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CREDIT OPINION
5 July 2018

Update

Rate this Research

RATINGS

Avangrid, Inc.

Domicile	Albany, New York, United States
Long Term Rating	Baa1
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Avangrid, Inc.

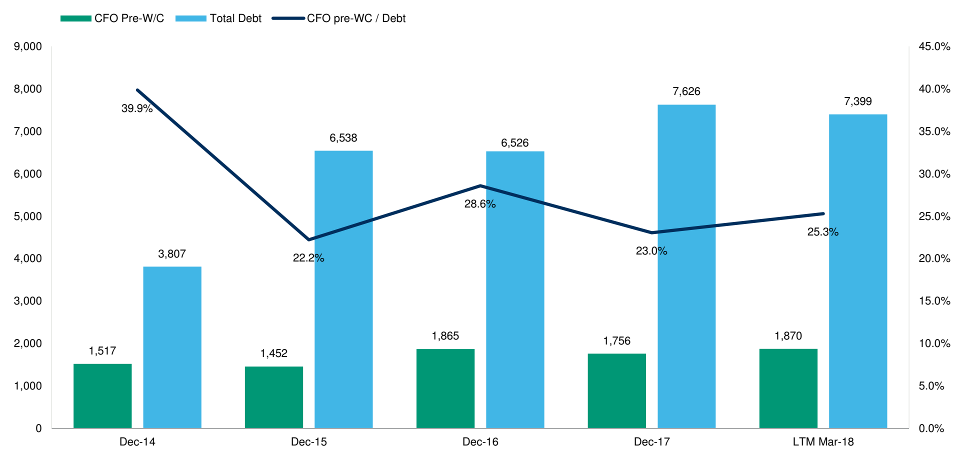
Update to credit analysis

Summary

Avangrid's (AGR) credit quality reflects the strength of its regulated utility subsidiaries that account for 65% of operating cash flow generation, the largely contracted nature of its unregulated business, and its strong financial ratios with minimal holding company debt. Offsetting these positive attributes are our expectation that AGR's holding company leverage will gradually increase over time and result in weaker but still adequate financial ratios.

Exhibit 1

Historical CFO Pre-W/C, Total Debt and CFO Pre-W/C to Debt
($MM)



Source: Moody's Financial Metrics™

Credit strengths

» Low business risk regulated utilities represent 65% of the company's EBITDA

» Healthy financial ratios

» Diversified service territory

» Unregulated business is majority contracted with long-term agreements with credit-worthy counterparties

Credit challenges

» Sizeable capital expenditure plan across both the utility and renewable segment carries some execution risk

» Material weakness finding in audited financials point to corporate governance challenges

» Ring-fenced utilities create separateness and insulation from AGR family

Rating outlook

AGR's stable outlook reflects the strength of its regulated utility subsidiaries that account for 65% of operating cash flow generation, the largely contracted nature of its unregulated business, as well as access to incremental liquidity from a deep-pocketed majority owner. The outlook also takes into account our expectation that its holding company leverage will gradually increase over time and result in lower credit metrics that are more in line with its rating, such as cash flow from operations pre-working capital to debt (CFO pre-WC/D) in the high teens.

Factors that could lead to an upgrade

» Material improvement in the credit supportiveness of the regulatory frameworks within which AGR's regulated utilities operate

» Sustained strong financial ratios such that CFO pre-WC/D exceeds 26%, on a sustainable basis

Factors that could lead to a downgrade

» A deterioration in the credit supportiveness of the regulatory jurisdiction across which AGR's utilities operate

» A weakening in the company's financial results, such that CFO pre-WC/D falls to the mid-teens and retained cash flow to debt declines to the low teens, on a sustained basis.

» An increase in the percentage of consolidated operating cash flows derived from the more volatile, non-contracted unregulated segment

» A material weakening in the credit quality of its majority owner, Iberdrola S.A., or increased dividend payments from AGR to its shareholders.

