

ISC: UNRESTRICTED

AC2018-0470

ATTACHMENT 2

ENMAX CORPORATION

City of Calgary's Audit Committee Meeting
Wednesday July 25, 2018



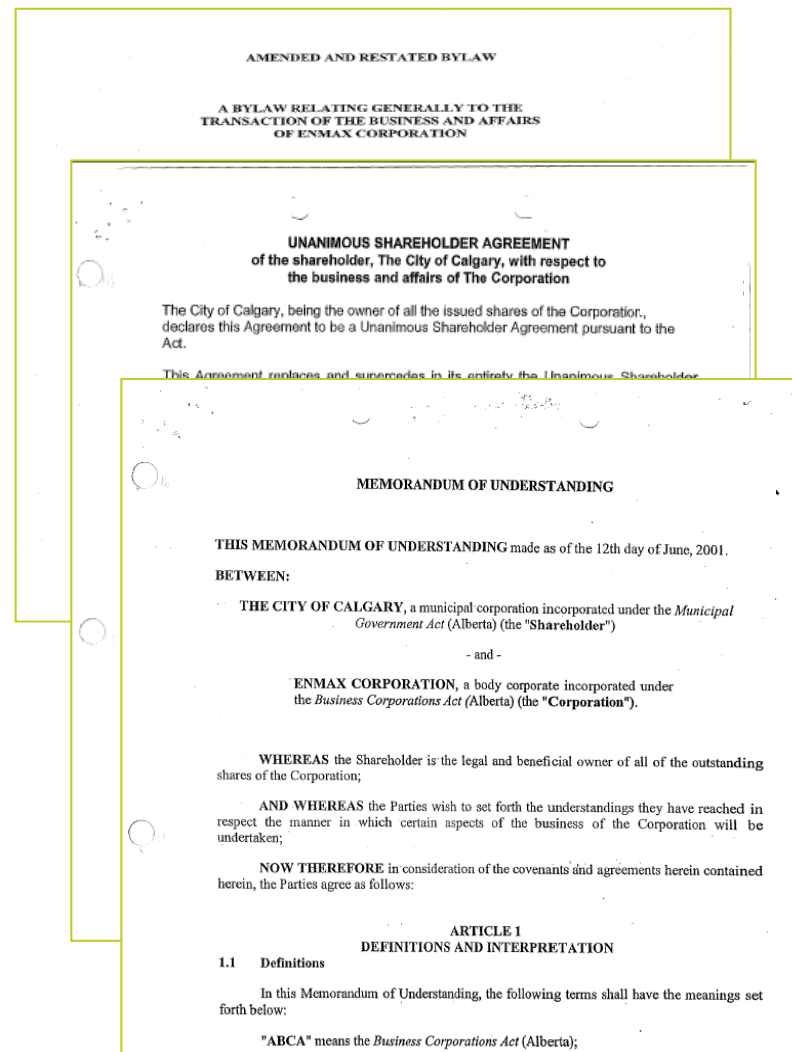
ENMAX's Governance Approach



Shareholder Role & Responsibilities



- Documented mandate, direction and governance framework in place today – **Corporate Bylaws, Unanimous Shareholder Agreement and Memorandum of Understanding with the City**
- **Shareholder Role & Responsibilities**
 - Appointment of Board and Auditor
 - Approval of Annual Budget
 - Approval of Annual Auditor
 - Transaction Approval (over \$75 million)
 - Board Compensation Program Approval
- **Annual Shareholder Meeting**
 - May Annual General Meeting – purpose is to elect the Board and approve annual Financial Statements
 - December In-Camera Meeting – purpose is to receive and approve Board recommendation on ENMAX's Operating Budget



ENMAX Board Role & Responsibilities



Accountable to City Council, the Board is composed of independent business and energy leaders that bring decades of experience to ENMAX (appointed annually at each AGM)

Under the Board's stewardship, ENMAX adheres to Canadian governance standards (in place for public corporations):

