD millions)	December 31	December 31	December 31
	2022	**2021**	**2020**
Notes payable to shareholders	89.1	89.1	89.1
Loan payable to Town of Cobourg Holding Inc., maturing in February 2044	0.1	0.1	0.1
Long-term bank debt maturing on March 2, 2045*	34.3	35.3	36.2
Long-term bank debt maturing on December 31, 2024*	167	135.0	90.0
Subtotal	**290.5**	**259.5**	**215.4**
Less: current portion	(0.0)	(1.0)	(0.9)
Total Long-Term Debt	**290.5**	**258.5**	**214.5**

*Reclassified as short-term debt for 2022 because it is out of compliance with the debt service coverage ratio (DSCR). See note below.

- Elexicon has the following external debt:
  - $5.0 million uncommitted revolving demand credit facility.
- EEI has the following external debt:
  - $40.0 million uncommitted revolving demand credit facility ($22.5 million outstanding).
  - $41.0 million committed reducing term facility ($34.3 million outstanding).
  - $170.0 million committed or demand revolver facility ($167.0 million outstanding).
- The bank debt facilities have financial covenants including:
  - A debt-to-capitalization ratio of no more than 60%.
  - A debt service coverage ratio (DSCR) of not less than 1.10 times (x) in 2022. Following Q1 2023, the DSCR rose to 1.20x. EEI was not in compliance with the DSCR because the DSCR is net of 40% of capex and capex was elevated in 2022. Accordingly, all the committed and demand credit facilities were reclassified as short-term debt. Subsequent to YE2022, Elexicon and EEI obtained waivers from the bank. Following receipt of the waivers, the committed and demand credit facilities were reclassified as long-term debt as applicable.
- Shareholder promissory notes include:
  - $17.2 million at Elexicon.
  - $71.9 million at EEI.
    - The noteholders have a right to demand repayment of the notes (in whole or in part) at any time upon 60 days' prior written notice to the Company.
    - The shareholders have waived their right to demand repayment of any portion of the principal of their notes before January 1, 2024.

Debt Maturities (CAD millions)	**2023**	**2024**	**2025**	**2026**	**2027**	**Thereafter**	**Total**
Principal repayments	0.0	89.1	0.0	0.0	0.0	0.1	**89.2**
Short-term debt*	201.3	0.0	0.0	0.0	0.0	0.0	**201.3**
Total	201.3	89.1	0.0	0.0	0.0	0.1	**290.5**

*Long-term debt reclassified as short-term debt for 2022 because it is out of compliance with the DSCR.
Note: As at December 31, 2022.

Regulation

- EEI is regulated by the OEB under the Ontario Electricity Act, 1998.
- In July 2018, Veridian and Whitby Hydro filed a Mergers, Acquisitions, Amalgamations, and Divestitures application with the OEB. The OEB approved the application largely as submitted in December 2018 with the following:
    - EEI can defer rebasing for up to 10 years following the closing of the merger. This will allow EEI to keep all efficiency gains for five years before being subject to an earnings-sharing mechanism of any returns exceeding 300 basis points above the allowed ROE for the latter five years.
    - During the deferral period, Veridian and Whitby Hydro's rates and franchise areas will remain as separate rate zones.
- The Veridian and Whitby Hydro rate zones will operate under Price Cap IR where EEI is subject to a formula price cap that allows for an annual increase in distribution rates based on inflation minus productivity and utility-specific stretch factors, which can be reset annually.
    - Under Price Cap IR, EEI can file an incremental capital module (ICM) for each rate zone to request funding for incremental capital investment needs during the Price Cap IR term.
    - EEI is allowed to fully recover its purchased power costs on a monthly basis, eliminating its exposure to power price risk. DBRS Morningstar views this as a positive factor in the current regulatory framework in Ontario.
- EEI has a deemed equity component of 40% and a debt component of 60%, of which 56% is long-term debt and 4% is short-term debt.
- EEI's residential customers have transitioned to 100% fixed rates, which eliminates a significant portion of the volume risk faced by Ontario distribution utilities as revenue from residential customers will no longer fluctuate as a result of weather sensitivities.