Key indicators

Exhibit 2

Avangrid, Inc. Indicators [1]

	Dec-14	Dec-15	Dec-16	Dec-17	LTM Mar-18
CFO pre-WC + Interest / Interest	6.9x	6.0x	6.6x	6.0x	6.2x
CFO pre-WC / Debt	39.9%	22.2%	28.6%	23.0%	25.3%
CFO pre-WC – Dividends / Debt	39.8%	22.2%	22.4%	16.0%	17.9%
Debt / Capitalization	20.1%	26.3%	26.0%	31.6%	30.6%

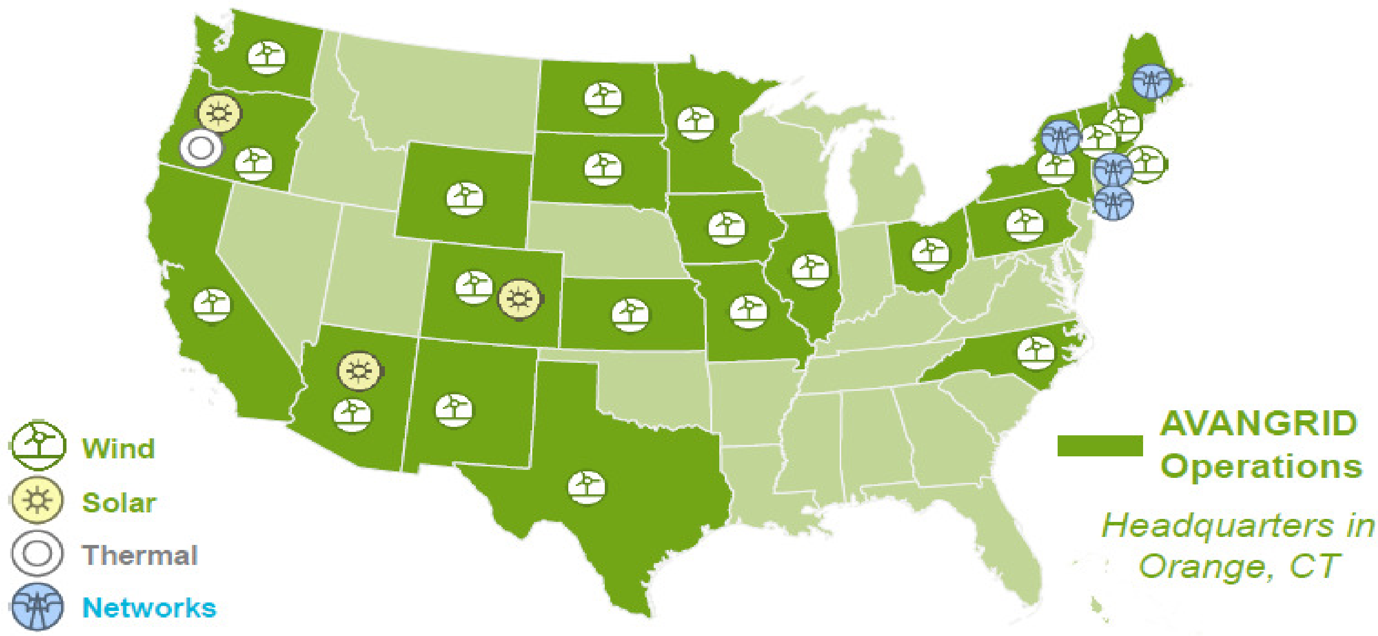
[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics™

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Profile

AGR is a diversified utility holding company with total assets of $31.5 billion (as of 3/31/18). The company's regulated operations account for roughly 65% of operating cash flows with its unregulated, but largely contracted operations, making up the difference. AGR's majority owner is Iberdrola S.A. (ISA Baa1 stable). It owns an 81.5% stake in the company with the remaining 18.5% being held by the public. ISA is a global diversified energy company with total assets of $128 billion as of 12/31/17. Its primary holdings are located in Spain, the United Kingdom, the United States, Mexico and Brazil.

