

## Energy+ Inc.

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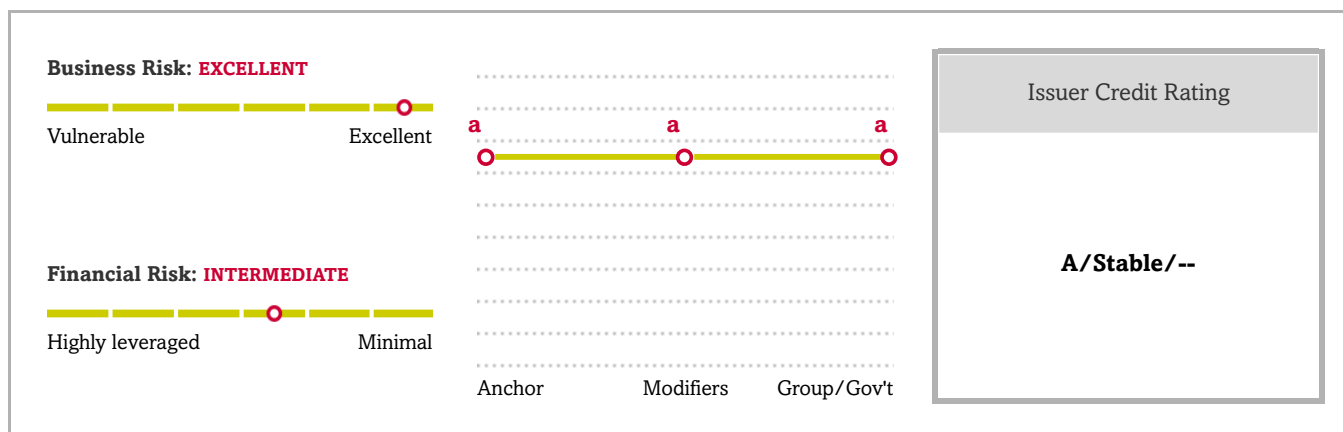
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# Energy+ Inc.



## Credit Highlights

Overview	
Key Strengths	Key Risks
Fully regulated electric distribution utility with minimal unregulated operations.	Large capital program in 2020 and 2021 that could pressure credit metrics in the short term.
Stable regulated cash flow under a generally supportive regulatory regime.	Lacks operational diversity because it operates mainly in the City of Cambridge, Ontario, making the company reliant on its regulator--the Ontario Energy Board--to sustain its credit quality.
Large residential and municipal, university, school, and hospital (MUSH) customer base that is less sensitive to macroeconomic factors.	

**Large capital-spending plan over the outlook period.** Energy+ Inc. (E+) has a large capital program to execute in 2020 and 2021 that will pressure credit metrics in the short term. This includes the construction of shared operations facilities in 2020 for about C\$4.4 million and a new administrative office in 2021 for about C\$8.1 million (occupancy in 2022).

**Lack of geographical and regulatory diversification.** E+ serves about 66,000 customers, mostly in the city of Cambridge, Township of North Dumfries, and Brant County, all in the province of Ontario. We consider Ontario to be a relatively strong regulatory jurisdiction, supporting the company's excellent business risk. However, compared with other utilities, E+ has a small customer base and lacks geographic and regulatory diversity. As a result, we consider E+'s business risk to be at the lower half of the excellent range compared with that of its utility peers.

**Fully regulated utility with favorable customer mix.** E+ is a fully regulated electric distribution utility with minimal unregulated operations. The utility's unregulated operation is mostly street-lighting services, which we believe complements the distribution business and is immaterial to the rating. In addition, despite its small customer base, most of E+'s customers are in the residential and MUSH sectors, which we consider more favorable because their electricity consumption is fairly stable and less sensitive to economic cycles.

**Outlook: Stable**

The stable outlook reflects S&P Global Ratings' assessment of E+'s predictable and stable cash flows from its low-risk, regulated distribution business over the next two years. The outlook also reflects our expectation that management will continue to focus on its core regulated business and that the company will not experience any adverse regulatory decisions during our two-year outlook horizon. During our outlook period, we expect adjusted funds from operation (FFO) to debt of about 14%-15% in 2019 and 2020, before temporarily declining to about 12%-13% in 2021 due to high capital spending.

**Downside scenario**

Although unlikely, we could lower the rating over the next 12-24 months if a material adverse regulatory ruling or a significant increase in leverage leads to a sustained deterioration in E+'s forecasted financial measures, including FFO to debt falling below 13% with no prospects for improvement.

