Appendix B: S&P Global Ratings Update

Research Update:

Green Mountain Power Corp. Upgraded To 'A' From 'A-'; Outlook Stable

August 18, 2021

PRIMARY CREDIT ANALYST

Matthew L O'Neill
New York
+ 1 (212) 438 4295
matthew.oneill
@spglobal.com

SECONDARY CONTACTS

Fei She, CFA
New York
+ 2124380405
fei.she
@spglobal.com

Minni Zhang
New York
minni.zhang
@spglobal.com

Rating Action Overview

- We revised our view of the relationship between U.S. regulated utility Green Mountain Power Corp. (GMP) and parent Energir Inc. to reflect our expectation of higher commitment from Energir.
- We revised our assessment of GMP's group status to core from strategically important. Our 'bbb+' stand-alone credit profile (SACP) on GMP is unchanged based on our excellent business risk and significant financial risk assessments.
- We raised our issuer credit rating on GMP to 'A' from 'A-'. The outlook is stable.
- The stable outlook reflects the outlook on Energir and our expectation the company will continue to limit its business risk by focusing on low-risk utility operations and to maintain credit protection metrics commensurate with the rating.

Rating Action Rationale

The upgrade reflects our view that GMP is a core subsidiary of Energir and that we aligned our rating on GMP with the rating on Energir. This assessment reflects our view that it is highly unlikely to be sold; important to the group's long-term strategy of owning and operating gas and electricity distribution, electricity transmission, and renewable energy generation in Vermont; constitutes a significant proportion (about 30% EBITDA) to Energir; fully integrated with the parent; and has a strong, long-term commitment of support from the group. Energir has supported GMP's financial stability since the acquisition in 2007 through equity injections and dividend limitations, contributing to maintaining GMP's capital structure while enabling it to invest in growth opportunities.

The rating on GMP reflects our assessment of GMP's low-risk, regulated electricity distribution and transmission operations under a generally supportive regulatory regime and our view of GMP's effective management of regulatory risk. The U.S. Federal Energy Regulatory Commission (FERC) regulates GMP's transmission business, which benefits from forward-looking rates and annual true-ups to recover prudently incurred costs. We assess FERC's regulatory construct as credit supportive. GMP's distribution operations are regulated by the Vermont Public Service

Commission (VPUC), which has been somewhat challenging historically, as tariff-setting is effectively based on historical test years that can add to regulatory lag. But GMP is gradually improving its management of regulatory risk through its use of a multiyear regulation plan that provides cash flow stability and certainty over the next two years. Additionally, GMP benefits from other regulatory mechanisms that include power-cost and storm-cost adjustors, which support GMP's ability to earn close to allowed returns. Offsetting factors include the lack of geographical and regulatory diversity and a small customer base. Historically, GMP has maintained efficient power supply operations, which we expect to continue. Purchased-power agreements supply about 80% of GMP's energy requirements, company-owned generation and short-term market purchases supply the rest. The utility mitigates ratepayers' exposure to the spot market through a hedging program.

Our assessment of GMP's financial risk profile incorporates our base-case scenario reflecting a stable regulatory environment with no material adverse regulatory decisions, capital spending of about $100 million in 2021 and $125 million in 2022, dividend payments of about $45 million per year, formulaic transmission rates, and continued use of other regulatory mechanisms. We expect funds from operations (FFO) to debt of about 18%, consistent with the middle of the range for the financial risk profile category.

We apply a negative comparable rating analysis modifier, reflecting our view of GMP's business risk profile as being in the lower half of its business risk category. Our assessment factors in the company's limited scale and scope, moderate industrial concentration, and operating risks associated with integrated operations. As a result, the SACP on GMP includes a one-notch downward adjustment.

Outlook

The stable outlook on GMP reflects the outlook on Energir and S&P Global Ratings' expectation that Energir will continue generating stable and predictable consolidated cash flows from its low-risk regulated utility operations in Quebec and Vermont. The outlook also reflects our expectation that management will continue to focus on its core regulated business and for no adverse regulatory decisions during our outlook horizon.

Downside scenario

We could downgrade GMP if:

- We downgrade Energir, which could happen if Energir's credit metrics deteriorate, with adjusted FFO to debt falling and staying below 14% with no prospect for improvement, or there are adverse regulatory decisions, a material debt-financed acquisition, or Energir encounters significant operating challenges; or

- Energir's business risk weakens, which could happen if the company materially increases its unregulated or generation operations.

Upside scenario

Although unlikely, we could raise the rating on GMP if we upgrade Energir. This could occur if:

- Energir demonstrates long-term, sustainable, low-risk growth; or

- Improved financial measures result in FFO to debt consistently near or above 20%.

Company Description

GMP operates as an electric utility that purchases, generates, transmits, distributes, and sells electricity and utility construction services in Vermont to about 265,000 customers. GMP is a subsidiary of Northern New England Power Corp., a subsidiary of Energir.

Liquidity

We assess GMP's liquidity as adequate to cover its needs over the next 12 months, even if consolidated EBITDA declines 10%. We expect GMP's liquidity sources over the next 12 months to exceed uses by 1.1x or more. We also expect the company will meet our other requirements for such a designation. We believe GMP has sound bank relationships; the ability to absorb high-impact, low-probability events with limited need for refinancing; a satisfactory standing in the credit markets; and generally prudent risk management.

Principal liquidity sources:

- About $5 million cash on hand;
- FFO of about $164 million; and
- Available revolving credit facility of about $24 million.

Principal liquidity uses:

- Debt maturities of about $8 million;
- Capital spending of about $107 million; and
- Dividends of about $43 million.

Issue Ratings - Recovery Analysis

GMP's first-mortgage bonds benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of greater than 1.5x supports a recovery rating of '1+' and an issue-level rating of 'A+', one notch above the issuer credit rating.

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: Negative (-1 notch)

Stand-alone credit profile: bbb+

Group credit profile: a

- Entity status within group: Core (+2 notch from SACP)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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
- 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
- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Upgraded

	To	From
Green Mountain Power Corp.		
Issuer Credit Rating	A/Stable/--	A-/Stable/--

Issue-Level Ratings Raised; Recovery Ratings Unchanged

Green Mountain Power Corp.		
Senior Secured	A+	A
Recovery Rating	1+	1+