Exhibit 3
Avangrid's geographic presence



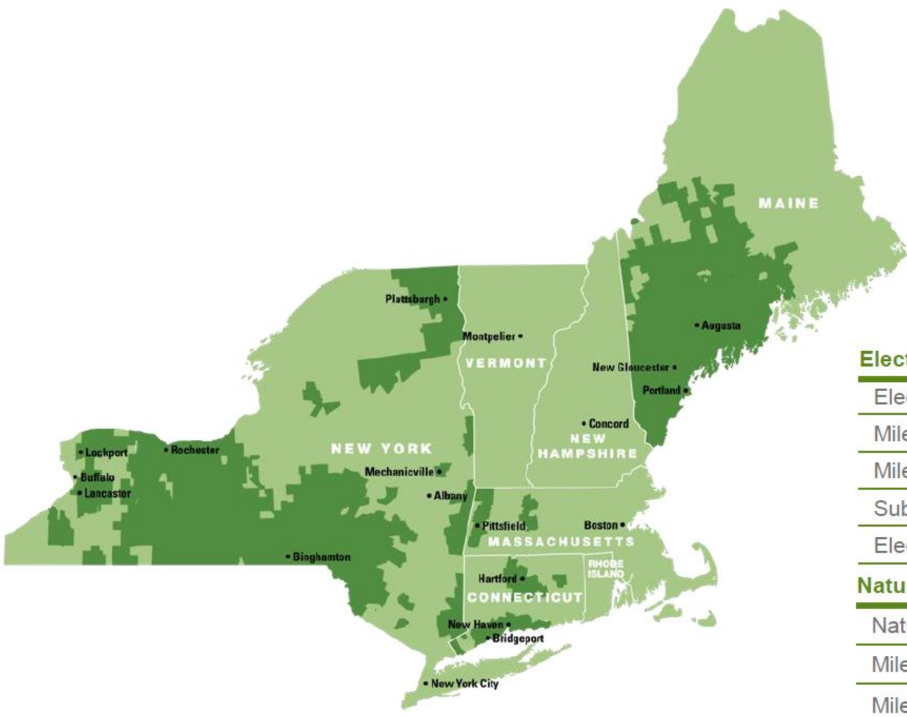
Source: Company presentation

Detailed credit considerations

REGULATED UTILITIES PROVIDE FUNDAMENTAL CREDIT SUPPORT

AGR's ownership of eight low business risk regulated utilities, operating across four different states in the northeastern U.S., and representing a total rate base of $9.1 billion, provide a strong, predictable, and stable base to the group's overall operating cash flow generation. Together, these utilities represent about 65% of the company's consolidated cash flow generation, and account for 80% of consolidated debt.

Exhibit 4



Electricity Service	2017
Electricity Customers	2,231,576
Miles of Transmission Lines	8,657
Miles of Distribution Lines	70,934
Substations	822
Electricity Delivered	38,349 GWh
Natural Gas Service	
Natural Gas Customers	998,236
Miles of Transmission Pipeline	127
Miles of Distribution Pipeline	24,298
Natural Gas Delivered	175,477,000 DTh

Source: Company presentation

AGR's core utility holdings operate in mostly constructive regulatory environments. AGR's New York and Maine-based transmission and distribution (T&D) utilities as well as its FERC regulated transmission segment account for 77% of consolidated rate base, and benefit from the most credit supportive regulatory environment of the consolidated group. Some of the favorable ratemaking mechanisms available in these jurisdictions are the application of a forward looking test year and formulaic equity returns. These allow for transparent and predictable rate setting and for timely recovery of operating and capital costs.

AGR's natural gas distribution companies (LDCs) account for 12% of consolidated rate base. They operate across the somewhat more challenging but improving regulatory jurisdictions of Massachusetts and Connecticut. Although these companies have a history of fully litigated rate cases, they have access to decoupling and infrastructure tracker mechanisms. Decoupling is credit positive since it supports the stability of operating cash flow generation by shielding the companies from the demand volatility associated with weather and customer demand. Similarly, the infrastructure tracker mechanisms are credit positive since they provide for assured recovery of prudent reliability infrastructure spending on a timely basis.

From a credit perspective, AGR's weakest and most challenged utility company is United Illuminating (UI, Baa1 stable), its Connecticut based T&D company, that accounts for 11% of consolidated rate base (when excluding UI's FERC regulated segment). Like its sister companies, it has access to the state's decoupling mechanism but does not benefit from the reliability infrastructure rider available to Connecticut LDCs. Furthermore, the company has a history of experiencing more challenging general rate cases than its sister utilities, that, to date have only been resolved through a fully litigated process.

HISTORICALLY STRONG FINANCIAL RATIOS BUOYED BY LOW DEBT LEVELS AT PARENT AND UNREGULATED SUBSIDIARY WILL WEAKEN OVER TIME

About 80% of the company's consolidated debt is at the company's regulated utilities, that are levered in accordance with their regulatory capital structure of between 40%-45%. The remaining 20% of the debt relates to a limited amount of project finance debt at its unregulated subsidiaries as well as $1.05 billion of debt at the parent (up from $600 million a year ago). The relatively low amount of debt at these entities, as well as the healthy operating cash flow generation from the unregulated segment's 6.5 GW portfolio of largely contracted wind farms, results in strong debt coverage and debt to capitalization ratios.

