Q. Please provide any DBRS documents that describe its generic policies towards regulated Canadian and US utilities.

A. The DBRS methodology report titled "Rating Companies in the Regulated Electric, Natural Gas and Water Utilities Industry" dated October 2015 is provided as Attachment A.

DBRS Methodology Report
Rating Companies in the Regulated Electric, Natural Gas and Water Utilities Industry
October 2015

OCTOBER 2015

METHODOLOGY

Rating Companies in the Regulated Electric, Natural Gas and Water Utilities Industry

PREVIOUS RELEASE: OCTOBER 2014

Contact Information

James Jung, CFA, FRM, CPA, CMA
Senior Vice President
Energy/Banking
+1 416 597 7577
jjung@dbrs.com

Paul Holman
Managing Director
Credit Policy
+1 416 597 7534
pholman@dbrs.com

Table of Contents

Scope and Limitations

This methodology represents the current DBRS approach for ratings in the regulated electric, gas and water utility industry. It describes the DBRS approach to credit analysis, which includes consideration of historical and expected business and financial risk factors as well as industry-specific issues, regional nuances and other subjective factors and intangible considerations. DBRS's approach incorporates a combination of both quantitative and qualitative factors. The methods described herein may not be applicable in all cases; the considerations outlined in DBRS methodologies are not exhaustive and the relative importance of any specific consideration can vary by issuer. In certain cases, a major strength can compensate for a weakness and, conversely, a single weakness can override major strengths of the issuer in other areas. DBRS may use, and appropriately weight, several methodologies when rating issuers that are involved in multiple business lines. Further, this methodology is meant to provide guidance regarding the DBRS methods used in the sector and should not be interpreted with formulaic inflexibility, but understood in the context of the dynamic environment in which it is intended to be applied.

