

ENMAX CORPORATION

City of Calgary Audit Committee Meeting
June 27, 2019



we're on for you®

ENMAX's Governance Approach



Governance Role & Responsibilities



ENMAX's Shareholder

- ENMAX is a private corporation incorporated under the Alberta Business Corporations Act whose sole shareholder is The City of Calgary.
- Calgary's City Council acts in the capacity of the Shareholder on behalf of Calgarians.
- ENMAX does not receive funding from The City of Calgary—we generate our own revenue and profits, and maintain a separate financial standing and credit rating. Each year, ENMAX strives to pay a stable, predictable and growing dividend to the Shareholder consistent with the annual net earnings of ENMAX.

ENMAX Board of Directors

- Governed by governed by a Board of Directors, comprised of industry, business and community leaders elected annually by Shareholder.
- Accountable to the Shareholder to ensure we operate in a prudent and transparent manner that reflects ENMAX's commitment to accountability and corporate responsibility.
- Board selection and appointment process is

guided by a skills matrix to ensure we have the director expertise and experience required to govern ENMAX effectively.

Shareholder Engagement

- Ongoing communication and engagement with The City of Calgary is an integral part of ENMAX's philosophy of good governance.
- We communicate with our Shareholder regularly on a variety of business matters, meeting quarterly in person and by phone, and convening a public Annual Shareholder Meeting and an in-camera meeting to review our forward business plans.
- The Chair of our Audit and Finance Committee meets with The City's Audit Committee annually.

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)

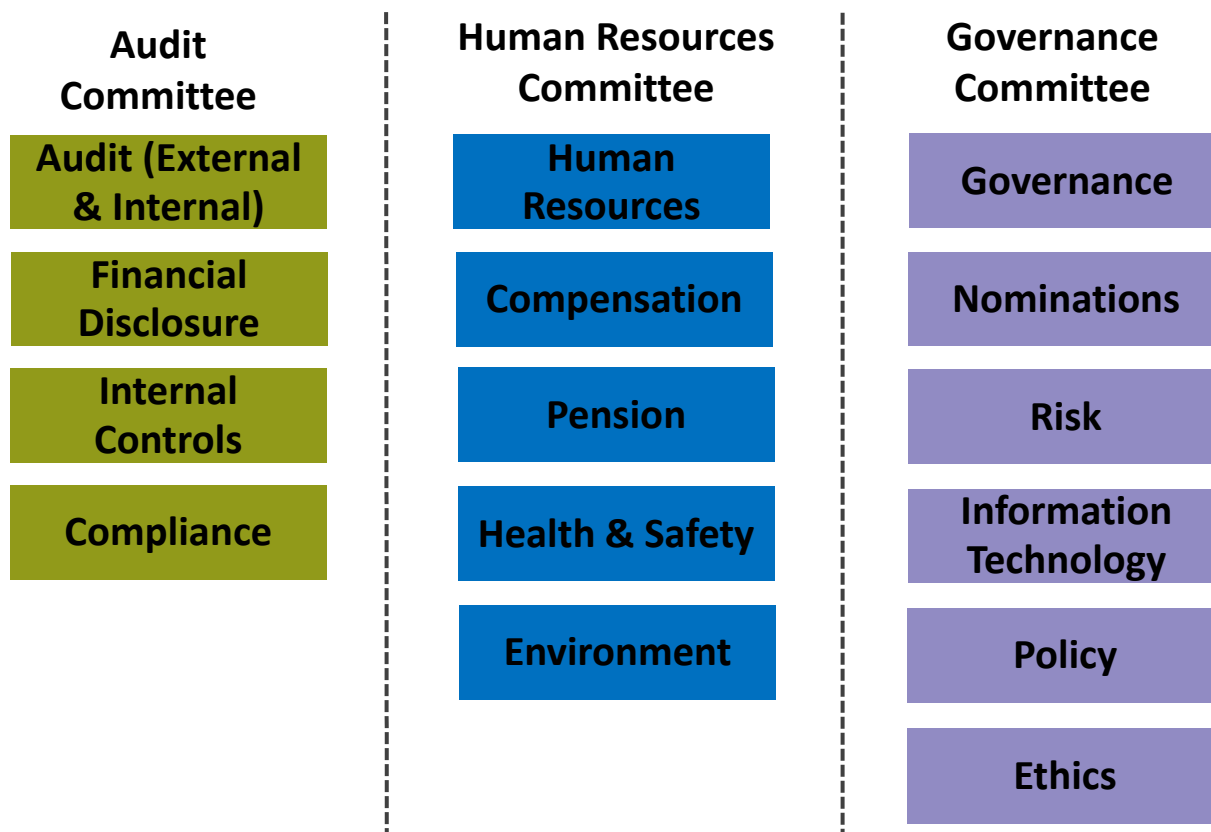
Under the Board's stewardship, ENMAX adheres to Canadian governance standards (in place for public corporations):