- Written mandates for Board, Committees
- Public financial disclosure
- 'No Surprises' communication policy
- Shareholder-approved Board compensation program
- Matrix of skills informs Board planning
- Ongoing public disclosure of ENMAX governance practices, including board and executive compensation

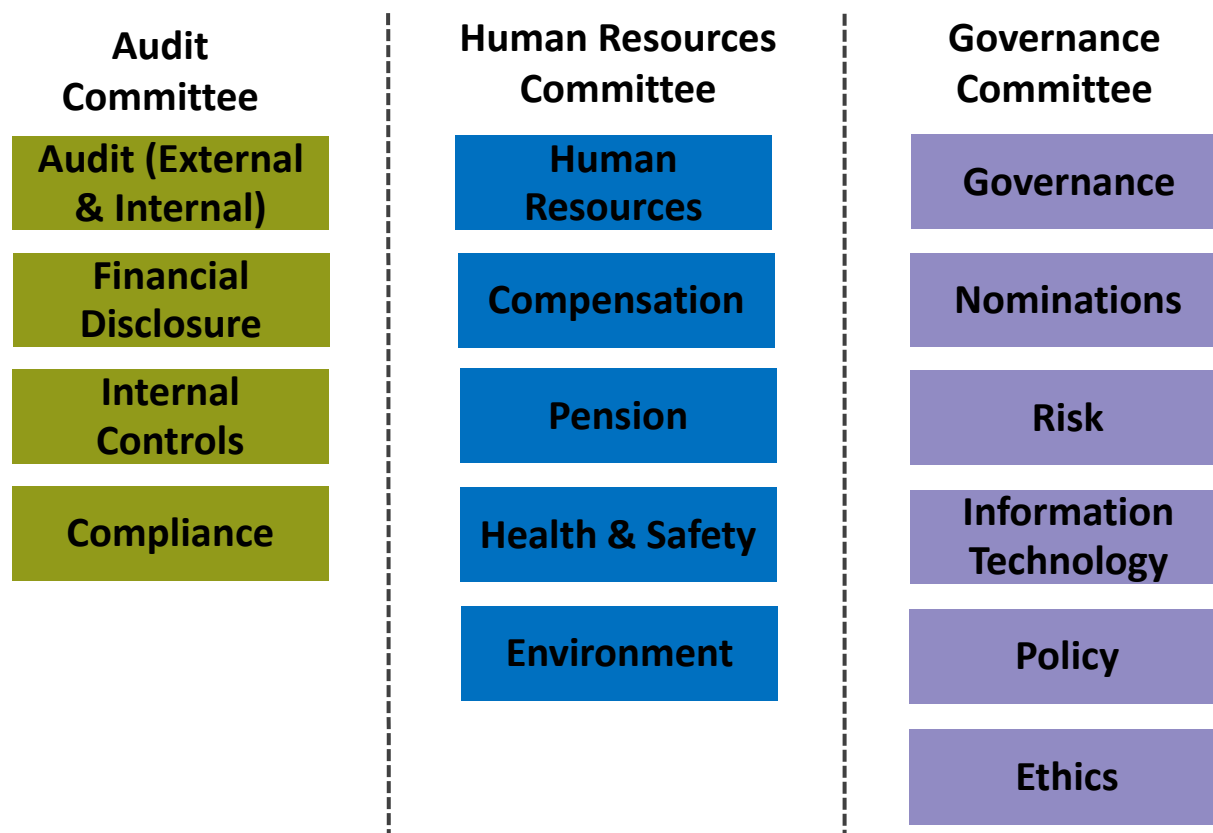


Charles Ruigrok visiting the ENMAX Call Centre, 2017

Board Governance



Three Committee Structure – in place since 2017



The mandates for these committees are publicly disclosed on the ENMAX website along with key policies and governing documents.