Veridian Rate Zone

- Veridian's most recent cost-of-service (COS) application was in 2014, where the OEB approved a revenue requirement of $53.9 million, a rate base of $238.1 million, and ROE of 9.36%.
- On December 16, 2021, Elexicon filed a Price Cap IR application for the Veridian Rate Zone. Distribution rates became effective January 1, 2022. The OEB approved a price cap adjustment of 3.0% (inflation escalator of 3.3%, productivity factor of 0.0%, and stretch factor of 0.3%).
- On July 27, 2022, Elexicon filed a Price Cap IR application for both rate zones. Distribution rates became effective January 1, 2023. For the Veridian Rate Zone, the OEB approved a price cap adjustment of 3.4% (inflation escalator of 3.7%, productivity factor of 0.0%, and stretch factor of 0.3%).

Whitby Hydro Rate Zone

- Whitby Hydro's most recent COS application was for 2010, in which the OEB approved a revenue requirement of $20.2 million, a rate base of $75.8 million, and ROE of 9.66%.
- On December 16, 2021, the OEB approved Elexicon's 2022 Annual IR Index application for the Whitby Hydro Rate Zone with rates effective January 1, 2022. The OEB approved a price cap adjustment of 2.7% (inflation escalator of 3.3%, productivity factor of 0.0%, and stretch factor of 0.6%).

- As part of the July 2022 application, which became effective January 1, 2023, the Whitby Hydro Rate Zone transitioned to the Price Cap IR option from the Annual IR Index. Accordingly, the OEB approved a price cap adjustment of 3.4% (inflation escalator of 3.7%, productivity factor of 0.0%, and stretch factor of 0.3%). Thus, both rate zones now have the same rate adjustments.

Assessment of Regulatory Framework

Criteria	Score	Analysis
1. Deemed Equity	Excellent Good **Satisfactory** Below Average Poor	The OEB allows EEI to have a deemed equity of 40%, which is consistent with other electricity distribution companies in Ontario.
2. Allowed ROE	Excellent **Good** Satisfactory Below Average Poor	The Veridian and Whitby Hydro rate zones continue to have allowed ROEs of 9.36% and 9.66%, respectively, which are in line with other distribution companies in Ontario. Any difference in ROE between EEI and other distribution companies is mainly because of the timing of the regulatory filings and the interest environment prevalent at that time.
3. Energy Cost Recovery	**Excellent** Good Satisfactory Below Average Poor	There is no power risk for EEI 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 EEI collects payments from its customers on a monthly basis.
4. Capital and Operating Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Some capital costs are preapproved at the time of the COS application. Subsequent capital spending after the base year will not be approved until the next rate application and approval of the rate base. If incremental capital costs are significant and prudent, EEI can file under ICM to request the recovery of the costs. Additionally, rate cases incorporate future test years, which reduces some regulatory lag for the cost recoveries. DBRS Morningstar considers the inputs for the annual price cap adjustment as reasonable for EEI to recover its operating costs. All residential customers are charged a fully fixed monthly fee, which significantly reduces volume risk.
5. COS Versus IRM	Excellent Good **Satisfactory** Below Average Poor	EEI is regulated under the Price Cap IR framework. As a result of the merger, EEI does not have to file a COS application until 2029. EEI can file an ICM if there are significant and prudent incremental capital needs.
6. Political Interference	Excellent Good Satisfactory **Below Average** 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 (Elexicon is owned by five municipalities). Furthermore, stakeholders such as the Independent Electricity System Operator are also effectively government owned. As a result, the government has direct and indirect influence on Ontario's electricity industry.
7. Stranded Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Electricity distribution companies in Ontario have a limited history of stranded costs. Most prudently incurred or budgeted capex is approved by the OEB.
8. Rate Freeze	Excellent Good **Satisfactory** Below Average Poor	Rising rates in 2002–05 from Ontario's utility deregulation phase resulted in a provincewide distribution-rate freeze being imposed. There have been no subsequent provincewide rate freezes.

Balance Sheet					
(CAD millions)	Dec.31	Dec.31		Dec. 31	Dec. 31
Assets	**2022**	**2021**	**Liabilities & Equity**	**2022**	**2021**
Cash & equivalents	3.7	13.1	Short-term borrowings	223.8	0.0
Accounts receivable	88.0	82.6	Current portion of long-term debt	0.0	1.0
Inventories	8.8	6.5	Accounts payable & deferred tax	66.2	61.9
Prepaid expenses & others	5.8	2.1	Other current liabilities	26.9	22.3
Total Current Assets	**106.3**	**104.3**	**Total Current Liabilities**	**316.9**	**85.2**
Net fixed assets	589.6	513.2	Long-term debt	89.2	258.5
Future income tax assets	0.6	0.2	Regulatory liabilities	10.0	1.4
Goodwill & intangibles	71.6	71.7	Deferred income taxes	19.0	13.1
Regulatory assets	58.6	39.2	Other long-term liabilities	129.5	119.4
Investments & others	0.9	0.1	Shareholders' equity	262.9	251.1
Total Assets	**827.5**	**728.7**	**Total Liabilities & SE**	**827.5**	**728.7**