- 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

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

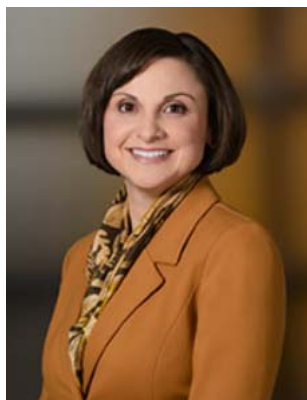


(Ex-officio member)
Greg Melchin
Calgary



Eric Markell
Bellevue, WA

Executive Leadership Team and Shareholder Relations



Gianna Manes
President & CEO



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



James McKee
EVP, Energy Services



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



Erica Young
EVP, Regulatory and Chief
Legal Officer



Brandie Yarish
VP, People and Culture and
Chief Human Resources
Officer



Diana Stephenson
VP, Public Affairs

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.

Strategic Measures - Progress

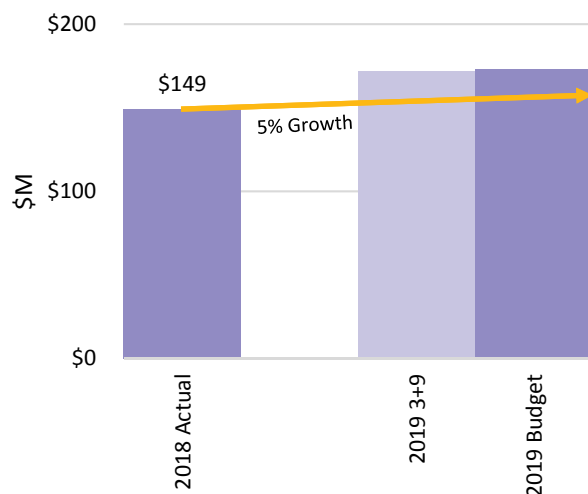


We are on track to meet or exceed targets set for all of our strategic measures

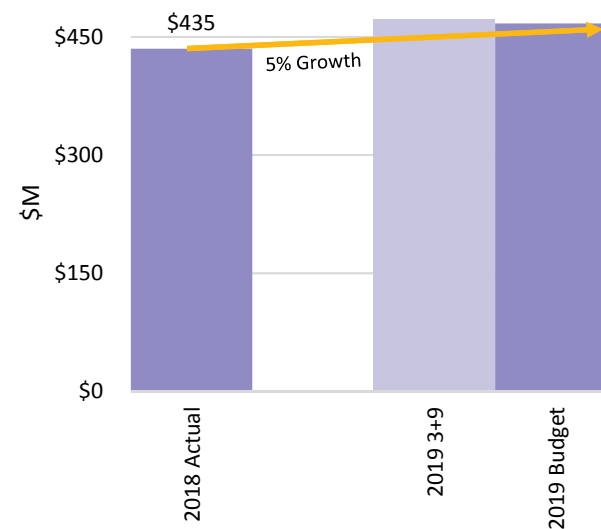
STRATEGIC MEASURES (\$ million)	2018 A	2019 outlook
Annual Dividend Growth of at least 5%	\$45*	✓
Annual Average Net Earnings Growth of 5%	\$149	✓
Annual Average EBITDA Growth of 5%	\$435	✓
ROCE that exceeds WACC	5.9%	✓
Improvement in Earnings Quality	52%	✓

* Based on 30% of net earnings. Actual declared dividend for 2018 was \$50M.

