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Research Update:

GrandBridge Energy Inc. Outlook Revised To Stable From Negative; Ratings Affirmed

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Rating Action Overview

- We concluded our review on Ontario's regulatory construct and maintained our assessment as most credit supportive.
- Our assessment reflects that the Ontario Energy Board (OEB) has proactively addressed regulatory lag, and we now believe that its utilities, including GrandBridge Energy Inc. (GBE), will maintain consistent financial measures sufficient for the current ratings.
- We therefore affirmed our ratings on GBE, including our 'A' issuer credit rating and senior unsecured rating, and revised the outlook to stable from negative.
- The stable outlook on GBE reflects our expectation that its financial measures will remain consistent, such that funds from operations (FFO) to debt is greater than 15%. The stable outlook also reflects our expectation that the regulated utility business will consistently contribute about 95% of consolidated EBITDA. Under our base case, we expect consolidated FFO to debt of 17%-18% through 2026.

Rating Action Rationale

Our assessment of Ontario's regulatory environment remains unchanged as most credit supportive. During 2023, the OEB proactively addressed regulatory lag, particularly related to the timely recovery of rising transmission-related costs. Previously, the local 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 most 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 the OEB authorizes such rates for the transmission companies, materially 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 most credit supportive. As such, we expect GBE's financial measures will be more consistent and reflect FFO to debt of 17%-18% through 2026.

We continue to assess GBE's business risk profile as excellent. This reflects the company's lower-risk regulated LDC operations, operating under Ontario's constructive regulatory framework, and service territories that benefit from above-average economic growth. Partially offsetting GBE's key credit strengths are the company's below-average size, serving only about 113,000 customers, and lack of geographic diversity.

Our assessment also considers parent, Grandbridge Corp.'s (GBC's) nonutility exposure (about 5% of consolidated EBITDA). These businesses include solar assets, telecommunication services, street lighting, and home comfort products. We view these businesses as having more risk than regulated utilities. However, we expect the company will not materially grow these businesses in relation to the overall consolidated company.

We assess GBE's financial risk profile as intermediate. This reflects our expectation that GBE will maintain FFO to debt of about 17%-18% throughout our forecast period. Our forecast assumes capital spending of about C$35 million-C$38 million annually and annual dividends averaging about C$8 million. We assess the financial risk profile using our low-volatility financial benchmark table, which reflects its mostly lower-risk regulated electric distribution operations and effective management of regulatory risk. Our assessment further reflects GBC and GBE's generally steady cash flow and rate-regulated utility operations with highly supportive cost recovery.

Outlook

The stable outlook on GBE reflects our expectation for predictable and stable cash flows from the utility's low-risk, regulated distribution business over the next two years. In our base-case scenario, we expect GBE's consolidated FFO to debt to be about 17%-18% throughout the forecast period.

Downside scenario

We could lower our rating on GBE over the next 24 months if:

- GBE's financial measures weaken such that FFO to debt consistently weakens to less than 15%;
- GBE experiences a material adverse regulatory ruling; or
- GBE's nonutility business increases to greater than 10% of consolidated EBITDA.

Upside scenario

We could raise our rating on GBE over the next 24 months if:

- GBE improves its financial measures, such that FFO to debt is consistently above 21% without increasing business risk.

Company Description

Grandbridge Energy Inc. (GBE) is a midsize Ontario LDC located in Southeastern Ontario. Almost all cash flows come from its regulated electricity distribution business. GBE delivers electricity to 113,000 customers through a fully owned extensive network of overhead and underground lines.

Liquidity

We assess GBE's liquidity as adequate and expect its sources to be 1.1x over its uses for the next 12 months. In addition, we anticipate its net sources would remain positive even if its forecast consolidated EBITDA declines 10%. We believe the company's generally predictable regulatory framework provides manageable 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 GBE could absorb high-impact, low-probability events, reflecting about C$70 million of committed loan facilities through 2027 and our view that the company can reduce its capital spending (averaging about C$38 million annually through 2026) during stressful periods. This indicates that it would have a limited need for refinancing under such conditions. Furthermore, our assessment reflects GBE's generally prudent risk management practices. Overall, we believe the company would likely be able to withstand adverse market circumstances over the next 12 months with sufficient liquidity to meet its obligations.

Principal liquidity sources

- Cash FFO of about C$36 million; and
- Committed loan facility availability of C$63 million.

Principal liquidity uses

- Debt maturities of C$5.8 million;
- Capital expenditures of about C$38 million; and
- Dividend payments of about C$8 million.

Capital structure

GBE's capital structure comprises about C$105 million of senior unsecured debt, a term facility of about C$22 million and a balance outstanding under its revolving credit facility of about C$5 million.

Analytical conclusions

We rate GBE's senior unsecured debt 'A', the same as our long-term 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: 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: Neutral (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: a

Group credit profile: a

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
GrandBridge Energy Inc.		
Issuer Credit Rating	A/Stable/--	A/Negative/--
Issue-Level Ratings Affirmed		
GrandBridge Energy 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.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.