Balance Sheet, Liquidity, and Capital Ratios			
	For the year ended December 31		
	2022	**2021**	**2020**
Current ratio (x)	0.34	1.22	1.11
Total debt in capital structure (%)	54.4	50.8	48.3
Cash flow/total debt (%)	12.4	15.6	17.6
(Cash flow dividends)/capex (x)	0.35	0.60	0.83
Dividend payout ratio (%)	84.4	79.5	65.3
Coverage Ratios (x)			
EBIT gross interest coverage	2.14	3.17	3.47
EBITDA gross interest coverage	4.48	6.37	6.35
Fixed-charges coverage	2.14	3.17	3.47
Profitability Ratios			
EBITDA margin (%)	45.4	45.9	49.1
EBIT margin (%)	21.7	22.9	26.8
Profit margin (%)	11.7	15.9	20.0
Return on equity (%)	4.3	5.8	7.1
Return on capital (%)	3.2	3.8	4.8

Environmental, Social, and Governance (ESG) Risk Factors

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		**Overall:**	**N**	**N**
	Emissions,Effluents, and Waste	Do we consider the costs or risks result, or could result in changes to an issuer's financial, operational, and/or reputational standing?	**N**	**N**
	Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs?	**N**	**N**
	Resource and Energy Management	Does the scarcity of sourcing key resources hinder the production or operations of the issuer, resulting in lower productivity and therefore 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**
	Climate and Weather Risks	Will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact?	**N**	**N**
Social		**Overall:**	**N**	**N**
	Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services could pose 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 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**
		Human Capital and Human Rights	**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	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could result, in financial penalties or client attrition to the issuer?	**N**	**N**
	Occupational Health and Safety	Would the failure to address workplace hazards have a negative 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	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**
Governance		**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**
		Are there any political risks that could impact the issuer's financial position or its reputation?	**N**	**N**
		Bribery, Corruption, and Political Risks	**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 limit 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**
		Corporate / Transaction Governance	**N**	**N**
	Institutional Strength, Governance, and Transparency (Governments Only)s	Compared with other governments, do institutional arrangements provide a higher or lesser degree of accountability, transparency, and effectiveness?	**N**	**N**
		Are regulatory and oversight bodies insufficiently protected from inappropriate political influence?	**N**	**N**
		Are government officials insufficiently exposed to public scrutiny or held to insufficiently high ethical standards of conduct?	**N**	**N**
		Institutional Strength, Governance, and Transparency (Governments Only)s	**N**	**N**
		Consolidated ESG Criteria Output:	**N**	**N**

* A Relevant Effect means that the impact of the applicable ESG risk factor has not changed the rating or rating trend on the issuer.
A Significant Effect means that the impact of the applicable ESG risk factor has changed the rating or trend on the issuer.

Environmental

There are no environmental factors that had a relevant or significant effect on the credit analysis. However, regulated electricity utility companies like Elexicon can be exposed to environmental events, which can cause extensive damage to their equipment. If these environmental events were to occur, the rate base would cover costs but would likely involve a degree of regulatory lag.

For more details about which environmental factors could have an effect on the credit analysis, please refer to the checklist below.

Social

There are no social factors that had a relevant or significant effect on the credit analysis. For more details about which social factors could have an effect on the credit analysis, please refer to the checklist below.

Governance

There are no governance factors that had a relevant or significant effect on the credit analysis. For more details about which governance factors could have an effect on the credit analysis, please refer to the checklist below.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the *DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings* at https://www.dbrsmorningstar.com/research/396929.

Rating History

	Current	2022	2021	2020	2019
Issuer Rating	A	A	A	A	A

Previous Action

- "DBRS Morningstar Confirms Rating on Elexicon at “A” With a Stable Trend," July 29, 2022.

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.

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 4,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why DBRS Morningstar is the next generation of credit ratings.

Learn more at dbrsmorningstar.com.