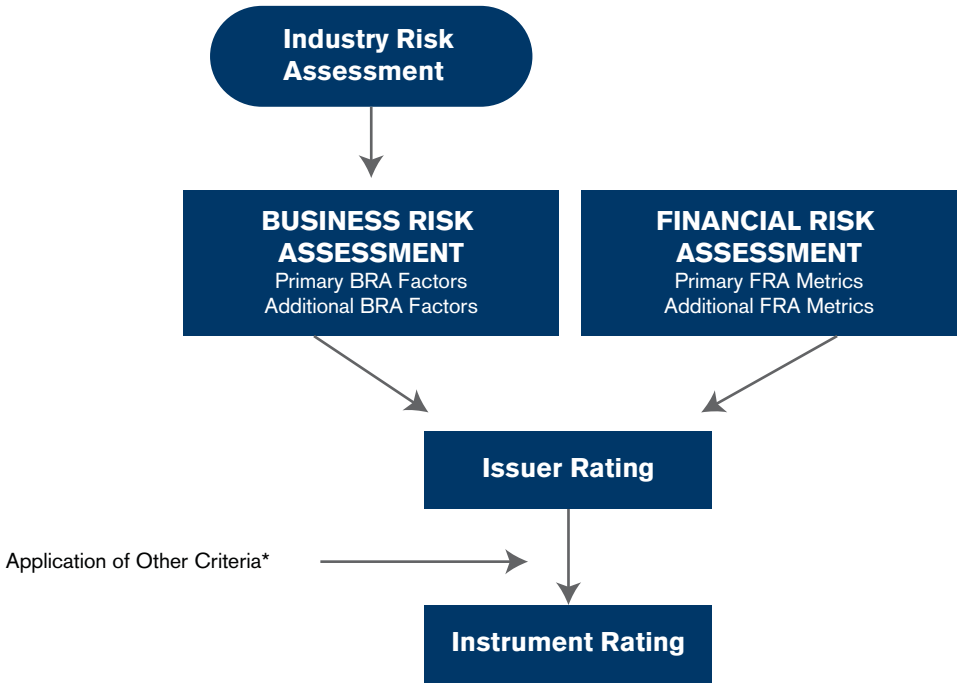
Introduction to DBRS Methodologies

- DBRS publishes rating methodologies to give issuers and investors insight into the rationale behind DBRS's rating opinions.
- In general terms, DBRS ratings are opinions that reflect the creditworthiness of an issuer, a security or an obligation. DBRS ratings assess an issuer's ability to make timely payments on outstanding obligations (whether principal, interest, preferred share dividends or distributions) with respect to the terms of an obligation. In some cases (e.g., non-investment grade corporate issuers), DBRS ratings may also address recovery prospects for a specific instrument given the assumption of an issuer default.
- DBRS operates with a stable rating philosophy; in other words, DBRS strives to factor the impact of a cyclical economic environment into its ratings wherever possible, which minimizes rating changes due to economic cycles. Rating revisions do occur, however, when more structural changes, either positive or negative, have occurred, or appear likely to occur in the near future.
- DBRS also publishes criteria which are an important part of the rating process. Criteria typically cover areas that apply to more than one industry. Both methodologies and criteria are publicly available on the DBRS website and many criteria are listed below under "Rating the Specific Instrument and Other Criteria."

Overview of the DBRS Rating Process

- There are generally three components to the DBRS corporate rating process: (1) an industry risk assessment (IRA); (2) an issuer rating; and (3) considerations for specific securities. The figure below outlines this process.
- An IRA is a relative ranking of most industries that have a DBRS methodology, typically using just three ranges of the DBRS long-term debt rating scale (i.e., "A," BBB and BB), without making use of the "high" or "low" descriptors. The IRA is a general indication of credit risk in an industry and considers, among other things, an industry's: (1) profitability and cash flow; (2) competitive landscape; (3) stability; (4) regulation; and (5) other factors. An "industry," for the purposes of the IRA, is defined as those firms that are generally the larger, more established firms within the countries where the majority of DBRS's rated issuers are based; this remains true for DBRS methodologies that are more global in nature. The IRA helps DBRS set the BRA grid (see below) in that it positions, in an approximate way, an average firm in the industry onto the BRA grid. For firms in industries with low IRAs, the IRA can, in effect, act as a constraint or "cap" on the issuer's rating.
- The issuer rating is DBRS's assessment of the probability of default of a specific issuer. It is a function of: (1) the business risk assessment (BRA), determined by assessing each of the primary and (where relevant) additional BRA factors in the BRA grid for a specific issuer; and (2) the financial risk assessment (FRA), determined by assessing each of the primary and (where relevant) additional FRA metrics. The two components, BRA and FRA, are combined to determine the issuer rating; in most cases, the BRA will have greater weight than the FRA in determining the issuer rating. Throughout the BRA and FRA determination process, DBRS performs a consistency check of the issuer on these factors against the issuer's peers in the same industry.
- The issuer rating is then used as a basis for specific instrument ratings. DBRS assigns, for example, a recovery rating and notches up or down from the issuer rating to determine a specific instrument rating for instruments of non-investment grade corporate issuers. (See "Rating the Specific Instrument and Other Criteria" below.)

DBRS Rating Analysis Process



* Depending on the instrument, "other criteria" may include the recovery methodology for non-investment grade issuers or the preferred share and hybrid criteria, for example. Please refer to the section below entitled "Rating the Specific Instrument and Other Criteria" for a list of these criteria, as well as other criteria that may be applicable at any stage of the rating process.