COMPARABLE NET EARNINGS



EBITDA



Earnings and EBITDA are both close to budget and are well above the 5% growth target.

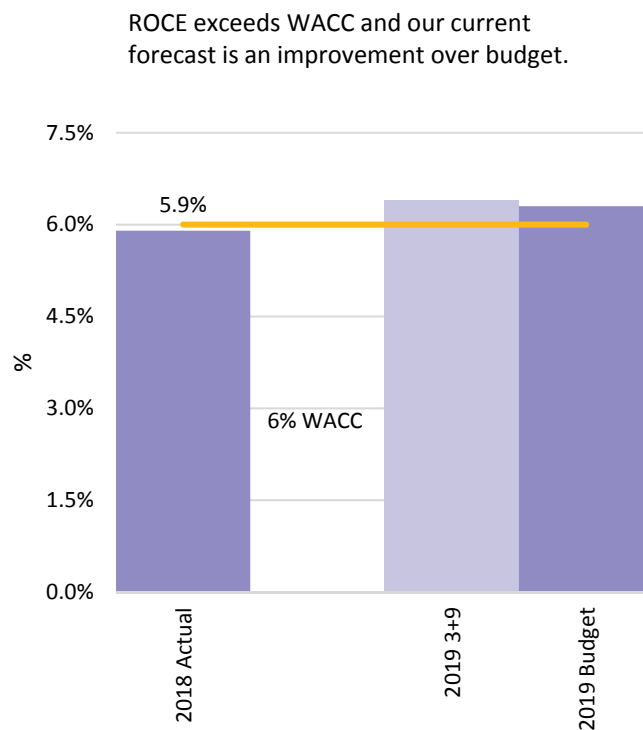
Note: Figures exclude costs associated with the acquisition of Emera Maine



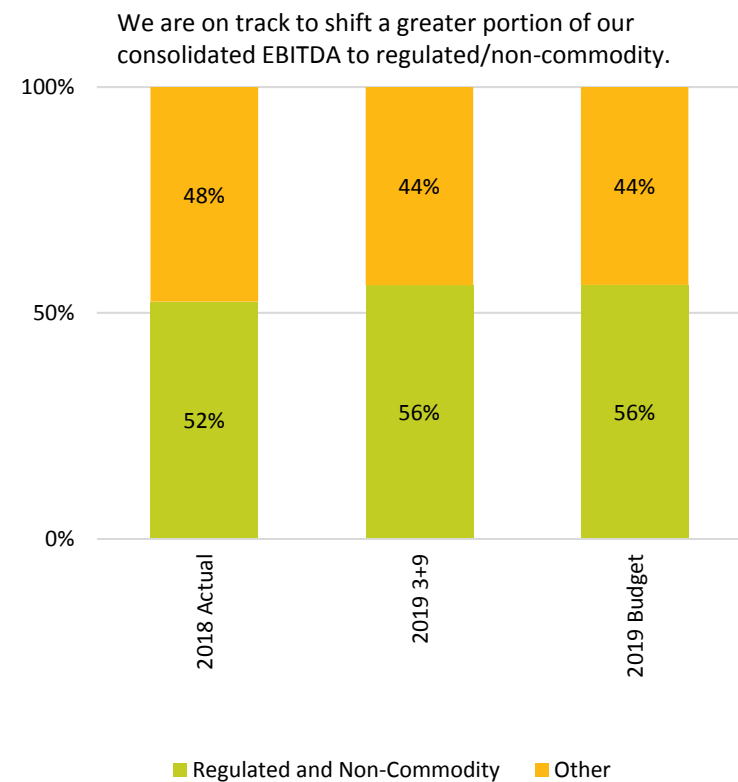
Strategic Measures - Progress

We are expecting to meet our strategic measures of ROCE exceeding WACC and improving our earnings quality by moving towards a larger portion of our EBITDA coming from our regulated and non-commodity business

