

ENMAX 2023 Borrowing Request

RECOMMENDATION(S):

That the Executive Committee recommend that Council:

1. Give first reading to Bylaws: 1B2023, 2B2023, 3B2023, 4B2023, authorizing The City of Calgary (“The City”) to borrow a maximum of \$214.176 million for financing capital projects for ENMAX Corporation (“ENMAX”), and as further defined by the proposed Bylaws attached to this report and summarized as:
 - a. 1B2023 – 5 Years - \$21.977 million – Acquisition of Technology and Support Services;
 - b. 2B2023 – 10 Years - \$5.598 million – Acquisition of Fleet Equipment and Capital Tools;
 - c. 3B2023 – 20 Years - \$10.229 million – Non-Residential Development;
 - d. 4B2023 – 25 Years - \$176.372 million – Electric System and Building Improvements;
2. Give first reading to Bylaw 1M2023 – Authorizing Municipal Loans to ENMAX that The City has borrowed pursuant to Borrowing Bylaws 1B2023, 2B2023, 3B2023 and 4B2023, to a maximum sum of \$214.176 million to fund the regulated operations of ENMAX;
3. Withhold second and third readings until the advertising requirements have been met; and
4. Should the proposed Bylaws be fully approved by Council, direct Administration to amend any existing agreements between The City and ENMAX as applicable and in accordance with the Credit Documentation – Loans and Loan Guarantees Policy and Procedures.

HIGHLIGHTS

- As a wholly owned subsidiary of The City, ENMAX is able to borrow from The City to finance its regulated capital projects carried out by its subsidiary, ENMAX Power Corporation
- 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 2023 Consolidated Operating and Capital Budget for ENMAX, and the Bylaws are to accommodate ENMAX’s funding request for 2023 June 15
- ***What does this mean to Calgarians? Why does this matter?***
These additional borrowings are intended to provide lower 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 current 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 annually for funding its drawdown request.

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- Recent and anticipated borrowings are summarized as follows:

Term (Years)	General Descriptions** (\$ millions)	YoY %Δ	2023 *	2022	2021	2020
5	Acquisition of Technology and Support Services	31.8%	\$21.977	\$16.673	\$9.971	\$9.297
10	Acquisition of Fleet Equipment and Capital Tools	-25.9%	\$5.598	\$7.553	\$2.967	\$4.022
20	Non-Residential Development	-23.9%	\$10.229	\$13.446	\$6.459	\$5.716
25	Electric System and Building Improvements	-8.2%	\$176.372	\$192.195	\$140.907	\$145.879
Annual Loan Amount:		-6.8%	\$214.176	\$229.867	\$160.304	\$164.914

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

** Descriptions subject to change due to specific descriptions of related borrowings

As at 2022 September 30, The City maintained \$1.6 billion in debentures on behalf of ENMAX at a weighted average interest rate of 3.55 per cent per year (not including The City's Administration Fee), with initial terms ranging between 5 years and 25 years.

EXTERNAL ENGAGEMENT AND COMMUNICATION

- | | |
|--|---|
| <input type="checkbox"/> Public engagement was undertaken | <input checked="" type="checkbox"/> Dialogue with interested parties was undertaken |
| <input type="checkbox"/> Public/interested parties were informed | <input checked="" type="checkbox"/> Public communication or engagement was not required |

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

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Not Applicable

Service and Financial Implications

Self-supported funding

\$214.176 million

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 all material terms and conditions of the Credit Agreement and no Events of Default have occurred.

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

Relevant items identified in the most recent financial review from ENMAX's three external rating agencies:

- On 2022 March 14 ENMAX received a first-time credit rating from Fitch Ratings of BBB with a stable outlook reflective of a stable and low risk business mix.
- On 2022 June 22 S&P Global Ratings maintained ENMAX's credit rating of BBB- (Outlook Negative). According to S&P, this was "*due to high leverage the company took on... to partially fund its acquisition of Versant Power and the company's robust annual capital spending...*"
- On 2022 July 7 DBRS Morningstar confirmed their rating of ENMAX at BBB (high) with a stable outlook. These 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 1B2023
2. Attach 2 – Proposed Bylaw 2B2023
3. Attach 3 – Proposed Bylaw 3B2023

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- 4. Attach 4 – Proposed Bylaw 4B2023
- 5. Attach 5 – Proposed Bylaw 1M2023
- 6. Attach 6 – Key Metrics Summary

Department Circulation

General Manager/Director	Department	Approve/Consult/Inform
Carla Male	Corporate Planning & Financial Services	Approve