Regulated Electric, Natural Gas and Water Utilities Industry

- This methodology applies to companies with regulated utility operations (i.e., regulated electric generation, distribution or transmission, natural gas distribution and/or water and waste-water utilities).
- For companies that have both material regulated and non-regulated operations in other related industry segments (e.g., non-regulated electricity generation, energy marketing or trading), DBRS applies both this and the *Rating Companies in the Independent Power Producer Industry* methodology. For pipeline or diversified energy companies, see *Rating Pipeline and Diversified Energy Companies*. For energy-related project finance transactions, see *Rating Project Finance, Rating Wind Power Projects or Rating Solar Power Projects*.
- Per the three-tier industry risk rating system described on the previous page, this industry's IRA is "A."
- For the electric-related utilities, there are three broad business areas: generation, transmission and distribution. Some utilities are fully integrated and participate in all three, while others may be involved in only one or two segments.
- Regulated utilities are typically monopolistic. Because of the large amount of fixed costs, one large utility firm can generally provide service at a lower cost than two or more firms serving the same customer base. Utilities are generally regulated by an administrative tribunal (i.e., a government agency) created by statute to assist ratepayers in obtaining reliable energy services on a cost-effective basis. Rate-setting mechanisms generally ensure that utilities receive adequate revenue requirements to recover all costs prudently incurred to provide service including cost of capital.
- Utilities are typically regulated either under a traditional cost-of-service (COS) or some form of performance-based framework.
- Utilities with a higher proportion of residential and commercial customers possess the ability to better weather economic downturns and demonstrate more stable operating performances than utilities with a greater exposure to industrial customers, who are more inclined to seek economic alternatives and are prone to economic cyclicality.
- The risk of environmental regulation is evolving, particularly for the electric industry; however, for a regulated utility, future cost increases attributable to environmental regulation would be expected to be recovered from ratepayers.
- Long-term threats include competition from new distributed energy resources and small-scale power generation sources located close to end users, providing an alternative to the traditional electric power transmission and distribution grid.
- Water and waste-water utilities typically operate under similar regulatory frameworks to other regulated utility operations; however, the water and waste-water sector may be more fragmented and regulation may show more variation, given that regulation is generally at the municipal level rather than the state/provincial level. In addition, capital spending may be more volatile for water and waste-water utilities.

Regulated Electric, Natural Gas and Water Utilities Business Risk Assessment

PRIMARY BRA FACTORS

- The BRA grid below shows the primary factors used by DBRS in determining the BRA. While these primary factors are shown in general order of importance, depending on a specific issuer's business activities, this ranking can vary by issuer.
- The quality of the regulatory regime is the main driving factor for regulated utilities as it is the most important BRA factor. The regulatory framework also influences a company's FRA as the deemed capital structure and return on equity (ROE) are often set by the regulator.

Regulated Electric, Natural Gas and Water Utilities Primary BRA Factors

Rating	AA	A	BBB	BB/B
Regulation (The most important BRA factor – see Appendix for further details.)	• Highly supportive regulatory framework with the majority of relevant key regulatory risk factors in the Appendix considered to be "excellent."	• Supportive regulatory framework with the majority of relevant key regulatory risk factors in the Appendix considered to be "good" or better.	• Reasonable regulatory framework with the majority of relevant key regulatory risk factors in the Appendix considered to be "satisfactory" or better.	• Poor regulatory framework with the majority of relevant key regulatory risk factors in the Appendix considered to be "below average" and/or "poor."
Business Mix	• Primarily an electric transmission and/or distribution with modest (if any) power generation. • Well-diversified utilities with a range of businesses throughout the utility value chain (natural gas transmission and distribution, electricity transmission and distribution as well as complementary energy services and generation activities).	• A "wires" or gas distribution, water or waste-water, or an integrated utility or generator with a low-risk profile.	• Integrated utility or generator with a moderate-risk profile.	• Integrated utility or generator with high-risk profile.
Franchise and Customer Mix	• Strong and consistent levels of load growth. • Economically vibrant service territory. • Customer mix primarily residential and commercial.	• Reasonable load growth generally tracking the broader economy. • Economically strong service territory. • Customer mix heavily weighted toward residential and commercial.	• Minimal load growth. • Economically stagnant service territory. • Customer mix a balance of residential, commercial and industrial.	• Consistent load declines. • Economically weak service territory. • Customer mix weighted toward cyclical industrials.

The following BRA risk factors are relevant to issuers in all industries (although the relevance of sovereign risk can vary considerably):

Sovereign Risk	The issuer rating may, in some cases, be constrained by the credit risk of the sovereign; in other words, the rating of the country in which the issuer operates generally sets a maximum rating for the issuer. If the issuer operates in multiple countries and a material amount of its business is conducted in a lower-rated country, DBRS may reflect this risk by downwardly adjusting its issuer rating.
Corporate Governance	Please refer to DBRS Criteria: Evaluating Corporate Governance for further information on how DBRS evaluates corporate governance and management.

Regulated Electric, Natural Gas and Water Utilities Business Risk Assessment (CONTINUED)

ADDITIONAL BRA FACTORS

The additional BRA factors discussed below may be very important for certain issuers, depending upon their activities, but they do not necessarily apply to all issuers in the industry.