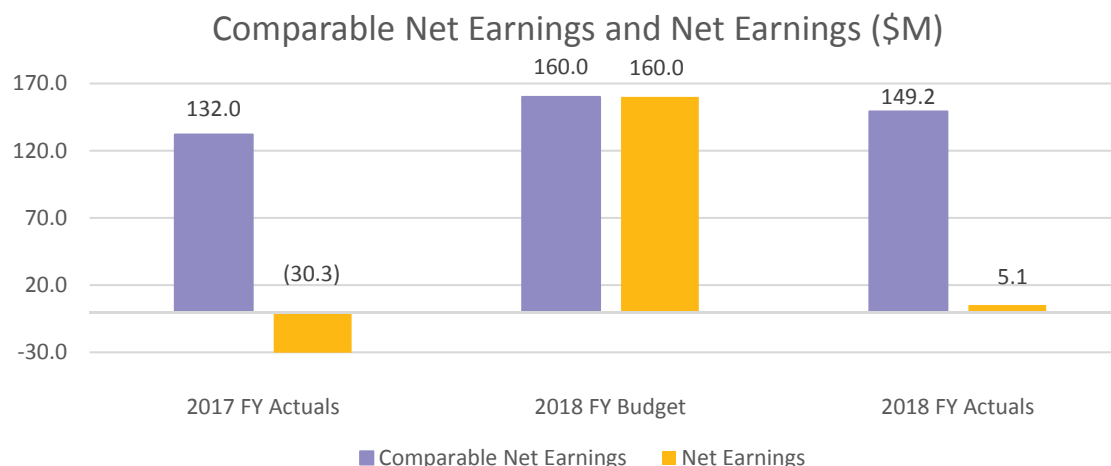
ROCE



IMPROVEMENT IN EARNINGS QUALITY (EBITDA)



2018 Financial Highlights



ENMAX ended 2018 with comparable net earnings (CNE) unfavourable to budget but better than the prior year.

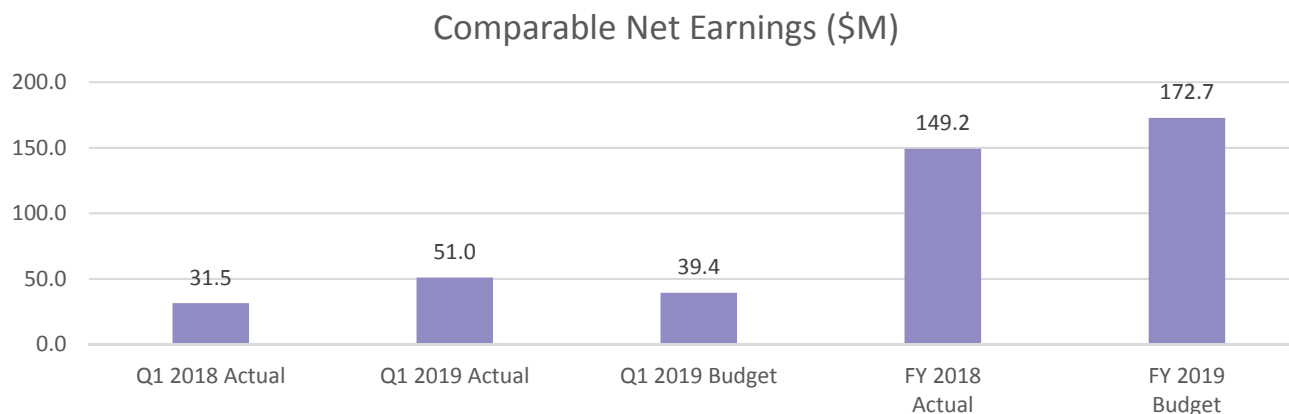
2018 CNE results relative to Budget: The 2018 budgetary shortfall is largely due to unbudgeted strategic initiatives that begin to provide a return on investment in 2019. A significant regulatory decision did not transpire as expected during the year and the Alberta Court of Appeal decision to overturn the lower court decision on Tax Trial 2 resulted in ENMAX being held responsible for the Crown's court costs, which was not anticipated.