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). DBRS Morningstar does not hold an Australian financial services license. DBRS Morningstar credit ratings, and other types of credit opinions and reports, are not intended for Australian residents or entities. DBRS Morningstar does not authorize their distribution to Australian resident individuals or entities, and accepts no responsibility or liability whatsoever for the actions of third parties in this respect. For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: https://www.dbrsmorningstar.com/research/225752/highlights.pdf.

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

© 2023 DBRS Morningstar. All Rights Reserved. The information upon which DBRS Morningstar credit ratings and other types of credit opinions and reports are based is obtained by DBRS Morningstar from sources DBRS Morningstar believes to be reliable. DBRS Morningstar does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS Morningstar credit ratings, other types of credit opinions, reports and any other information provided by DBRS Morningstar are provided "as is" and without representation or warranty of any kind and DBRS Morningstar assumes no obligation to update any such ratings, opinions, reports or other information. DBRS Morningstar hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS Morningstar or its directors, officers, employees, independent contractors, agents, affiliates and representatives (collectively, DBRS Morningstar Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of credit ratings, other types of credit opinions and reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS Morningstar or any DBRS Morningstar Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. IN ANY EVENT, TO THE EXTENT PERMITTED BY LAW, THE AGGREGATE LIABILITY OF DBRS MORNINGSTAR AND THE DBRS MORNINGSTAR REPRESENTATIVES FOR ANY REASON WHATSOEVER SHALL NOT EXCEED THE GREATER OF (A) THE TOTAL AMOUNT PAID BY THE USER FOR SERVICES PROVIDED BY DBRS MORNINGSTAR DURING THE TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO LIABILITY, AND (B) U.S. $100. DBRS Morningstar does not act as a fiduciary or an investment advisor. DBRS Morningstar does not provide investment, financial or other advice. Credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar (a) are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities; (b) do not take into account your personal objectives, financial situations or needs; (c) should be weighed, if at all, solely as one factor in any investment or credit decision; (d) are not intended for use by retail investors; and (e) address only credit risk and do not address other investment risks, such as liquidity risk or market volatility risk. Accordingly, credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar are not a substitute for due care and the study and evaluation of each investment decision, security or credit that one may consider making, purchasing, holding, selling, or providing, as applicable. A report with respect to a DBRS Morningstar credit rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS Morningstar may receive compensation for its credit ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS Morningstar. ALL DBRS MORNINGSTAR CREDIT RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DEFINITIONS, LIMITATIONS, POLICIES AND METHODOLOGIES THAT ARE AVAILABLE ON https://www.dbrsmorningstar.com. Users may, through hypertext or other computer links, gain access to or from websites operated by persons other than DBRS Morningstar. Such hyperlinks or other computer links are provided for convenience only. DBRS Morningstar does not endorse the content, the operator or operations of third party websites. DBRS Morningstar is not responsible for the content or operation of such third party websites and DBRS Morningstar shall have no liability to you or any other person or entity for the use of third party websites.

MORNINGSTAR | DBRS

Rating Report
Elexicon Corporation

Morningstar DBRS
July 3, 2024

Contents

1 Credit Rating
1 Credit Rating Drivers
1 Key Credit Rating Considerations
1 Earnings Outlook
2 Financial Outlook
2 Financial Information
2 Issuer Description
2 Business Risk Assessment
3 Financial Risk Assessment
4 Environmental, Social and Governance (ESG) Checklist
5 Rating History
5 Previous Report
5 Previous Action
6 Appendix 1 - Corporate Structure
7 Appendix 2 - Debt and Liquidity Profile
8 Appendix 3 - Regulation

Adam Provencher, CFA
Vice President
+1 416 597-7476
adam.provencher@dbrsmorningstar.com

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

Credit Rating

Issuer	Obligation	Rating	Rating Action	Trend
Elexicon Corporation	Issuer Rating	A	Confirmed	Negative

Credit Ratings Drivers

Positive Credit Rating Drivers	Negative Credit Rating Drivers
Morningstar DBRS does not view a positive rating action as likely without a material improvement in the Company's business risk assessment.	Morningstar DBRS may take a negative rating action if the Company does not improve its cash flow to debt metric to 12.5% on a sustained basis in the near term.

Key Credit Rating Considerations

Morningstar DBRS confirmed Elexicon Corporation's (Elexicon or the Company) Issuer Rating at "A" and changed the trend to Negative from Stable. The trend change reflects Morningstar DBRS' expectation that Elexicon's financial risk assessment will be weak for the rating category in 2024 and 2025. The weak financial metrics are from increased operating costs from new corporate initiatives, inflation, and debt used to fund capital expenditures (capex). Morningstar DBRS expects the Company's financial metrics will improve in 2026 reflecting incremental capital module (ICM) revenues from new projects placed into service.