Capital Spending

- Utilities are capital-intensive businesses. A utility might undertake large capital projects to either meet growing demand in a high-growth franchise area or replace significant aging assets. This could potentially lead to cost overruns and weaker financial metrics, at least during the growth phase.
- For utilities undergoing very significant multi-year capital expansion programs, capital spending may be considered a primary rating factor. This would be particularly relevant for companies with significant nuclear generation development.

Supply/Demand Considerations

- The provision of utility services depends on the presence of adequate supplies of energy (e.g., natural gas and electricity) to meet end-user demand. For electric utilities, generation of sufficient electricity to meet demand is paramount.

Ownership

- The existence of a highly-rated parent typically does not result in a lift to a stand-alone utility's rating; however, DBRS may impute some level of support in a utilities rating if it is owned by a highly-rated city, despite no explicit guarantee being in place, given the potential unique circumstances of the city/utility relationship.

Size

- The size of the utility could limit its ability to operate effectively and efficiently. At times, sizing may have an impact on a company's ability to raise funds, increase rates or execute capital projects. Under performance-based regulation, size would also have an impact on a company's ability to contain costs to achieve operating efficiency targets set by regulators.

Geographical Diversification

- Geographical diversification could improve the BRA by reducing concentration risk in any one regulatory jurisdiction.

Environmental Issues

- DBRS assesses the extent to which utilities face government laws and regulations that can have an impact on a company's business and prospects. Regulated utilities may either be a direct source of greenhouse gas emissions (e.g., thermal power producer) or may transport energy derived from sources that produce emissions (e.g., a wires utility moving third-party power through its lines).

Retail Exposure

- Distribution companies may be required to provide retail services to customers, such as electricity supply. Under this framework, utilities, depending on commercial arrangements, could be exposed to significant market risk. Key areas of analysis therefore include hedging policies, counterparty risk and the size of the operation. Rates are, however, generally passed on to rate payers, thereby reducing the risk to the utility.

Competitive Environment

- DBRS assess the degree of competition from other forms of energy or any other potential threats to natural monopoly, including material development of new distributed energy resources and small-scale power generation sources located close to end users, which could ultimately provide an alternative to the traditional electric power transmission and distribution grid.

Regulated Electric, Natural Gas and Water Utilities Financial Risk Assessment

PRIMARY FRA METRICS

- The FRA grid below shows the primary FRA metrics used by DBRS to determine the FRA. While these primary FRA metrics are shown in general order of importance, depending upon an issuer's activities, the ranking can vary by issuer.
- DBRS ratings are based heavily on future performance expectations, so while past metrics are important, any final rating will incorporate DBRS's opinion on future metrics, a subjective but critical consideration.
- It is not unusual for a company's metrics to move in and out of the ranges noted in the grid below, particularly for cyclical industries. In the application of this matrix, DBRS looks beyond the point-in-time ratio.
- Financial metrics depend on accounting data whose governing principles vary by jurisdiction and, in some cases, industry. DBRS may adjust financial statements to permit comparisons with issuers using different accounting principles.
- Please refer to *DBRS Criteria: Financial Ratios and Accounting Treatments – Non Financial Companies* for definitions of, and common adjustments to, these ratios in the FRA grid below.
- DBRS considers an issuer's financial policy including factors such as its targeted financial leverage, its dividend policy and the likelihood of share buybacks or other management actions that may favour equity holders over bondholders.
- Liquidity can be an important credit risk factor, especially for lower-rated non-investment grade issuers. While ratios such as the current or quick ratio can give an indication of certain short-term assets in comparison with short-term liabilities, DBRS will typically review all material sources of liquidity (including, for example, cash on hand, cash flow from operations, availability of bank funding, etc.) in comparison with all material short- and medium-term uses of liquidity (such as operations, capital expenditures (capex), mandatory debt repayments, share buybacks and dividends, etc.).
- While free cash flow (i.e., net of changes in working capital, dividends and capex, etc.) can be volatile and, on occasion, negative, DBRS may use this and/or other cash flow metrics to assess a company's ability to generate cash to repay debt.
- While market pricing information (such as market capitalization or credit spreads) may on occasion be of interest to DBRS, particularly where it suggests that an issuer may have difficulty in raising capital, this information does not usually play a material role in DBRS's more fundamental approach to assessing credit risk.

