

# MOODY'S RATINGS

## Rating Action: Moody's downgrades Enbridge and three subsidiaries to Baa2; outlooks stable

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29 Mar 2024

### Approximately CAD46 billion of debt securities affected

Toronto, March 29, 2024 -- Moody's Ratings (Moody's) has downgraded the senior unsecured ratings of Enbridge Inc. (Enbridge or ENB) and its subsidiaries Enbridge Energy Partners, L.P (EEP), Enbridge Energy Limited Partnership (EELP) and Spectra Energy Partners, LP (SEP) to Baa2 from Baa1. Moody's also downgraded the senior unsecured rating of Texas Eastern Transmission L.P. (TETCO) to Baa1 from A3. At the same time Moody's has affirmed the Prime -2 short term commercial paper rating of Enbridge (U.S.) Inc. In addition, Moody's changed the outlooks for Enbridge, EEP, EELP, SEP and TETCO to stable from negative. Please see the end of this press release for a complete list of rating actions.

### RATINGS RATIONALE

"The downgrade of Enbridge and its related subsidiaries reflects the ongoing weakness in the company's financial profile," said Gavin MacFarlane, Vice President – Senior Credit Officer. "As Enbridge moves forward with several utility acquisitions and executes on a sizable capital program, we expect that the company will have low levels financial flexibility and higher leverage."

The downgrade highlights ongoing pressure on Enbridge's financial profile. It incorporates the constraints on its financial flexibility as is demonstrated by weak distribution coverage metrics (using depreciation) and pressure on leverage metrics. At FYE 2023, the company's distribution coverage (using depreciation) was 0.91x and we expect this financial metric to remain in the 0.9x-1x range for the next several years. ENB is the only company in its peer group to sustain this figure below 1x, which we view as more indicative of a Baa2 rating. Similarly, proportionately consolidated debt to EBITDA was 5.3x at FYE 2023 and we believe it will be around 5.5x in the next few years. We expect it to be temporarily more elevated in 2024 in part due to the partial year EBITDA contributions from the three local gas distribution companies(LDC) it is in the process of acquiring.

On 7 March 2024, Enbridge closed on the first and largest of these transactions, acquiring The East Ohio Gas Company (A2 stable) for USD6.6 billion including assumed debt. The LDC accounts for about 40% of the annualized EBITDA of the utilities that Enbridge is acquiring. The three LDC utility acquisitions have an enterprise value of about CAD19 billion, which includes an acquisition price of CAD12.8 billion and CAD6.2 billion of assumed debt, and will modestly strengthen the company's business risk profile. We expect Enbridge to complete the other two utility acquisitions in 2024. In addition to the LDC acquisitions, the company may spend CAD8-9 billion annually on capex and smaller acquisitions, a material increase from previous forecasts. The company expects that growing EBITDA will provide debt capacity for most of this capital spending.

The CAD12.8 billion LDC acquisitions, a large capital program that may reach CAD8-9 billion per year and annual dividends of around CAD8 billion will significantly outstrip the growth in Enbridge's funds from operations, which totaled CAD12 billion in 2023. At the time the LDC acquisitions were announced, the company issued CAD4.6 billion of equity and shortly thereafter issued CAD3 billion of hybrid securities which we treat as 50/50 debt equity. A significant portion of these funds remain on the balance sheet as company had CAD5.9 billion of cash on hand at FYE 2023. We expect the company to use several levers to finance the large free cash flow shortfall created by its acquisitions, capex and dividends including significant debt, further equity most likely in the form of an at the market program and additional hybrid securities. The company has also announced the CAD3.1 billion sale of its interests in Alliance pipeline and Aux Sable that it expects to close imminently and it may pursue further asset sales.

Enbridge's Baa2 credit rating reflects the company's large size, scale and diverse, low risk asset base. The company's portfolio of assets will continue to generate stable cash flow based on a combination of rate regulation, a favorable contractual profile and a strong competitive position. ENB's business risk position compares favorably to industry peers and is supported by its ownership of an extensive crude oil and gas network, including a growing gas distribution segment that is unique in the midstream sector. The stable outlook reflects these credit strengths, which help to mitigate the higher pressure on financial metrics and leverage.