Operationally, competitive business contractual services margins fell short of budget from less telecom work and lower distribution work contracted from ENMAX's regulated business. The regulated business delivered better margins mostly from the Shepard Interconnection transmission project approval.

2018 Net Earnings were reduced by \$164.3M related to the Alberta Court of Appeal decision on Tax Trial 2 and \$24.7M of impairment of District Energy (DE9) and Combined Heat and Power (CHP) assets. These were partially offset by the \$20.0M negotiated settlement of Tax Trial 3, \$12.4M of net unrealized gas/electricity MTM gains and foreign exchange gains, and \$12.5M from a negotiated settlement related to Bonnybrook. All of these items were not budgeted.

2017 net loss of \$30.3M includes the effect of \$135.2M in unrealized MTM losses and a \$27.1M impairment and onerous liability associated with Bonnybrook. **2017 CNE** of \$132.0M does not include these items.

Q1 2019 Financial Highlights



Q1 2019 comparable net earnings (CNE) is stronger than Q1 2018 and Q1 2019 budget.

Operating margins:

- Q1 2019 operating margins significantly improved over Q1 2018 due to a recovery in contractual services margins and advantage taken with respect to market opportunities in our unhedged position during cold weather in February 2019
- Relative to budget, Q1 2019 operating margins exceeded expectations on electricity margins due to the market opportunities and on regulatory margins due to the timing of an AUC decision

Net OM&A costs:

- Q1 2019 net OM&A is better than budget due to accelerated cost reductions from the PD transformation initiated in Q4 2018

Our Strategic Direction



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 and contracted cash flows.



Pursue growth

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



Build upon

our municipal relationships and services experience.

Our progress to date:

Growing the regulated business

- Announced the acquisition of Emera Maine, a regulated transmission and distribution business (estimated close is late 2019¹).
- Forecasting ~8% annual rate base growth and ~9% annual growth in EBITDA in Power Delivery.

Strengthening our competitive business

- Maintaining a leading retail customer book that is served by low-cost supply from our generation assets.
- Forecasting free cash flow growth through improved margins and lower capital spending.

Improving financial performance

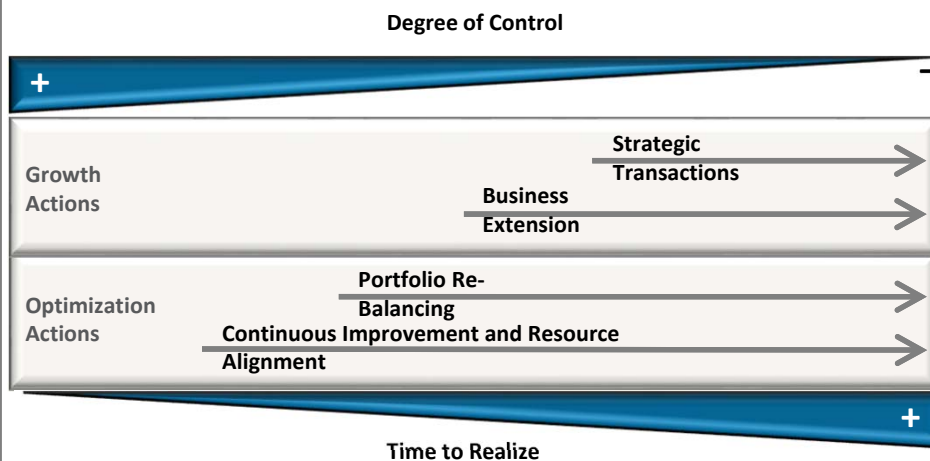
- Improving our risk profile by increasing the proportion of EBITDA from regulated and contracted cash flows from ~55% in 2019 to ~70% by 2021.
- Committed to maintaining our existing credit rating.