Regulated Electric, Natural Gas and Water Utilities – Primary FRA Metrics

Primary Metric	AA	A	BBB	BB/B
Cash flow-to-debt	> 17.5%	12.5% to 17.5%	10% to 12.5%	< 10%
Debt-to-capital	< 55%	55% to 65%	65% to 75%	> 75%
EBIT-to-interest	> 2.8x	1.8x to 2.8x	1.5x to 1.8x	< 1.5x

ADDITIONAL FRA METRICS

- While the primary FRA metrics above will be the most important metrics that DBRS will use in determining the FRA of an issuer, other metrics may be used, depending upon an issuer's activities, capital structure, pension liabilities and off-balance sheet obligations.
- DBRS notes that utilities rated below investment grade are typically rated as such because of heightened business risk levels rather than for credit metric reasons.

Blending the BRA and FRA into an Issuer Rating

- The final issuer rating is a blend of the BRA and FRA. In most cases, the BRA will have greater weight than the FRA in determining the issuer rating.
- At the low end of the rating scale, however, particularly in the B range and below, the FRA and liquidity factors play a much larger role and the BRA would, therefore, typically receive a lower weighting than it would at higher rating levels.
- For regulated utilities, the quality of the regulatory regime, which is a BRA factor, often drives the FRA of a company since the deemed capital structure and ROE are often set by the regulator.

Rating the Specific Instrument and Other Criteria

- For non-investment grade corporate issuers, DBRS assigns a recovery rating and reflects the seniority and the expected recovery of a specific instrument, under an assumed event of default scenario, by notching up or down from the issuer rating in accordance with the principles outlined in the criteria *DBRS Recovery Ratings for Non-Investment Grade Corporate Issuers*.
- Preferred share and hybrid considerations are discussed under P*referred Share and Hybrid Criteria for Corporate Issuers*.
- The issuer rating (which is an indicator of the probability of default of an issuer's debt) is the basis for rating specific instruments of an issuer, where applicable. DBRS uses a hierarchy in rating long-term debt that affects issuers that have classes of debt that do not rank equally. In most cases, lower-ranking classes would receive a lower DBRS rating. For more detail on this subject, please refer to the general rating information contained in the DBRS rating policy "Underlying Principles."
- For a discussion on the relationship between short- and long-term ratings and more detail on liquidity factors, please refer to the DBRS policy "Short-Term and Long-Term Rating Relationships" and the criteria *Commercial Paper Liquidity Support Criteria for Non-Bank Issuers*.
- The existence of holding companies can have a meaningful impact on individual security ratings. For more detail on this subject, please refer to the criteria *Rating Holding Companies and Their Subsidiaries.*
- Guarantees and other types of support are discussed in *DBRS Criteria: Guarantees and Other Forms of Explicit Support*.
- For further information on how DBRS evaluates corporate governance, please refer to *DBRS Criteria: Evaluating Corporate Governance.*
- Please refer to *DBRS Criteria: Financial Ratios and Accounting Treatments – Non Financial Companies* for definitions of, and common adjustments to, these ratios.

Appendix: Regulation

- In determining the BRA for regulation (see page 6), DBRS reviews the following ten considerations to assess the regulatory framework in which the utility conducts its business.
- The ranking of the factors is based on a five-point scale (excellent, good, satisfactory, below average and poor).
- The first four factors are generally of greater importance than the others when assessing regulatory risk; however, the factors are not given a specific weighting when assessing the regulatory framework.

CONSIDERATION 1: DEEMED EQUITY

Definition

Deemed equity is the percentage of equity investment in the rate base on which a utility could earn a return. In general, the higher the Deemed Equity portion, the higher the earnings for a utility. In addition, utilities tend to maintain their actual capital structure in line with the regulatory capital structure.

