

ENMAX 2022 Borrowing Request

RECOMMENDATION(S):

That the Executive Committee recommend Council:

- 1) Give first reading to Bylaws: 1B2022, 2B2022, 3B2022, 4B2022, authorizing The City to incur indebtedness by the issuance of debentures in the amount of \$229.867 million for financing capital projects for, and as further defined by the proposed Bylaws attached to this report and summarized as:
 - a. 1B2022 – 5 Years - \$16.673 million – Acquisition of Hardware and Software;
 - b. 2B2022 – 10 Years - \$7.553 million – Acquisition of Fleet and Equipment;
 - c. 3B2022 – 20 Years - \$13.446 million – Non-Residential Development;
 - d. 4B2022 – 25 Years - \$192.195 million – Electric System and Building Improvements;
- 2) Give first reading to Bylaw 1M2022, – Authorizing Municipal Loan to ENMAX Corporation (“ENMAX”) for up to a maximum sum of \$229.867 million; and
- 3) Withhold second and third readings until the advertising requirements have been met.

RECOMMENDATION OF THE EXECUTIVE COMMITTEE, 2022 JANUARY 25:

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- 3) Withhold second and third readings until the advertising requirements have been met.

HIGHLIGHTS

- As a wholly owned subsidiary of The City of Calgary (The City), ENMAX is able to borrow through The City from The Province to finance regulated capital projects carried out by its subsidiary ENMAX Power Corporation;

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- The terms and conditions of this borrowing are outlined within a Credit Agreement entered into between The City and ENMAX dated 2021 February 8;
- Council has reviewed the 2022 Consolidated Operating and Capital Budget for ENMAX, and, the Bylaws are to accommodate ENMAX's funding request for 2022 June 15;
- ***What does this mean to Calgarians? Why does this matter?***
These additional borrowings are intended to provide low cost of borrowing to ENMAX Power Corporation-resulting in lower utility service costs for Calgarians;

DISCUSSION

- Annually ENMAX seeks authority from Council to borrow for the upcoming year;
- These borrowings are categorized as Self-Supported Debt as defined by The City's Debt Policy and as such do not impact The City's debt limit;
- ENMAX generally targets June 15 for funding its drawdown request. Recent and anticipated borrowings are summarized as follows:

| Yrs | General Descriptions** (\$ millions) | YoY%Δ | 2022* | 2021 | 2020 | 2019 |
|-----|---|--------------|------------------|------------------|------------------|------------------|
| 5 | ACQUISITION OF HARDWARE AND SOFTWARE | 67.2% | \$16.673 | \$9.971 | \$9.297 | \$10.750 |
| 10 | ACQUISITION OF FLEET AND EQUIPMENT | 154.6% | \$7.553 | \$2.967 | \$4.022 | \$4.847 |
| 20 | IMPROVEMENTS AND UPGRADES OF THE NON-RESIDENTIAL DISTRIBUTION NETWORK | 108.2% | \$13.446 | \$6.459 | \$5.716 | \$6.490 |
| 25 | ELECTRIC SYSTEM AND BUILDING IMPROVEMENTS | 36.4% | \$192.195 | \$140.907 | \$145.879 | \$150.328 |
| | Annual Loan Amount: | 43.4% | \$229.867 | \$160.304 | \$164.914 | \$172.415 |

*\$ amounts subject to decreases associated with final notice of drawdown submitted by ENMAX;

** Descriptions subject to changes due to specific descriptions of related borrowings;

- As at 2021 September 30, The City maintained \$1.5 billion in debentures on behalf of ENMAX at a weighted average interest rate of 3.32 per cent, per year (not including The City's Administration Fee), with terms ranging between < 5 years and 25 years;

STAKEHOLDER ENGAGEMENT AND COMMUNICATION (EXTERNAL)

- Public Engagement was undertaken
- Public Communication or Engagement was not required
- Public/Stakeholders were informed

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Stakeholder dialogue/relations were undertaken

The City and ENMAX have discussed this work and ENMAX has reviewed this report. ENMAX representatives will be in attendance for this item at Executive Committee.

IMPLICATIONS

Social

Not Applicable

Environmental

Not Applicable

Economic

Not Applicable

Service and Financial Implications

Self-supported funding

No financial implications other than 0.25 per cent Administration Fee charged by The City.

RISK

Risk associated with the ENMAX borrowings are managed by the terms and conditions outlined in the Credit Agreement. Included in these terms and conditions are various commitments made by ENMAX which provide The City with the information it needs to understand and assess this risk.

Notable commitments include:

- **Financial Reporting:** consolidated financial statements are provided by ENMAX quarterly which supports The City's ability to review and assess ENMAX's financial status and key operational development on a timely basis, this includes audited annual statements; and
- **Compliance Certificate:** prepared and submitted quarterly and executed by a duly appointed and authorized officer of ENMAX which confirms ENMAX's compliance with the requirements of the Credit Agreement;

In addition to helping manage risk, these features of the Credit Agreement also promote a collaborative working relationship with ENMAX helping to manage expectations between both parties.

Relevant items identified in the most recent financial review:

- 2021 June 5 S&P Global Ratings revised ENMAX's credit rating Outlook to Negative. According to S&P, this was "*due to high leverage the company took on last year to partially fund its acquisition of Versant Power and the company's robust annual capital spending...*" This leverage is measured by S&P using a funds from operation (FFO) to debt financial metric which narrowly missed S&P's 12 per cent threshold at 11.7 per cent. This credit rating action has been discussed with ENMAX, and they are committed

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to taking the necessary steps to reduce its leverage. They've communicated that although this metric is expected to weaken through the third quarter of 2021, by year-end this metric is expected to meet or exceed S&P Global Ratings forecasted estimate of 11 per cent to 11.5 per cent. This and other financial metrics are reviewed by The City quarterly with the receipt of the financial reporting referenced above.

ATTACHMENT(S)

1. **Attach 1 –Proposed Bylaw 1B2022**
2. **Attach 2 –Proposed Bylaw 2B2022**
3. **Attach 3 –Proposed Bylaw 3B2022**
4. **Attach 4 –Proposed Bylaw 4B2022**
5. **Attach 5 –Proposed Bylaw 1M2022**
6. Attach 6 –Key Metrics Summary

Department Circulation

| General Manager/Director | Department | Approve/Consult/Inform |
|--------------------------|-------------------------|------------------------|
| Carla Male | Chief Finance Office-GM | Approve |