¹ For modelling purposes, we assumed Jan. 1, 2020

Executing Our Strategy



Optimization and Growth

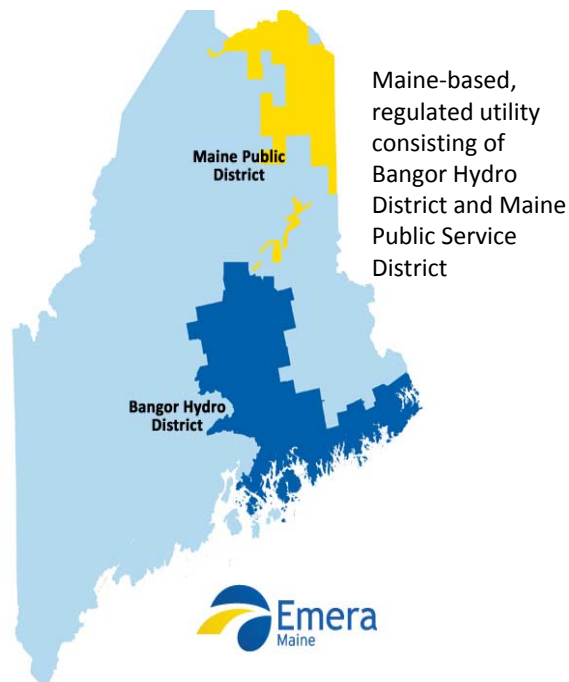


Transformative Transaction Criteria

	Element	Criteria
✓	On Strategy	Regulated / contracted cash flows and 'close to the customer' revenue streams
✓	Geography	Canada and continental U.S.
✓	Location in Value Chain	No merchant generation No stand-alone transmission
✓	Operating Interest	We operate
✓	Cash Flow	75%+ regulated or long-term contracted cash flow
✓	Immediacy of Cash Flows	Immediate with closing (no development projects)
✓	Step Out	No 'two news'
✓	Business Extension	No 'one and done'
✓	Materiality	Substantive in and of itself, or that we can leverage into

We set out to **focus on optimization** and **organic growth** while seeking **transformative transactions** using a clear set of criteria to ensure a **disciplined approach**.

Acquisition of Emera Maine



- ✓ Regulated electric distribution and transmission utility
- ✓ ~US\$1.3 billion, including assumption of ~US\$350M debt
- ✓ Favourable ROE and deemed equity
- ✓ Rate base growth
- ✓ No generation and no retail customers or competitive customer presence
- ✓ ~400 employees
- ✓ Similar values and culture
- ✓ Closing expected end of 2019

Regulated Rate Base	~U.S. \$700M
Distribution Regulated by Maine PUC	Transmission Regulated by FERC
15,000 km	1,800 km
Allowed ROE: 9.35%	ROE: 10.57%- 11.74%
48% equity in capital structure	62% equity in capital structure
2017 Rate Base ~U.S. \$300M	2017 Rate Base ~U.S. \$400M

This transaction aligns with ENMAX's strategy to **grow regulated and contracted cash flows**, provides access to the **growing Northeast U.S. energy market**, and is **immediately earnings accretive**. There is no impact to City of Calgary ratepayers as a result of this transaction.

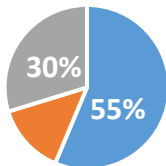
Lowens Business Risk



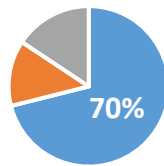
Acquisition lowers ENMAX's overall business risk by increasing regulated assets significantly and providing geographic and regulatory diversity

Improved earnings quality and lower cash flow volatility

2019 Budget - ENMAX
EBITDA



2021 Proforma - ENMAX +
EM EBITDA



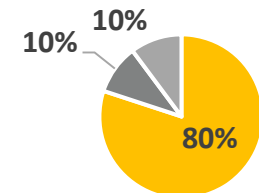
■ Regulated and non-commodity ■ Energy Services (Retail) ■ Commodity (Power Supply)