Members of the Audit Committee



Chair
Charles Ruigrok
Calgary



Elise Rees
Vancouver



Neil Camarta
Calgary



Richard Shaw
Calgary



Laura Formusa
Toronto



(Ex-officio member)
Greg Melchin
Calgary



Eric Markell
Bellevue, WA

Executive Leadership Team and Shareholder Relations



Gianna Manes
President & CEO



Pat MacDonald
EVP, People and Chief
Human Resources Officer



James McKee
EVP, Energy Services



Dale McMaster
EVP, Power Supply and
Delivery and Chief Operating
Officer



Helen Wesley
EVP, Finance, Information
Technology and Chief
Financial Officer



Erica Young
EVP, Regulatory and Chief
Legal Officer

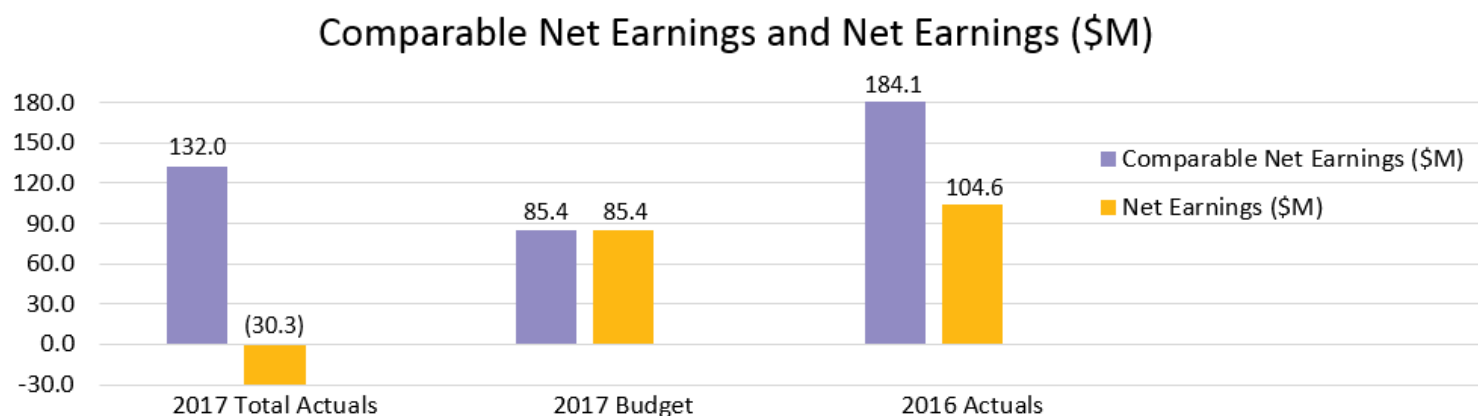


Diana Stephenson
Chief of Staff and
Shareholder Relations

Responsibilities have been rebalanced across the existing management team over the past year.

ENMAX will continue to optimize the composition of our senior leadership team to ensure we have the appropriate balance of skills and organizational capabilities to support our optimization and growth agenda.

2017 Financial Highlights



*Adjusted to remove a one-time \$46.0M tax expense recorded in Q2 2016 due to the derecognition of the \$79.0M BR5 and Keephills PPA Deferred Tax Asset.

ENMAX ended the year with comparable net earnings better than budget but lower than the prior year. The market environment was weaker than 2016, as expected, but ENMAX actively mitigated the impact through:

- Steady performance in the regulated business, with the management of a large capital program and effective use of the EPSC services and manpower;
- Taking advantage of commodity market opportunities;
- Strategic sale of carbon offset credits;
- Effective cost management across the company and higher recoveries; and
- The completion of several long-standing commercial agreements late in the year