Score	Item	Definition
Excellent	50%+	• Deemed equity represents 50% or more of utility's rate base • The treatment of deemed equity is consistent historically
Good	45.00% to 49.99%	• Deemed equity represents 45.00% to 49.99% of utility's capital structure • The treatment of deemed equity is consistent historically
Satisfactory	40.00% to 44.99%	• Deemed equity represents 40.00% to 44.99% of utility's capital structure • The treatment of deemed equity has not been consistent historically
Below Average	35.00% to 39.99%	• Deemed equity represents 35.00% to 39.99% of utility's capital structure • The treatment of deemed equity has not been consistent historically
Poor	Below 34.99%	• Deemed equity represents less than 34.99% of utility's capital structure • The treatment of deemed equity has not been consistent historically

CONSIDERATION 2: ALLOWED ROE

Definition

Allowed ROE is a measurement of returns on the deemed equity portion of the rate base. The regulator sets an allowed ROE based on a utility's business risk level (which is assessed by the regulator). In a supportive regulatory environment, utilities' actual ROEs are generally in line with the allowed ROE or exceed the allowed ROE. In an unsupportive regulatory regime, utilities often generate much lower actual ROE than the allowed ROE. DBRS will consider the utility's track record of its actual ROE outperformance/underperformance relative to allowed ROE and assess whether the key drivers of ROE outperformance/underperformance could be sustained going forward.

Score	Item	Definition
Excellent	10%+	• An allowed ROE is set at 10.00% or higher • The regulatory treatment of allowed ROE has been consistent historically
Good	9% to 10%	• An allowed ROE is set at 9.00% to 10.00% • The regulatory treatment of allowed ROE has been consistent historically
Satisfactory	8.00% to 8.99%	• An allowed ROE is set at 8.00% to 8.99% • The regulatory treatment of allowed ROE has been consistent historically
Below Average	7.00% to 7.99%	• An allowed ROE is set at 7.00% to 7.99% • The regulatory treatment of allowed ROE has NOT been consistent historically
Poor	Below 7%	• An allowed ROE is set at below 7.00% • The regulatory treatment of allowed ROE has NOT been consistent historically

Appendix: Regulation (CONTINUED)

CONSIDERATION 3: ENERGY COST RECOVERY

Definition

Fuel and purchased energy cost (F&PE) recovery certainty and the timing of recovery are critical in DBRS's assessment of a regulatory system within a certain jurisdiction. DBRS looks at the following factors: (1) whether F&PE costs are fully passed through to the customers; (2) how often a utility is allowed to adjust the F&PE costs in retail rates charged to customers; and (3) if there is a mechanism within a jurisdiction to allow utilities to make F&PE cost adjustments with no or minimal regulatory review. In addition, DBRS also focuses on the generation mix within a certain market. A high power cost market could have an impact on the utility's ability to recover the purchased power costs in a timely manner. DBRS notes that this factor is not applicable for water and waste-water utilities.

Score	Item	Definition
Excellent	Monthly/bi-monthly	• F&PE costs are fully passed through • Adjustment is made on a monthly basis • There is an automatic adjustment mechanism • The jurisdiction is in a favourable generation mix market, resulting in low power cost
Good	Quarterly	• F&PE costs are fully passed through • Adjustment is made on a quarterly basis • There is an automatic adjustment mechanism • The jurisdiction is in a favourable generation mix market, resulting in low power cost
Satisfactory	Quarterly with regulatory review	• F&PE costs are fully passed through • Adjustment is made on a quarterly basis • F&PE cost deferrals are subject to some regulatory review • The jurisdiction is in a good generation mix market
Below Average	Annually with automatic adjustment	• F&PE costs are fully passed through or utilities having minimal exposure to the energy price volatility • Adjustment is made on an annual basis and is subject to minimal or some regulatory review • The jurisdiction is in an above-average power cost market
Poor	Annually with no automatic adjustment mechanism	• F&PE costs are fully passed through or utilities having minimal exposure to the energy price volatility • Adjustment is made on an annual basis • F&PE cost deferrals are subject to regulatory review • The jurisdiction is in an above-average power cost market

Appendix: Regulation (CONTINUED)

CONSIDERATION 4: CAPITAL AND OPERATING COST RECOVERY

Definition

In assessing capital cost recovery (CCR) and operating cost recovery (OCR), DBRS focuses on the likelihood of a utility's capex being added to its rate base, along with the timing of such addition. In addition, DBRS focuses on cost-inflation adjustments which could affect the timing of OCR. In particular, DBRS looks at the following factors: (1) the utilization of future test periods for rate decisions; (2) whether the spending is allowed to be added to the rate base during the construction or will only be added when the project is completed; (3) the level of upfront capital spending required without regulatory approval; (4) the degree of regulatory lag and uncertainty with respect to CCR; and (5) whether or not there is a reasonable mechanism to deal with cost overruns.