Regulatory and geographic diversification

2019 Budget - ENMAX
only



2021 Proforma - ENMAX
+ EM



■ Alberta Utilities Commission ■ Maine PUC ■ FERC

Positive regulatory construct

	Alberta	Maine
Return on equity	8.50%	9.35 - 11.74%
Allowed equity	37%	48 - 62%

Timeline to Close



Four out of six filings have been made

	Regulatory Agency	Nature of Approval or Clearance Required	Filing Date
	Hart-Scott-Rodino (“HSR”)	<i>U.S. Antitrust Legislation</i>	~Jun 24
✓	Nuclear Regulatory Commission (“NRC”) ¹	<i>Approve ownership interest in nuclear facilities</i>	Apr 22
✓	Federal Energy Regulatory Commission (“FERC”)	<i>Approve sale of a public utility</i>	Apr 24
	Federal Communications Commission (“FCC”)	<i>Approve wireless licenses transfer (for system ops)</i>	Aug 1
✓	Committee on Foreign Investment in the United States (“CFIUS”)	<i>Foreign Investment Approval</i>	May 29
✓	Maine Public Utilities Commission (“MPUC”)	<i>Approve sale of a public utility</i>	May 7

Closing

- We estimate it will take approximately nine months to secure necessary approvals.
- Maine PUC approval, the most critical approval, was filed May 7.

Transition to post-close

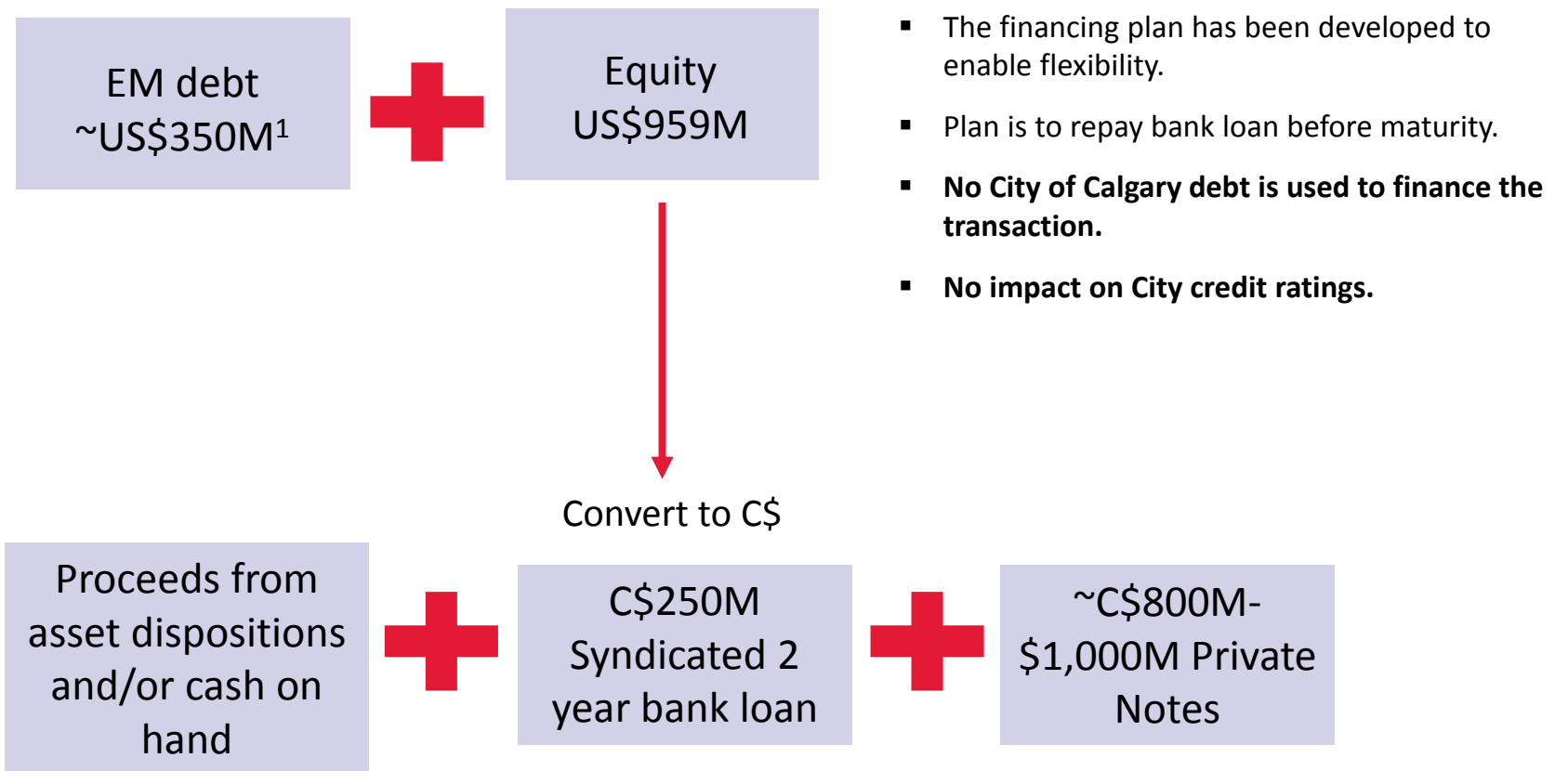
- Transition plans are in progress. EM operates mostly as a standalone entity with some support provided by Emera (ie, internal audit, payroll, cash management, pension management). ENMAX’s intent is to maintain operations and service provisions as status quo initially and over time review opportunities for improvement in due course.