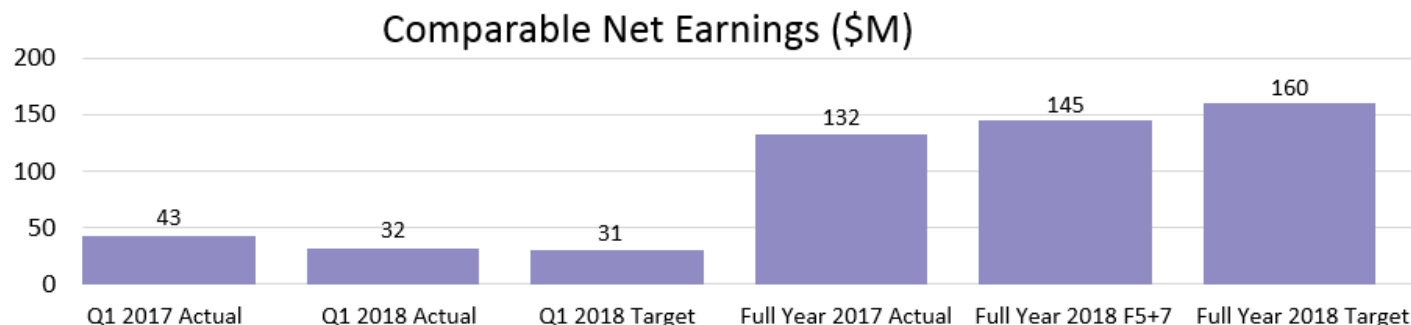
Comparable net earnings were reduced by FX losses as the Canadian dollar strengthened in 2017. These losses are unbudgeted.

Comparable net earnings exclude the \$27.1M one-time Bonnybrook impairment and onerous liability recorded in Q3, and unrealized gas/electricity MTM losses of \$135.2M in 2017 compared to an unrealized gain of \$22.3M in 2016.

The **net loss** of \$30.3M includes the effect of \$135.2M in unrealized MTM losses per above.

** Adjusted to remove a one-time \$46.0M tax expense recorded in Q2 2016 due to the derecognition of the \$79.0M BR5 and Keephills PPA Deferred Tax Asset. Also excluded is a \$4.4M one-time onerous liability provision for Zurich Court.

Q1 2018 Financial Highlights



Q1 comparable net earnings -- weaker than 2017 but approaching target for both Q1 and full year forecast.

Full year forecast and target comparable net earnings expected to be stronger than full year 2017, but under pressure due to softening commodity margins

Operating margins:

- Worse than 2017 largely due to weaker contractual services and miscellaneous revenue from lower emissions offset sales and weather delays affecting project starts
- Expected to be lower than target for balance of the year; better contractual margins to be offset by lower regulatory and electricity margins

Comparable net earnings:

- Slightly worse than 2017 for the reasons already described.
- Q1 actuals in line with target, forecast slightly worse than target as a result of lower margins and higher OM&A costs

Tax Trial outcome:

- Negative outcome of tax trial affecting 14 years of prior earnings resulted in net earnings charge of \$164M, with a \$50M cash impact

Net earnings of (123.1M):

- Include the \$164M impact of the Tax Trial 2 decision, offset partially by a \$12.5M Bonnybrook onerous provision reversal
- MTM commodity losses of \$7.4M and FX gains of \$4.6M

Q1 capital expenditures:

- Below target due to weather delays and the timing of several projects
- Full year forecast on budget after applying a management overview



OUR ROADMAP



VISION

To be Canada's leader in the electricity industry



MISSION

We power the potential of people, businesses and communities by safely and responsibly providing electricity and energy services in ways that matter to them today and tomorrow



SHAREHOLDER VALUE PROPOSITION

Deliver a stable, predictable and growing dividend, enhance long-term value and provide:

- Industry leadership and corporate citizenship
- Safe, reliable products, goods and services
- High standards of efficiency and customer service
- Alignment with City of Calgary economic, environmental and social goals



VALUES

SAFETY

- Nobody gets hurt

INTEGRITY

- Do what's right with courage and conviction

ACCOUNTABILITY

- Own it

SERVICE

- Act with others in mind

TEAMWORK

- Together, we are better and stronger

AGILITY

- Adapt and act

INNOVATION

- Aim high and create possibilities



ENMAX 20/20

An internal initiative that helps us align and adapt to deliver on our Vision, Mission and Shareholder Value Proposition. Our activities cover three areas:

- Advance Culture and Engagement
- Shape the Future
- Drive Effectiveness and Profitability



CORE STRATEGIES

CONTINUALLY IMPROVE OUR PERFORMANCE

by optimizing our use of technology, capital, people and processes

FOCUS CAPITAL INVESTMENT

on growing and expanding our regulated utility asset portfolio to earn long-term predictable, contracted cash flows

PURSUE DOWNSTREAM GROWTH

opportunities in services and businesses that reinforce our connection with the customer

LEVERAGE AND BUILD UPON

our municipal relationships and services experience



THE BIG PICTURE

ENMAX's Vision, Mission, Values, Shareholder Value Proposition and Strategic Objectives form Our Roadmap.

This Roadmap shows what matters to us, how we work and where we want to go.



To support our teams in delivering on the elements of Our Roadmap, ENMAX has developed our Leadership Expectations. Click [here](#) to learn more and put our Expectations into practice today.

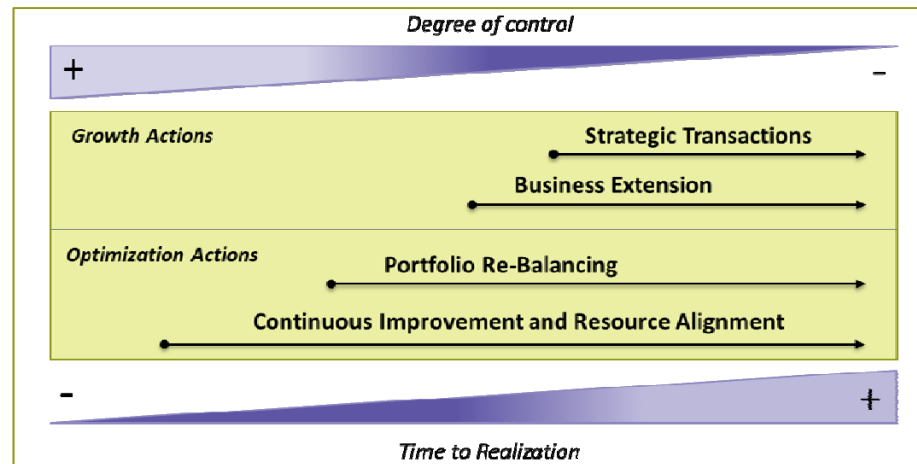
Strategic Direction



Last year we introduced our new strategic direction. We are now in execution mode, focusing on two distinct streams:

- Optimization, and
- Growth

We have made significant progress in the past year but substantial work remains.



Near Term Success Factors & Next Steps

As with most changes in strategy, ENMAX will need to manage this shift intentionally, and reorient the organization to focus resources and attention consistent with the intended direction recognizing that results may take time to be realized. As noted previously, our capability to think in an integrated way and manage through

influence and across boundaries will be critical to our ability to achieving successful execution. Foundational to our success will be alignment with the Board with respect to outcomes in the 2017-2019 period, and measurement of our success in executing this strategy over the longer term.

Action Items to Implement the Strategy

1. Ensure focus is maintained on critical elements in existing business and advance continuous improvement
 - Customer service
 - Regulatory outcomes
 - T&D capital plan
 - Cost control
 - Bitfirst/WAMS Implementation

2. Identify new activities to assess, develop and plan
 - Target identification for utility, services and retail customer growth

3. Reposition organizational resources on highest priorities
 - Skill gap assessment

4. Assess ongoing investments/activities for continuation or discontinuance and develop a plan

- Near-term generation decisions
 - Genesee
 - Renewable builds in Alberta
 - Bonnybrook
- Other capital investments
 - IT project portfolio
 - District Energy

Corporate Activities to Ensure Alignment

- Engage with our Shareholder to ensure alignment with Intended direction
- Communication of strategic direction at all levels in the organization
- Communication of the role/contribution of all in ENMAX's success
- Define metrics to monitor and measure success, and milestones to assess progress

Strategy Risks (as at May 2018)



As discussed in May, our overall risk profile continues to support advancement of our strategic direction.