Score	Item	Definition
Excellent	Minimal CCR and OCR lag risk	• Work-in-progress costs can be added to the rate base if capex is significant • Interim base-rate increases have been frequently authorized • Future test periods are fully incorporated for rate-case decisions • Rate cases are typically decided well within one year unless the rate cases are litigated or unusual circumstances occur • There is a reasonable mechanism to deal with cost overruns
Good	Reasonable CCR and OCR lag risk	• Capital costs are added to the rate base after completion of work • Interim base-rate increases have been authorized from time to time • Future test periods are at least partially incorporated for rate-case decisions • Rate cases are typically decided within one year unless the rate cases are litigated or unusual circumstances occur • There is a reasonable mechanism to deal with costs overruns
Satisfactory	Modestly elevated CCR and OCR lag risk	• Capex is generally pre-approved by regulator, but there is some modest upfront capital spending before regulatory approval • Interim base-rate increases have been rarely authorized • Historical test periods are commonly incorporated for rate-case decisions • Rate cases are typically decided within one year unless the rate cases are litigated or unusual circumstances occur • There is a reasonable mechanism to deal with cost overruns
Below Average	Below-average CCR and OCR lag risk	• There is significant upfront capital spending before regulatory approval • Interim base-rate increases have been rarely authorized • Historical test periods are commonly incorporated for rate-case decisions • Rate-case decisions typically take more than one year because of frequent court cases and other circumstances • There are some mechanisms to deal with cost overruns
Poor	Significant CCR and OCR lag risk	• Capex is generally not pre-approved by regulator • Capital costs are added to the rate base after completion of work • Utilities face significant regulatory lag risk with respect to CCR and OCR • There is no meaningful mechanism to deal with cost overruns.

Appendix: Regulation (CONTINUED)

CONSIDERATION 5: COST OF SERVICE VERSUS INCENTIVE REGULATION MECHANISM

Definition

In general, under COS, regulated utilities are allowed to recover prudently incurred operating costs and earn a reasonable return on their investment. Under incentive regulatory mechanism (IRM), revenue requirements for the year are based on a COS base year, adjusted for inflation (consumer price index (CPI)) and minus a productivity factor (X), which is set by the regulator. This forces utilities to maintain their operational efficiency to achieve allowed ROE. DBRS views COS as lower risk than IRM. In addition, DBRS also considers the length of an IRM period between the COS years. DBRS's scoring system gives a higher score for a shorter IRM period.

Score	Item	Definition
Excellent	COS	• COS regime allowing utilities to recover prudently and reasonably incurred operating costs
Good	IRM (three years or shorter)	• IRM regime with maximum three years between the COS years • For an IRM period of more than three years, there are reasonable mechanisms in place to mitigate unexpected capital investment and operating costs. In addition, key IRM assumptions, including CPI and productivity factors, are reasonable
Satisfactory	IRM (four- to five-year framework)	• The IRM period is four to five years
Below Average	IRM (six- to ten-year framework)	• The IRM period is six to ten years
Poor	IRM (ten+ years)	• The IRM period is over ten years

CONSIDERATION 6: POLITICAL INTERFERENCE

Definition

Political interference refers to political risk that could occur within a jurisdiction. Political interference could be in the following forms: (1) influence on the regulator's ability to independently and impartially arrive at a decision; (2) passing legislation to override a decision made by the regulator; and (3) the regulator being elected instead of being appointed.