Morningstar DBRS expects that Elexicon's cash flow-to-debt ratio will remain below the Morningstar DBRS "A" category of 12.5% until the Company completes its next rate rebasing. Elexicon was formed in 2019 as a merger of Veridian Corporation (Veridian) and Whitby Hydro Energy Corporation (Whitby Hydro). As part of the merger approval, the Ontario Energy Board (OEB) allowed Elexicon to sit out the rate rebasing schedule until 2029. Morningstar DBRS notes that Elexicon's predecessor companies, Whitby Hydro and Veridian, were last rebased in 2011 and 2014, respectively.

Earnings Outlook

Elexicon's adjusted earnings have remained stable, supported by regulated operations. Revenues are expected to increase in 2024 compared with 2023, reflecting the 2024 Price Cap Incentive Rate adjustments of 4.5% and a full-year contribution from the Company's Z-factor approval from a 2022 windstorm, which was effective in July 2023. These increased revenues are expected to be offset by increased operating costs from inflation and new corporate initiatives. Morningstar DBRS also expects that Elexicon will underperform its OEB-approved return on equity until the next rate rebasing.

Financial Outlook

Morningstar DBRS notes that the Company's credit metrics have weakened as it has funded capex with debt. Morningstar DBRS expects average annual capex to be approximately $50 million per year over the next five years. A significant amount of this capex is expected to be for system access for new customer connections and for system renewal. Morningstar DBRS expects that some of this capex will be funded with debt weakening the financial metrics. However, Morningstar DBRS expects the Company to keep its debt-to-capitalization within the OEB's deemed capital structure of 40% equity and 60% debt.

Financial Information

	For the year ended December 31		
	2023	**2022**	**2021**
Cash flow/total debt (%)	10.5	12.4	15.6
Total debt in capital structure (%)	57.2	54.4	50.8
EBIT interest coverage (x)	1.62	2.14	3.17

Issuer Description

Elexicon is a municipally owned holding company that owns and operates Elexicon Energy Inc. (EEI), which is primarily a regulated electricity distribution company that services more than 177,000 residents and businesses in Eastern Ontario. Elexicon is 32.0% owned by the Town of Whitby, 27.9% by the City of Pickering, 21.8% by the Town of Ajax, 9.3% by the Municipality of Clarington, and 9.0% by the City of Belleville.

Business Risk Assessment

1. Stable regulated operations

The vast majority of Elexicon’s earnings are generated from its regulated distribution business, which operates under a reasonable regulatory framework. Morningstar DBRS notes, however, that the Company has nonregulated projects, such as rooftop solar and combined heat and power (CHP), and other services. However, we expect no material growth in non-regulated operations over the long term.

2. Strong franchise area with good growth

Elexicon operates in a growing franchise area and is expected to connect tens of thousands of new customers over the next two decades. Additionally residential customers represent an above average contribution to Elexicon's distribution revenues compared to the average Ontario regulated utility which reduces Elexicon's exposure to revenue variability.

3. Supportive shareholders

Approximately 26% of Elexicon’s total debt is owed to its shareholders in the form of promissory notes, which are subordinate to the Company’s external debt. Morningstar DBRS believes the owner municipalities would refrain from taking actions on their notes as that would impair Elexicon’s ability to meet its senior unsecured obligations.

4. Performance pressure under Price Cap IR

Under the Price Cap Incentive Rate-setting method (Price Cap IR), annual rate increases are limited by a regulatory formula that includes inflation, a productivity factor, and a stretch factor. The Company must achieve productivity at least equal to the regulatory productivity (0.0% in 2023), stretch factor (0.3% for the Veridian and 0.3% for the Whitby Hydro service areas as per 2024 rate adjustments), to achieve the allowed ROE. Morningstar DBRS expects Elexicon's ROE to underperform the approved ROE until the next rebasing because of rising inflation, interest rates, and new corporate initiatives.

Financial Risk Assessment

1. Capex Risk and Increased leverage

The Company expects to spend $50 million on average capex over the next 5-years with considerably higher spending in 2024 and 2025. This increased capex is expected to necessitate increased borrowing which will result in weak financial metrics over the medium term.

