

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.

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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

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