

Corporate Planning & Financial Services Report to
Executive Committee
2024 January 23

ISC: UNRESTRICTED
EC2024-0016

ENMAX 2024 Borrowing Request

PURPOSE

The purpose of this report is to seek Council approval of proposed borrowing Bylaws 1B2024, 2B2024, 3B2024 and 4B2024 and loan Bylaw 7M2024. If approved, these bylaws would allow The City to provide financing to support ENMAX Corporation's ("**ENMAX**") 2024 capital spending for its regulated operations as more fully described in this report.

PREVIOUS COUNCIL DIRECTION

Annually, The City of Calgary ("**The City**") receives a request from ENMAX to provide financing to support ENMAX's capital spending programs related to its regulated operations. Borrowing/on-lending in recent years is summarized in the Discussion section below.

ENMAX 2024 Borrowing Request

RECOMMENDATION:

That the Executive Committee:

1. Forward this report to the 2024 January 30 Regular Meeting of Council.

That the Executive Committee recommend Council:

1. Give first reading to proposed Bylaws 1B2024, 2B2024, 3B2024, 4B2024, authorizing The City to borrow a maximum of \$254.923 million for financing ENMAX's 2024 capital spending, as further defined by the proposed Bylaws attached to this report and summarized as:
 - a. 1B2024 – 5 Years - \$34.637 million – Acquisition of Technology and Support Services;
 - b. 2B2024 – 10 Years - \$6.783 million – Acquisition of Fleet Equipment and Capital Tools;
 - c. 3B2024 – 20 Years - \$6.173 million – Non-Residential Development;
 - d. 4B2024 – 25 Years - \$207.33 million – Electric System and Building Improvements;
2. Give first reading to proposed Bylaw 7M2024 – Authorizing Municipal Loans to ENMAX in the maximum sum of \$254.923 million to fund ENMAX's 2024 capital spending in connection with its regulated operations;
3. Withhold second and third reading of all proposed Bylaws 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.

ENMAX 2024 Borrowing Request

RECOMMENDATION OF THE EXECUTIVE COMMITTEE, 2024 JANUARY 23:

That Council:

1. Give first reading to proposed Bylaws 1B2024, 2B2024, 3B2024, 4B2024, authorizing The City to borrow a maximum of \$254.923 million for financing ENMAX's 2024 capital spending, as further defined by the proposed Bylaws attached to this report and summarized as:
 - a. 1B2024 – 5 Years - \$34.637 million – Acquisition of Technology and Support Services;
 - b. 2B2024 – 10 Years - \$6.783 million – Acquisition of Fleet Equipment and Capital Tools;
 - c. 3B2024 – 20 Years - \$6.173 million – Non-Residential Development;
 - d. 4B2024 – 25 Years - \$207.33 million – Electric System and Building Improvements;
2. Give first reading to proposed Bylaw 7M2024 – Authorizing Municipal Loans to ENMAX in the maximum sum of \$254.923 million to fund ENMAX's 2024 capital spending in connection with its regulated operations;
3. Withhold second and third reading of all proposed Bylaws 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.

CHIEF ADMINISTRATIVE OFFICER/GENERAL MANAGER COMMENTS

Carla Male, Chief Financial Officer and General Manager of Corporate Planning and Financial Services concurs with this report.

HIGHLIGHTS

- As a wholly owned subsidiary of The City, ENMAX can borrow from The City to finance the capital spending associated with its regulated operations. ENMAX's capital projects are carried out by its subsidiary, ENMAX Power Corporation.
- The terms and conditions of this borrowing are outlined in the Amended and Restated Credit Agreement ("**Credit Agreement**") dated 2023 December 14 entered into between The City and ENMAX.
- Council has reviewed the 2024 Business Plan and Budget for ENMAX, and the Bylaws are to accommodate ENMAX's funding request for 2024 June 17.
- ***What does this mean to Calgarians? Why does this matter?***
These additional borrowings are intended to provide lower cost of borrowing to ENMAX, ultimately resulting in lower utility service costs for Calgarians.

ENMAX 2024 Borrowing Request

DISCUSSION

- Annually, The City seeks authority from Council to borrow and to loan the borrowed funds to ENMAX to fund ENMAX's capital spending programs related to its regulated operations for the current year;
- Pursuant to The City's current Council approved Debt Policy (CP2020-05) ENMAX's debt is excluded from The City's debt limit calculation;
- ENMAX generally targets June 15 annually for funding its drawdown request. This year the funding will be on 2024 June 17 as the 15th is a Saturday;
- Historically, The City has financed the borrowings for ENMAX through the Government of Alberta. This year, it is anticipated that The City will directly finance ENMAX's borrowing from internal funds held by The City, which funds will be replenished on an as-needed basis through the issuance of municipal bonds in the debt capital markets in accordance with Bylaw 10B2023 (approved by Council on 2023 October 17).
- Recent and anticipated borrowings are summarized as follows:

Term (Years)	General Descriptions** (\$ millions)	YoY%Δ	2024 *	2023	2022
5	Acquisition of Technology and Support Services	63.6%	\$34.637	\$21.174	\$16.673
10	Acquisition of Fleet Equipment and Capital Tools	26.7%	\$6.783	\$5.353	\$7.553
20	Non-Residential Development	-36.6%	\$6.173	\$9.743	\$13.446
25	Electric System and Building Improvements	23.5%	\$207.330	\$167.907	\$192.195
Annual Loan Amount:		24.9%	\$254.923	\$204.177	\$229.867

*\$ amounts subject to decreases associated with final notice of drawdown expected to be submitted by ENMAX on or before 18 April 2024;

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

As at 2023 December 31, The City maintained approximately \$1.7 billion in debentures on behalf of ENMAX at a weighted average interest rate of 3.61 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.

ENMAX 2024 Borrowing Request

IMPLICATIONS

Social

Not Applicable

Environmental

Not Applicable

Economic

Not Applicable

Service and Financial Implications

\$254.923 million

Self – Supported funding

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

RISK

Risks 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:** compliance certificates are prepared and submitted by ENMAX to The City quarterly, (executed by a duly appointed and authorized officer of ENMAX) confirming ENMAX's compliance with all material terms and conditions of the Credit Agreement and confirming that 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 2023 May 19 Fitch Ratings affirmed ENMAX's credit rating of BBB with a stable outlook reflective of a stable and low risk business mix.
- On 2023 July 14 S&P Global Ratings maintained ENMAX's credit rating of BBB- (but revised the Outlook to Stable from Negative). According to S&P, this was due to S&P's "expectation of steady financial performance".

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- On 2023 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.

ATTACHMENTS

1. Proposed Bylaw 1B2024
2. Proposed Bylaw 2B2024
3. Proposed Bylaw 3B2024
4. Proposed Bylaw 4B2024
5. Proposed Bylaw 7M2024
6. Key Metrics Summary

Department Circulation

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

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