2. Limited access to equity markets

Five municipalities own the Company; as a result, Elexicon does not have access to the public equity markets. As such, any significant capex will likely be debt funded, which could negatively affect key credit metrics. If equity funding is required, it must be provided by the shareholders.

Environmental, Social and Governance Checklist

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		**Overall:**	**N**	**N**
	Emissions, Effluents, and Waste	Do we consider that the costs or risks for the issuer or its clients result, or could result, in changes to an issuer's financial, operational, and/or reputational standing?	**N**	**N**
	Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs and/or will such costs increase over time affecting the long-term credit profile?	**N**	**N**
	Resource and Energy Management	Does the scarcity of sourcing key resources hinder the production or operations of the issuer, resulting in lower productivity and therefore 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**
	Climate and Weather Risks	In the near term, will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact? In the long term, will the issuer's or client's business activities and infrastructure be materially affected financially under key IPCC climate scenarios up to a 2°C rise in temperature by 2050?	**N**	**N**
Social		**Overall:**	**N**	**N**
	Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services pose a financial or regulatory risk to the issuer?	**N**	**N**
	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, 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 issuer's financial wellbeing or reputation?	**N**	**N**
		Human Capital and Human Rights	**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	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could it result, in financial penalties or client attrition to the issuer?	**N**	**N**
	Occupational Health and Safety	Would the failure to address workplace hazards have a negative 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	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**
Governance		**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**
		Are there any political risks that could affect the issuer's financial position or its reputation?	**N**	**N**
		Bribery, Corruption, and Political Risks	**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**
		Corporate / Transaction Governance	**N**	**N**
		Consolidated ESG Criteria Output:	**N**	**N**

* A Relevant Effect means that the impact of the applicable ESG risk factor has not changed the rating or rating trend on the issuer.
A Significant Effect means that the impact of the applicable ESG risk factor has changed the rating or trend on the issuer.

Environmental

There were no environmental factors that had a relevant or significant effect on the credit analysis. Elexicon as a regulated electric utility is exposed to physical environmental risk from winter and wind storms which could result in a significant increase in operating costs or capital replacement costs. We expect that most storm related costs to be recovered through rates from a z-factor application with the OEB. Operating primarily as an electricity distributor Elexicon has limited exposure to carbon transition risk. Elexicon should benefit from the carbon transition because of increased demand of electricity compared to other forms of energy.

Social

There were no social factors that had a relevant or significant effect on the credit analysis. Elexicon provides an essential service to its customers. Failure maintain a sufficient service to customers could result in a loss of reputation and financial costs. Elexicon has a plan to invest in maintaining resilient operations. The Company also has a health safety and environmental program in place.

Governance

There were no governance factors that had a relevant or significant effect on the credit analysis. EEI is governed by seven independent directors. Elexicon is governed by 6 independent board members and the 5 mayors or the delegates of the municipal owners. Elexicon's board is responsible for setting the Company's Corporate, Environmental and Social Responsibility initiatives.

Rating History

	Current	2023	2022	2021	2020
Issuer Rating	A	A	A	A	A

Previous Report

- Elexicon Corporation : Rating Report, July 5, 2023

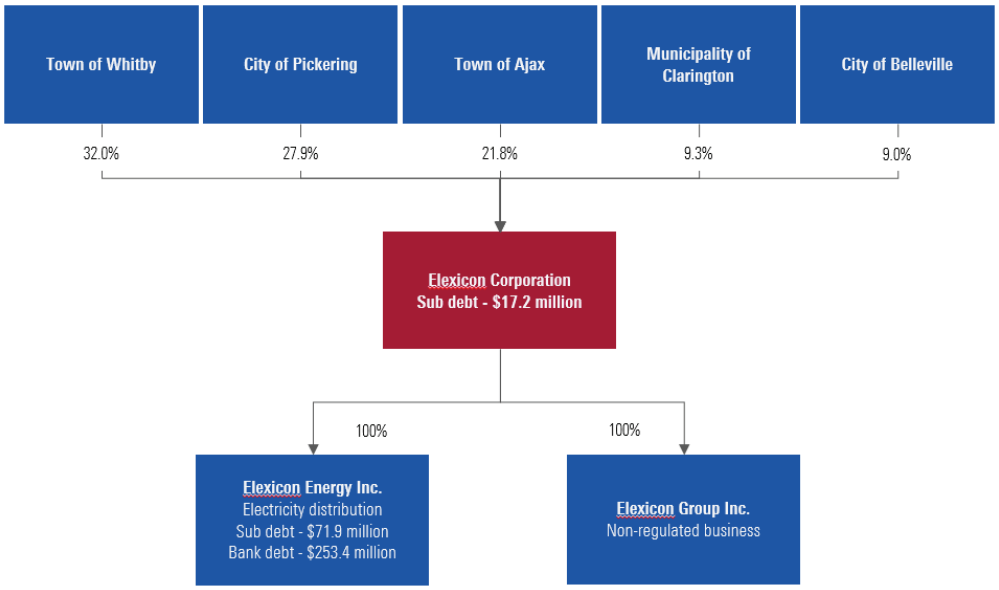
Notes:
All figures are in Million CAD dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on dbrs.morningstar.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.