Core Strategy

#1	Continually improve performance by optimizing our use of technology, capital, people and processes
#2	Focus capital investment on growing / expanding our portfolio of regulated utility assets and assets that earn long-term predictable, contracted cash flows
#3	Pursue downstream growth opportunities in services and businesses that reinforce our connection with the customer
#4	Leverage and build on our municipal relationships and services experience

Locus of Control	High - ENMAX can control / mitigate most aspects
Impact	Short term: low Long term: high

Risk Assessment

Our strategy is the right one	Yes	<ul style="list-style-type: none"> Conditions for success remain <ul style="list-style-type: none"> No course change in strategy or strategic choices as trends Key risks trending unfavourable, but manageable – no need to reassess strategy against risk landscape Signposts and indicators remain supportive of our strategy Capital market players and agencies very supportive of ENMAX's new strategy Continued market transactions for regulated / contracted assets – multiples 'rich' at this time
We can execute against it	Yes	<ul style="list-style-type: none"> 2018 Business Plan will continue move towards a platform for growth <ul style="list-style-type: none"> Facilitates strategic choices Examine all assets, cost structure, talent, technology platforms EPSC growth plan – part of 2018 BP Uncertain U.S. market requires very careful monitoring for any geography diversification
Metrics	Yes	<ul style="list-style-type: none"> Strategic Outlook indicates optimization and growth is necessary to achieve strategic financial targets.
<div> <div>Trend </div> <div>May18</div> <div> </div> </div>		

Risk	Trend
Customers	
External Environment	
Financial	
Operational	
Owner / Shareholder	
People	
Policy / Government	
Regulatory	
Safety	
Security	

- Strategy is oriented to deliver a successful future – a business that thrives despite risks
- Risk is opportunity
- Likely the slowest moving risk

Optimization



We are taking a strategic approach to optimization across the enterprise – not one size fits all.

We engaged PwC to complete a review of ENMAX's opportunities for cost reduction and cost re-allocation, following their model depicted below. The PwC methodology categorizes costs into those "not being required", ranging to those that provide differentiation and incremental value. The analysis of ENMAX's cost structure showed a similar mismatch to those PwC typically works with – requiring a shift of costs into activities which will create additional value. The optimization plans now underway are aimed at resolving this mismatch.

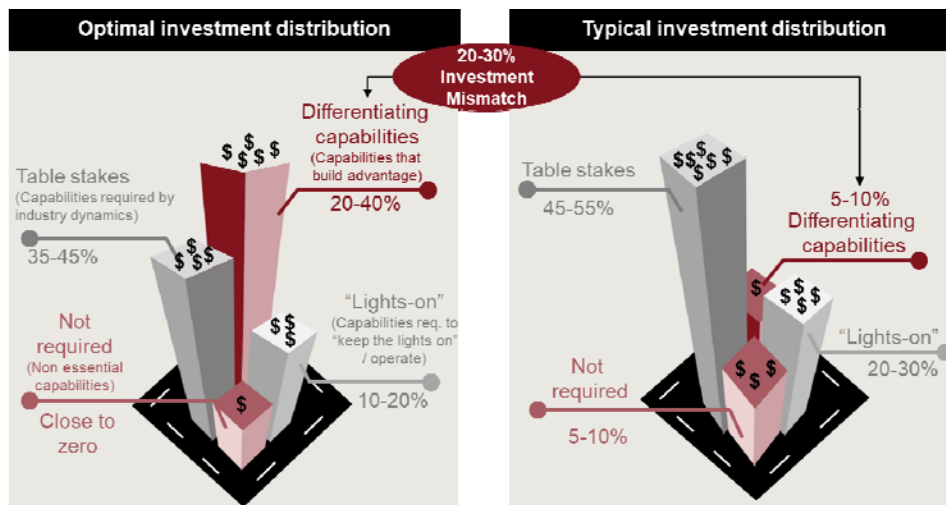
Power Delivery has initiated a comprehensive, multi-faceted plan with a dedicated team & leadership to achieve target ROE under the new PBR parameters. This program includes not only significant cost reductions, but also targeted revenue improvement and capital optimization opportunities.