Going forward, we anticipate that the company will continue to gradually increase the leverage at its holding company. AGR is targeting a dividend payout ratio of 65-75% at a time when it is stepping up capex across its largest operating utility and unregulated subsidiaries, and generating lower operating cash flows due to the passage of federal tax reform.

AGR's operating cash flows are forecasted to fund about 80% of its capital investments, with the balance coming from incremental debt at the parent and the utilities, and tax equity at the company's unregulated segment. AGR will also rely on incremental parent debt issuance to fund its dividend. Although not a sustainable long-term approach, with a CFO pre-WC/D of about 23% and debt to capitalization of around 32%, there is some room for incremental leverage, assuming its business mix remains unchanged and it continues to benefit from constructive regulatory relationships across the jurisdictions where it operates.

LARGELY CONTRACTED NATURE OF RENEWABLE ASSETS AND SALE OF NATURAL GAS BUSINESS IMPROVE UNREGULATED SEGMENT'S RISK PROFILE

Following the sale of its natural gas trading and storage business, AGR's unregulated business, Avangrid Renewables Holdings, Inc. (Renewables), now solely consists of 7.1 GW of generation capacity, with largely contracted renewable sources accounting for 6.5 GW of the total. Importantly, prior to the sale of its natural gas business, Renewables already accounted for 100% of the segment's EBITDA and has a record of producing generally stable operating cash flows. About seventy percent of AGR's generation capacity is contracted under long-term power purchase agreements with an average life of 9 years to credit-worthy offtakers, while 5% to 15% of the balance is hedged.

In 2017, AGR's management announced its plan to exit the natural gas business as it viewed it as non-core and not aligned with the broader company's strategic objectives. Furthermore, as a minor cash flow contributor, generating only about 5% of the company's consolidated cash flow in 2017, it carried materially more business risk than AGR's other segments. On 1 March 2018, AGR closed a transaction to sell Enstor Energy Services, LLC, AGR's gas trading business to CCI US Asset holdings LLC near fair market value ($66 million subject to working capital, cash and other adjustments). On 1 May 2018, AGR closed a transaction to sell Enstor Gas LLC, its gas storage business, to Amphora Gas Storage, LLC for $66 million subject to working capital, cash and other adjustments. The transaction price was lower than the estimated fair market value of the business by approximately $9 million.

MATERIAL WEAKNESS FINDING IN AUDITED STATEMENTS POINTS TO CORPORATE GOVERNANCE CHALLENGES

On 26 March 2018, AGR released its 2017 10-K which included disclosure of a material weakness in an adverse auditor opinion on the effectiveness of the company's internal control over financial reporting, a significant credit negative. Although AGR's 10-K audit was unqualified and required no financial statement restatement, the existence of a material weakness for the second consecutive year demonstrates an inability of AGR's board and management to effectively implement certain specific, satisfactory internal control processes that are standard practice among industry peers.

The 2017 material weakness relates to internal controls over the measurement and disclosure of income taxes. This is an issue initially disclosed in AGR's 2016 10-K and highlighted as one of three material weaknesses at that time. While the other two weaknesses were addressed over the course of 2017, AGR failed to fully remediate the inadequate internal control processes and procedures surrounding measurement and disclosure of income taxes prior to their 2017 audit. The company expects to address the issue through acceleration of the deadline of key activities, increasing its capabilities in the area of income tax accounting resources, and enhancing the automation of income tax processes and controls to allow for more timely completion of enhanced review of internal controls. AGR currently anticipates that all remediation efforts will be completed by 31 December 2018. See Moody's Issuer Comment entitled "Avangrid discloses existence of a "material weakness" in its 10-K for second year in a row, a credit negative" for more details on the matter.

LINK BETWEEN AGR'S CREDIT AND ISA SOFTENS FOLLOWING ITS LISTING ON THE NYSE

The decision to list AGR on the New York Stock exchange and effectively reduce ISA's ownership of the company by roughly 20% in December 2015, leads Moody's to conclude that the historically tight linkage between both companies has softened. Although we acknowledge that AGR is an important component of ISA's overall growth strategy, we believe that AGR is largely run independently. We expect that the company will continue to raise the bulk of its debt through the US capital markets, as well as seek to leverage its listing on the NYSE to raise equity for opportunistic growth potentially diluting ISA's ownership further.