Appendix 1: Corporate Structure

Organizational Chart



Appendix 2: Debt and Liquidity Profile

Debt Repayments (CAD millions)	December 31
	2023
Notes payable to shareholders	89.1
Loan payable to Town of Cobourg Holding Inc., maturing in February 2044	0.1
Long-term debt from Bank maturing on Nov 2, 2028	33.4
Long-term debt from Bank maturing on August 2, 2028	220
Subtotal	**342.6**
Less: Current portion	(0.0)
Total Long-Term Debt	**342.6**

Debt Maturities (CAD millions)	**2024**	**2025**	**2026**	**2027**	**2028**	**Thereafter**	**Total**
Principal repayments	0.0	0.0	0.0	0.0	253.4	0.1	**253.5**
Short term debt	89.1	-	-	-	-	-	**89.1**
Total							**342.6**

As at December 31, 2023.

Appendix 3: Regulation

- EEI is regulated by the OEB under the Ontario Electricity Act, 1998.
- In July 2018, Veridian and Whitby Hydro filed a Mergers, Acquisitions, Amalgamations, and Divestitures application with the OEB. The OEB approved the application largely as submitted in December 2018 with the following:
    - EEI can defer rebasing for up to 10 years following the closing of the merger. This will allow the EEI to keep all efficiency gains for five years before being subject to an earnings-sharing mechanism of any returns in excess of 300 basis points above the allowed ROE for the latter five years.
    - During the deferral period, Veridian and Whitby Hydro's rates and franchise areas will remain as separate rate zones.
- The Veridian and Whitby Hydro rate zones will operate under Price Cap IR where the EEI is subject to a formula price cap that allows for an annual increase in distribution rates based on inflation less productivity and utility-specific stretch factors, which can be reset annually.
- Under Price Cap IR, the EEI can file an Incremental Capital Module (ICM) for each rate zone to request funding for incremental capital investment needs during the Price Cap IR term.
- EEI is allowed to fully recover its purchased power costs on a monthly basis, eliminating its exposure to power price risk. Morningstar DBRS views this as a positive factor in the current regulatory framework in Ontario.
- EEI has a deemed equity component of 40% and a debt component of 60%, which is composed of 56% long-term debt and 4% short-term debt.
- EEI's residential customers have transitioned to 100% fixed rates, which eliminates a significant portion of the volume risk faced by Ontario distribution utilities as revenues from residential customers will no longer fluctuate as a result of weather sensitivities.

Assessment of Regulatory Framework

Criteria	Score	Analysis
1. Deemed Equity	Excellent Good **Satisfactory** Below Average Poor	The OEB allows EEI to have a deemed equity of 40%, which is consistent with other electricity distribution companies in Ontario.
2. Allowed ROE	Excellent **Good** Satisfactory Below Average Poor	The Veridian and Whitby Hydro rate zones continue to have allowed ROEs of 9.36% and 9.66%, respectively, which are in line with other distribution companies in Ontario. Any difference in ROE between EEI and other distribution companies is mainly because of the timing of the regulatory filings and the interest environment prevalent at that time.
3. Energy Cost Recovery	**Excellent** Good Satisfactory Below Average Poor	There is no power risk for EEI 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 EEI collects payments from its customers on a monthly basis.
4. Capital and Operating Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Some capital costs are pre-approved at the time of the COS application. Subsequent capital spending after the base year will not be approved until the next rate application and approval of the rate base. If incremental capital costs are significant and prudent, EEI can file under ICM to request the recovery of the costs. Additionally, rate cases incorporate future test years, which reduces some regulatory lag for the cost recoveries. Morningstar DBRS considers the inputs for the annual price cap adjustment as reasonable for EEI to recover its operating costs. All residential customers are charged a fully fixed monthly fee, which significantly reduces volume risk.
5. COS versus IRM	Excellent Good **Satisfactory** Below Average Poor	EEI is regulated under the Price Cap IR framework. As a result of the merger, EEI does not have to file a COS application until 2029. EEI can file an ICM if there are significant and prudent incremental capital needs.
6. Political Interference	Excellent Good Satisfactory **Below Average** 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 (Elexicon is owned by five municipalities). Furthermore, stakeholders such as the Independent Electricity System Operator are also effectively government owned. As a result, the government has direct and indirect influence on Ontario's electricity industry.
7. Stranded Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Electricity distribution companies in Ontario have a limited history of stranded costs. Most prudently incurred or budgeted capex is approved by the OEB.
8. Rate Freeze	Excellent Good **Satisfactory** Below Average Poor	Rising rates in 2002–05 from Ontario's utility deregulation phase resulted in a province-wide distribution-rate freeze being imposed. There have been no subsequent province-wide rate freezes.