¹ Emera Maine was a minority owner (12%) of Maine Yankee Atomic Power Company, which operated a 900 MW nuclear generating station that began operations in 1972. Decommissioning of the plant was completed in 2005 and spent fuel is stored on part of the former site, pending future transfer by the Department of Energy to permanent geologic storage. Environmental compliance (e.g. site safety and security) and remediation costs are recoverable via ratepayers and the Department of Energy.

Emera Maine Acquisition Financing Plan



Purchase price of ~US\$1.3 billion



- Purchase price is comprised of US\$959M in equity plus assumption of ~US\$350M of Emera Maine debt.
- The financing plan has been developed to enable flexibility.
- Plan is to repay bank loan before maturity.
- **No City of Calgary debt is used to finance the transaction.**
- **No impact on City credit ratings.**

Credit Rating Agencies Engagement



We are maintaining on-going dialogue with the rating agencies to ensure they are fully informed

S&P published the core financial ratios they measure as follows:

S&P Core Ratios – Financial Risk	Funds From Operations (FFO)/Debt (%)	Debt/EBITDA (times)
Significant	13-23	3.5-4.5
Aggressive	9-13	4.5-5.5
Highly leveraged	Less than 9	Greater than 5.5

- S&P considers our current financial risk profile as 'Aggressive'. We understand that in order to match our utility business profile, S&P may use FFO/Debt as our key metric going forward. Utility business metrics allow for higher leverage levels given the prescribed capital structure.
- DBRS has published an updated news release in June without changing the rating or outlook. S&P is expected to publish an update prior to ENMAX coming to market in the fall
- We continue to work with DBRS and S&P to ensure they understand our plans to de-lever post closing in an effort to maintain our existing ratings.

Due Diligence Overview and Risk Assessment



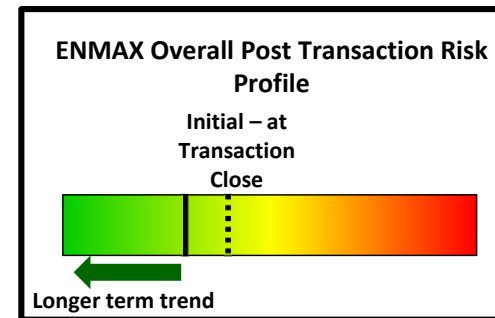
Data room, management presentations, site visits, and follow-up meetings

Management undertook thorough due diligence supported by a team of highly experienced advisors covering:

- ✓ Operations and Assets
- ✓ Customer Care and Billing
- ✓ Safety and Environment
- ✓ Regulatory
- ✓ Accounting, Finance, and Tax
- ✓ Treasury
- ✓ Information Technology
- ✓ Human Resources
- ✓ Legal and Governance

There were no material unmitigated risks or concerns identified.

The key business risks identified for EM are typical amongst utilities and across jurisdictions. Many of the elements of the risk profile are similar between ENMAX and EM. Therefore, ENMAX is comfortable managing and mitigating the risks identified.



In the longer term, our financial risk profile will be lower due to risk diversification along with a high portion of our business operations being regulated and non-commodity exposed.