Score	Definition
Excellent	• No government influence on the regulatory decision-making process • There has been no adverse legislation in the regulated utility sector • The regulator is appointed
Good	• Low degree of government influence on the regulatory decision-making process • There has been no adverse legislation in the regulated utility sector • The regulator is appointed
Satisfactory	• Low degree of government influence on the regulatory decision-making process • There has been no adverse legislation in the regulated utility sector • The regulator is appointed or elected
Below Average	• Modest degree of government influence on the regulatory decision-making process • There has been no adverse legislation in the regulated utility sector • The regulator is appointed or elected
Poor	• High degree of government influence on the regulatory decision-making process • There has been some adverse legislation in the regulated utility sector • The regulator is appointed or elected

Appendix: Regulation (CONTINUED)

CONSIDERATION 7: RETAIL RATE

Definition

Average price for residential customers (monthly consumption of 1,000 kilowatt hours (kWh). DBRS notes that this factor is not applicable for gas distribution, water and waste-water utilities.

Score	Item	Definition
Excellent	Below 8.00 cents	• Consistently below 8.00 cents per kWh • Strong economic environment
Good	8.00 cents to 10.99 cents	• Consistently in the 8.00 cents to 10.99 cents per kWh range • Strong economic environment
Satisfactory	11.00 cents to 13.99 cents	• Consistently in the 11.00 cents to 13.99 cents per kWh range • Very good economic environment
Below Average	14.00 cents to 16.99 cents	• Consistently in the 14.00 cents to 16.99 cents per kWh range • Good economic environment
Poor	17.00+ cents	• Consistently higher than 17.00 cents per kWh • Good economic environment

CONSIDERATION 8: STRANDED COST RECOVERY

Definition

Stranded costs occur when a utility has already incurred costs (F&PE, operating cost or capital spending) and faces uncertainty as to when it can recover these costs. In some cases, stranded costs are written off if it is certain that these costs cannot be recovered. DBRS looks at the following factors: (1) whether stranded costs exist and their magnitude; (2) the likelihood of recovery of stranded costs; (3) the frequency of writedowns; and (4) the time it takes to recover these costs.

Score	Item	Definition
Excellent	No Stranded Cost	• No stranded costs associated with legitimate or reasonable costs incurred by utilities
Good	Full Recovery	• Some stranded costs exist • Stranded costs are fully recovered in a timely manner • No historical stranded cost writedowns
Satisfactory	Occasional Writedowns	• Some stranded costs exist • Stranded costs are recovered but subject to some regulatory lag • Occasional writedowns
Below Average	Frequent Writedowns	• Some stranded costs exist • Stranded costs are sometimes recovered • Frequent writedowns • Takes considerable time to recover costs
Poor	Frequent Significant Writedowns	• Significant stranded costs exist • Stranded costs are not fully recovered • Significant writedowns occur • Significant regulatory lag associated with the recovery

Appendix: Regulation (CONTINUED)

CONSIDERATION 9: RATE FREEZE

Definition

A rate freeze refers to a fixed retail rate that is charged to customers during a period of time (more than two years). During the rate-freeze period, utilities are exposed to increases in operating and energy costs. The longer the rate-freeze period or the more frequency with which a rate freeze occurs within a jurisdiction, the riskier it is for the utility.

Score	Item	Definition
Excellent	Never	• Rates are never frozen
Good	Potential	• Rates have the potential to be frozen
Satisfactory	Occasional	• Rates are occasionally frozen • The frozen period is less than three years
Below Average	Frequently	• Rates are frequently frozen • The frozen period is less than three years
Poor	Rate Freeze	• Rates are currently frozen • The frozen period is three years and longer

CONSIDERATION 10: MARKET STRUCTURE (DEREGULATION)

Definition

Market structure refers to the electricity, gas or water market functions within the regulatory regime. DBRS particularly focuses on whether the market is deregulated and to what degree the market has been deregulated. The strongest utilities will have fully-integrated operations (generation, transmission and distribution).

Score	Item	Definition
Excellent	Fully Regulated	• The market is fully regulated • Fully integrated utilities
Satisfactory	Partial Regulation	• The market is not fully regulated • Utilities are partially regulated • Good market structure, providing stability and low risk associated with purchased energy costs and counterparty risk
Poor	Fully Deregulated	• The market is fully deregulated • Market structure provides some risk with respect to purchased energy costs and counterparty risk

Corporate Headquarters | DBRS Tower – 181 University Avenue Suite 700 Toronto, ON M5H 3M7 | TEL +1 416 593 5577 | www.dbrs.com