Additionally, the presence of ring fencing provisions at all of its utilities limit ISA's flexibility with regards to its ability to draw distributions from those entities. Furthermore, AGR's decision to refinance the legacy UIL Holding company debt at AGR rather than at ISA is additional evidence of a de-linking of the two companies. That said, we continue to acknowledge that the majority ownership by ISA remains a credit positive, particularly since it provides an additional venue to access liquidity at an advantageous price.

Liquidity analysis

AGR's maintains good access to liquidity. AGR had $40 million of cash on the balance sheet as of 31 March 2018 and maintains a five-year bank credit facility with an aggregate borrowing limit of $2.5 billion (increased from $1.5 billion on 29 June, 2018). The bank credit facility, that among other things serves to backstop AGR's $1 billion commercial paper program, has a termination date of June 2023, does not include an ongoing material adverse change clause, and the only financial covenant is a maximum allowed debt to capital ratio of 65% that AGR comfortably satisfied as of 31 March 2018. As part of the recent upsizing and extension of the bank facility, AGR added a sustainability-linked pricing metric that permits an interest rate reduction for meeting targets related to environmental sustainability and highlights AGR's commitment to enhancing its environmentally friendly business profile.

The consolidated group had $869 million of availability under the then $1.5 billion bank credit facility as of 31 March 2018 after giving effect to $631 million of commercial paper outstanding. AGR's utility subsidiaries have various debt maturities totaling $491 million coming due in 2018 and 2019. The next AGR level maturity is scheduled for 2020 when $450 million of senior unsecured notes are due.

AGR employs a centralized approach to managing its liquidity. To the extent possible given certain regulatory restrictions, AGR concentrate its cash at the holding company and primarily conducts its short-term borrowings through AGR. The utilities optimize their cash balances through a virtual money pool arrangement. Under the terms of this agreement utilities may lend to each other but not to their unregulated affiliates or parent. These terms meet a regulatory requirement set at the time of AGR's acquisition of the utility companies which prohibits utilities from lending to unregulated affiliates, including AGR.

Aside from modest cash balances, AGR's principal source of liquidity are its commercial paper program and its bank credit facility under which it may borrow up to $2 billion. AGR also recently entered into a $500 million inter-group credit agreement with ISA. The inter-group credit agreement has the same financial covenant as the one listed in the bank facility, and terminates the earlier of 28 June 2023 or the date when ISA ceases to own at least 50% of AGR's outstanding common stock. Proceeds from the inter-group credit facility are used to provide credit support to AGR's CP program and for general corporate purposes.

AGR is also party to a notional cash pooling arrangement along with other ISA subsidiaries. Parties to the agreement may deposit funds with or borrow from the pool, provided that the net balance of funds deposited or borrowed by all pool participants in the aggregate is not less than zero. This agreement provides AGR yet another avenue for liquidity, supplementing its access to the bank market, and debt and equity capital markets.

For LTM 31 March 2018, AGR generated $1.9 billion in cash flow from operations, invested $2.3 billion in capital expenditures, and made $535 million in dividend payments to its shareholders, yielding a $906 million negative free cash flow balance was financed with $585 million of incremental long-term debt and short term debt. Over the next 12 to 18 months, we anticipate that the company will remain free cash flow negative and will finance the shortfall through incremental debt.

Rating methodology and scorecard factors

Exhibit 5

Rating Factors				
Avangrid, Inc.				
Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 3/31/2018**		**Moody's 12-18 Month Forward View As of Date Published [3]**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	Aa	Aa	Aa	Aa
b) Generation and Fuel Diversity	A	A	A	A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	6.5x	Aa	5.5x - 6x	A
b) CFO pre-WC / Debt (3 Year Avg)	26.1%	A	19% - 24%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	18.5%	A	15% - 19%	A
d) Debt / Capitalization (3 Year Avg)	28.5%	Aa	30% - 35%	Aa
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A2		A3
HoldCo Structural Subordination Notching	-1	-1	-1	-1
a) Indicated Rating from Grid		A3		Baa1
b) Actual Rating Assigned		Baa1		Baa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 3/31/2018(L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Appendix

Exhibit 6

Cash Flow and Credit Measures [1]

($MM)