Power Supply will continue activities started in 2017, and along with Power Delivery, will create an enhanced focus on asset management practices and spend.

Optimization in IT will be driven by a transformation of the function following on the recommendations provided by PwC to drive significant and sustainable cost reductions across the enterprise.

Given the growth mandate in Energy Services, optimization activities will allow for redeployment of constrained resources into higher-value activities and capabilities that will help to differentiate us in line our strategy.

We are also analyzing options for **potential rationalization** of our generation asset portfolio – while retaining supply for our retail portfolio.

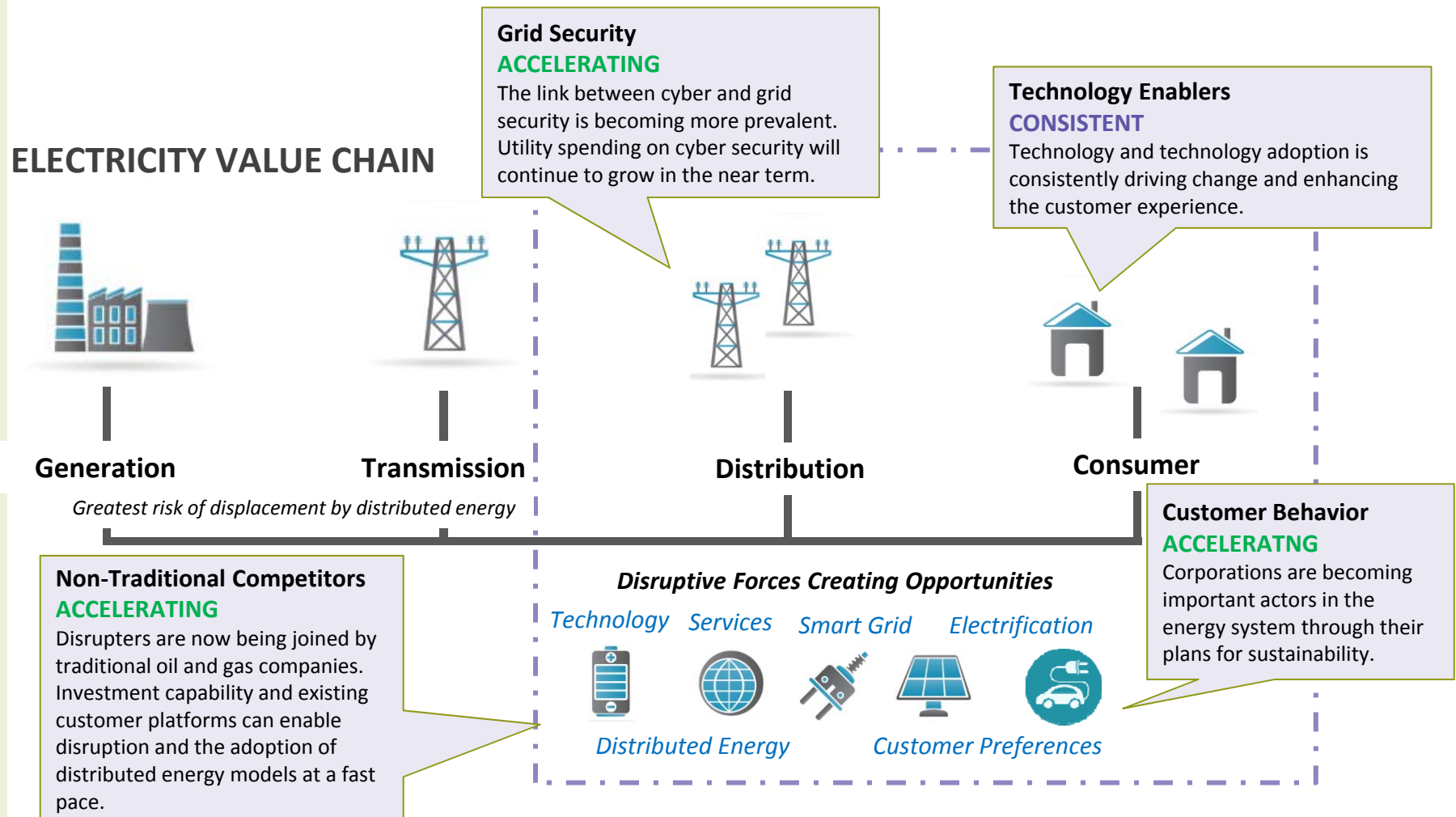


Implications to ENMAX



The trends identified during last year's strategic review **continue to be relevant**. Technology, customer demands and disrupters to the traditional value chain continue to drive change in the electricity value chain.

Customers continue to be enticed by non-traditional competitors, and incumbent distribution companies will continue to hold a significant investment opportunity in grid modernization and adapting to distributed energy models.



Top Risks – Q1 2018

Arrows indicate trending; however, assessment may not have change quarter-over-quarter



Majority of risks are unchanged; however, there is increasing trend to increasing risks

Risk	Assessment	Volatility
Customers		Velocity: slow Duration: long
External Environment		Velocity: moderate Duration: long
Financial		Velocity: moderate Duration: long
Operational		Velocity: moderate Duration: short
Owner / Shareholder		Velocity: moderate Duration: long
People		Velocity: moderate Duration: short
Policy / Government		Velocity: immediate Duration: long
Regulatory		Velocity: immediate Duration: long
Safety		Velocity: moderate Duration: long
Security		Velocity: immediate Duration: short

Emerging Risks and Watch List

Further to our previous Board discussions, Management has included a list of others risks and/or emerging threats (opportunities) that we follow beyond our top risks. Many of these are correlated with the top risks, and can impact aspects of our strategy and operations.