About Morningstar DBRS

Morningstar DBRS is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 4,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

Morningstar DBRS is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why Morningstar DBRS is the next generation of credit ratings.

Learn more at dbrs.morningstar.com.

The Morningstar DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GMBH (Frankfurt, Germany) (EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). Morningstar DBRS does not hold an Australian financial services license. Morningstar DBRS credit ratings, and other types of credit opinions and reports, are not intended for Australian residents or entities. Morningstar DBRS does not authorize their distribution to Australian resident individuals or entities, and accepts no responsibility or liability whatsoever for the actions of third parties in this respect. For more information on regulatory registrations, recognitions and approvals of the Morningstar DBRS group of companies please see: https://dbrs.morningstar.com/research/highlights.pdf.

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

© 2024 Morningstar DBRS. All Rights Reserved. The information upon which Morningstar DBRS credit ratings and other types of credit opinions and reports are based is obtained by Morningstar DBRS from sources Morningstar DBRS believes to be reliable. Morningstar DBRS does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. Morningstar DBRS credit ratings, other types of credit opinions, reports and any other information provided by Morningstar DBRS are provided "as is" and without representation or warranty of any kind and Morningstar DBRS assumes no obligation to update any such credit ratings, opinions, reports or other information. Morningstar DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall Morningstar DBRS or its directors, officers, employees, independent contractors, agents, affiliates and representatives (collectively, Morningstar DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of credit ratings, other types of credit opinions and reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of Morningstar DBRS or any Morningstar DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. IN ANY EVENT, TO THE EXTENT PERMITTED BY LAW, THE AGGREGATE LIABILITY OF MORNINGSTAR DBRS AND THE MORNINGSTAR DBRS REPRESENTATIVES FOR ANY REASON WHATSOEVER SHALL NOT EXCEED THE GREATER OF (A) THE TOTAL AMOUNT PAID BY THE USER FOR SERVICES PROVIDED BY MORNINGSTAR DBRS DURING THE TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO LIABILITY, AND (B) U.S. $100. Morningstar DBRS does not act as a fiduciary or an investment advisor. Morningstar DBRS does not provide investment, financial or other advice. Credit ratings, other types of credit opinions and other analysis and research issued by Morningstar DBRS (a) are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities; (b) do not take into account your personal objectives, financial situations or needs; (c) should be weighed, if at all, solely as one factor in any investment or credit decision; (d) are not intended for use by retail investors; and (e) address only credit risk and do not address other investment risks, such as liquidity risk or market volatility risk. Accordingly, credit ratings, other types of credit opinions and other analysis and research issued by Morningstar DBRS are not a substitute for due care and the study and evaluation of each investment decision, security or credit that one may consider making, purchasing, holding, selling, or providing, as applicable. A report with respect to a Morningstar DBRS credit rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Morningstar DBRS may receive compensation for its credit ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of Morningstar DBRS. ALL MORNINGSTAR DBRS CREDIT RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DEFINITIONS, LIMITATIONS, POLICIES AND METHODOLOGIES THAT ARE AVAILABLE ON HTTPS://DBRS.MORNINGSTAR.COM. Users may, through hypertext or other computer links, gain access to or from websites operated by persons other than Morningstar DBRS. Such hyperlinks or other computer links are provided for convenience only. Morningstar DBRS does not endorse the content, the operator or operations of third party websites. Morningstar DBRS is not responsible for the content or operation of such third party websites and Morningstar DBRS shall have no liability to you or any other person or entity for the use of third party websites.