The ratings of subsidiaries EEP and SEP reflect the strength of the cross-guarantee that exists between each of them and Enbridge that causes the senior unsecured notes at these entities to have similar credit quality. Similarly, EELP benefits from a guarantee from Enbridge that drives its credit profile. The credit profile of Enbridge (U.S.) Inc. reflects the liquidity support provided by Enbridge, which guarantees the commercial paper program.

The ratings on TETCO are based on the underlying strength of its business and reflect our view that its rating is limited to one notch above that of Enbridge.

## Rating outlook

The stable outlook reflects the large size, scale and low risk asset base of Enbridge and our expectation that the company's proportionately consolidated debt to EBITDA will be about 5.5x and distribution coverage, using depreciation, will be between 0.9x and 1x for the next several years. We have also assumed that the company will complete the pending utility acquisitions and execute its capital program largely on time and budget.

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

### Factors that could lead to an Upgrade

- ENB's rating could be upgraded if we forecast the company to sustain both proportionately consolidated debt to EBITDA below 5.5x and distribution coverage, using depreciation, above 1x.

### Factors that could lead to a Downgrade

- Proportionately consolidated debt to EBITDA at or above 6x or distribution coverage, using depreciation, below our expectations
- A material deterioration in the company's business risk profile
- An increase in structural subordination

## LIST OF AFFECTED RATINGS

..Issuer: Enbridge Inc.

### Downgrades:

.... Issuer Rating, Downgraded to Baa2 from Baa1

....Pref. Shelf, Downgraded to (P)Ba1 from (P)Baa3

....Subordinate Shelf, Downgraded to (P)Ba1 from (P)Baa3

....Backed Senior Unsecured Shelf, Downgraded to (P)Baa2 from (P)Baa1

....Pref. Stock, Downgraded to Ba1 from Baa3

....Pref. Stock, Downgraded to (P)Ba1 from (P)Baa3

....Subordinate Regular Bond/Debenture, Downgraded to Ba1 from Baa3

....Senior Unsecured Medium-Term Note Program, Downgraded to (P)Baa2 from

(P)Baa1

...Senior Unsecured Regular Bond/Debenture, Downgraded to Baa2 from Baa1

...Backed Senior Unsecured Regular Bond/Debenture, Downgraded to Baa2 from Baa1

Outlook Actions:

...Outlook, Changed To Stable From Negative

..Issuer: Enbridge (U.S.) Inc.

Affirmations:

...Backed Commercial Paper, Affirmed P-2

..Issuer: Enbridge Energy Partners, L.P.

Downgrades:

.... Issuer Rating, Downgraded to Baa2 from Baa1

...Senior Unsecured Regular Bond/Debenture, Downgraded to Baa2 from Baa1

Outlook Actions:

...Outlook, Changed To Stable From Negative

..Issuer: Enbridge Energy Limited Partnership

Downgrades:

...Senior Unsecured Regular Bond/Debenture, Downgraded to Baa2 from Baa1

Outlook Actions:

...Outlook, Changed To Stable From Negative

..Issuer: Spectra Energy Partners, LP

Downgrades:

...Senior Unsecured Regular Bond/Debenture, Downgraded to Baa2 from Baa1

Outlook Actions:

...Outlook, Changed To Stable From Negative

..Issuer: Texas Eastern Transmission L.P.

Downgrades:

...Senior Unsecured Regular Bond/Debenture, Downgraded to Baa1 from A3

Outlook Actions:

...Outlook, Changed To Stable From Negative

The principal methodology used in rating Enbridge Inc., Enbridge (U.S.) Inc., Enbridge Energy Partners, L.P., Enbridge Energy Limited Partnership and Spectra Energy Partners, LP was Midstream Energy published in February 2022 and available at <https://ratings.moodys.com/rmc-documents/379531>. The principal methodology used in rating Texas Eastern Transmission L.P. was Natural Gas Pipelines published in July 2018 and available at <https://ratings.moodys.com/rmc-documents/64961>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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