Disruptors and Innovations

Disrupter / Innovation	Description	Time to Impact	Velocity	Impact
Load Defection	Customers technology interaction materially reduces / alters demand or demand pattern (smart home, LED, etc.)	Near	M	M
Smart and Micro Grids	Change traditional utility model with control transfer to customers (demand, supply sourcing, bi-directional power flow, micro grids)	Med	H	H
Renewables	Increasingly cost-competitive low cost renewable generation	Med	M	H
Storage	Significant change in storage capabilities (both cost and capability)	Med	H	H
Electric Vehicles	Alter demand profile with potential for material load growth	Med	H	M
Data Complexity	Large increases in data produced - recognition of the value to extract from this data in serving customers	Med	H	L
Regulated Rate Design	Net metering and micro-gen may change how regulated entities earn returns	Med	M	M
Block Chain / Crypto Currency	Technology associated with assets and services is a faster growing part of all products and services	Near	M	M

Future Potential Opportunities

- Block chain
- Crypto currency

Specific Threats / Opportunities

Risk	Description
Data Mining	Crypto currency technology / mining increases load – possibly cannibalizing greater overall societal energy requirements
NAFTA	Potential for material changes to, or possible elimination
2019 Alberta Election	Possible change of control - potential for Policy and Regulatory changes
Social License	Potential evolution away from ‘traditional’ utility erodes customer support (e.g. negative perception for green house gas emitters)
Trade issues with British Columbia	Trans Mountain pipeline creating repercussions in regional and federal jurisdictions - potential economic implications
Gov’t Rate Cap	May erode relevance of fixed price contracts to offset market price volatility - reduced small customer incentive to sign fixed price contracts
Privacy	Ever increasing requests for customer data (stats can) and security risk around the data
Regulatory	The California regulator denied recovery of \$379m for damages paid by San Diego Gas & Electric to homeowners related to three fires - on the basis that SDG&E did not prove that it reasonably operated and maintained its facilities