CF Metrics	2012	2014	2015	2016	2017
As Adjusted					
EBITDA	**928**	**1695**	**1402**	**2220**	**2012**
FFO	**697**	**1,343**	**1,236**	**1,884**	**1,741**
- Div	2	3	3	401	535
RCF	**695**	**1,340**	**1,233**	**1,483**	**1,206**
FFO	697	1,343	1,236	1,884	1,741
+/- ΔWC	108	(144)	(58)	(271)	31
+/- Other	(74)	174	216	(19)	15
CFO	**730**	**1,373**	**1,394**	**1,594**	**1,787**
- Div	2	3	3	401	535
- Capex	1,035	1,023	1,058	1,671	2,383
FCF	**(307)**	**347**	**333**	**(478)**	**(1,131)**
Debt / EBITDA	4.0x	2.2x	4.7x	2.9x	3.8x
EBITDA / Interest	3.7x	6.4x	4.8x	6.7x	5.7x
FFO / Debt	18.8%	35.3%	18.9%	28.9%	22.8%
RCF / Debt	18.8%	35.2%	18.9%	22.7%	15.8%

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.

Source: Moody's Financial Metrics™

Exhibit 7

Peer Comparison [1]

($MM)

	Avangrid, Inc. Baa1 Stable			NextEra Energy, Inc. (P)Baa1 Stable			Dominion Energy, Inc. Baa2 Negative			Xcel Energy Inc. A3 Stable		
(in US millions)	FYE Dec-16	FYE Dec-17	LTM Mar-18	FYE Dec-16	FYE Dec-17	LTM Mar-18	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-16	FYE Dec-17	LTM Mar-18
Revenue	6,018	5,963	6,070	16,155	17,195	17,086	11,683	11,737	12,586	11,107	11,404	11,409
EBITDA	2,220	2,012	1,998	8,341	7,983	8,049	5,418	5,687	6,479	3,829	4,008	4,018
CFO pre-WC / Debt	28.6%	23.0%	25.3%	21.5%	21.5%	24.5%	14.8%	11.0%	12.1%	19.8%	19.6%	19.7%
CFO pre-WC – Dividends / Debt	22.4%	16.0%	17.9%	15.9%	15.9%	18.1%	9.6%	6.1%	7.0%	15.6%	15.3%	15.4%
Debt / EBITDA	2.9x	3.8x	3.7x	3.7x	4.3x	3.9x	5.5x	6.4x	6.0x	4.2x	4.2x	4.2x
Debt / Capitalization	26.0%	31.6%	30.6%	45.5%	49.3%	42.2%	57.9%	58.0%	61.1%	47.6%	52.8%	52.4%
EBITDA / Interest Expense	6.7x	5.7x	5.6x	7.1x	4.9x	5.5x	5.2x	4.8x	4.4x	5.9x	5.8x	5.8x

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade.

Source: Moody's Financial Metrics™

Ratings

Exhibit 8

Category	Moody's Rating
AVANGRID, INC.	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1
Commercial Paper	P-2
PARENT: IBERDROLA S.A.	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured MTN -Dom Curr	(P)Baa1
ST Issuer Rating	P-2
AVANGRID RENEWABLES HOLDINGS, INC.	
Outlook	Stable
Bkd Issuer Rating	Baa1
BERKSHIRE GAS COMPANY	
Outlook	Positive
Issuer Rating	A3
UNITED ILLUMINATING COMPANY	
Outlook	Stable
Issuer Rating	Baa1
Bkd LT IRB/PC	Baa1
ROCHESTER GAS & ELECTRIC CORPORATION	
Outlook	Stable
Issuer Rating	A3
Bkd LT IRB/PC	A3
Senior Secured	A1
NEW YORK STATE ELECTRIC AND GAS CORPORATION	
Outlook	Stable
Issuer Rating	A3
Bkd LT IRB/PC	A3
Senior Secured	A3
Senior Unsecured	A3
CENTRAL MAINE POWER COMPANY	
Outlook	Stable
Issuer Rating	A2
Senior Unsecured	A2
Pref. Stock	Baa1
SOUTHERN CONNECTICUT GAS COMPANY	
Outlook	Stable
Issuer Rating	A3
Senior Secured	A1
CONNECTICUT NATURAL GAS CORPORATION	
Outlook	Stable
Senior Unsecured	A3

Source: Moody's Investors Service

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