**Upside scenario**

We could raise the rating on E+ over the next 12-24 months if the company demonstrates long-term sustainable growth or improves its financial measures, resulting in FFO to debt that is consistently near or above 23%.

**Our Base-Case Scenario**

Assumptions	Key Metrics												
<ul style="list-style-type: none"><li>• The regulatory regime remains stable, and E+ will not experience any material, adverse regulatory decisions.</li><li>• The company will earn close to its allowed return on equity, based on the deemed capital structure.</li><li>• Customer growth will be about 1.0%-1.5% in 2019-2021.</li><li>• Capex totals about C\$53 million in 2019-2021, including the new shared operations facilities and office building.</li><li>• Dividend policy remains unchanged at 50% of previous-year net income.</li></ul>	<table><tr><th></th><th>2018A</th><th>2019E</th><th>2020E</th></tr><tr><td>FFO to debt (%)</td><td>15.19</td><td>14-15</td><td>14</td></tr><tr><td>OCF to debt (%)</td><td>17.07</td><td>15-18</td><td>15-18</td></tr></table> <p>A--Actual. E--Estimate. FFO--Funds from operations. OCF--Operating cash flow.</p>		2018A	2019E	2020E	FFO to debt (%)	15.19	14-15	14	OCF to debt (%)	17.07	15-18	15-18
	2018A	2019E	2020E										
FFO to debt (%)	15.19	14-15	14										
OCF to debt (%)	17.07	15-18	15-18										

## Company Description

E+ owns and operates the electricity distribution system in its licensed service areas in the City of Cambridge, Township of North Dumfries, and Brant County, Ontario.

The company is 100% owned by Cambridge and North Dumfries Energy Plus Inc., which is 92.1% owned by Cambridge and 7.9% by North Dumfries.

E+ provides service to approximately 66,000 customers. It also provides low-voltage facilities to Hydro One and Waterloo North Hydro.

## Business Risk: Excellent

Our assessment of E+'s business risk profile largely reflects its low-risk electricity distribution operations and our view of its management of regulatory risk.

The utility continues to operate under a supportive regulatory regime. The Ontario Energy Board is the provincial regulator and provides a generally transparent, consistent, and independently operated regulatory framework that supports a stable and predictable cash-flow model. We view this as a key credit strength. In addition, local distribution companies in Ontario, including E+, have no obligation to ensure an adequate supply of electricity and are not exposed to the procurement process, including power purchase agreements, which reduces operating risk. Furthermore, E+ has limited exposure to commodity risk because its electric cost is fully passed-through to its ratepayers.

Further supporting our business risk profile assessment on E+ is the company's stable customer base, which largely consists of residential, small business, and MUSH customers, who are less sensitive to macroeconomic stresses and business cycles. Nonetheless, E+'s residential customer base has some sensitivity to volume fluctuations, primarily weather-driven. However, we expect the pending change toward 100% fixed-charge distribution rates by 2020 will mitigate this volume risk exposure. Other offsetting factors include the company's relatively small customer size, limited geographic footprint, and exposure to a single regulatory regime.

## Financial Risk: Intermediate

We assess E+'s financial risk profile using the low-volatility financial benchmark table, reflecting the company's lower-risk regulated electric distribution operation and effective management of regulatory risk.

The company's recently received rate decision will provide cash-flow stability and visibility for the next five years. In the rate decision, the regulator approved C\$6.5 million out of the C\$8.1 million requested for its new administrative office. E+ will have the opportunity to recover the remaining amount in a subsequent rate application when the project comes into service.

We expect the company's credit metrics will come under stress temporarily in 2020 and 2021 as the utility executes its

large capital program, including the shared operations facilities and new administrative office.

Under our base-case scenario, which includes capital spending totaling about C\$53 million from 2019-2021 and dividends of about C\$3 million each year, we expect adjusted FFO to debt of about 14%-15% in 2019-2020 before dipping to about 13% in 2021.

## Liquidity: Adequate

We view E+'s liquidity as adequate. We expect that liquidity sources will be adequate to cover uses by more than 1.1x over the next 12 months. We also expect that in the event of a 10% EBITDA decline, the company's sources of funds would still exceed its uses and the company would not breach its covenant limits. In our view, Energy+ has sound relationships with its banks and generally prudent financial risk management. In the unlikely event of unexpected financial stress, we believe Energy+ would scale back on its capex. We also believe that it has the flexibility to suspend dividend payments to preserve its credit metrics.

Principal Liquidity Sources	Principal Liquidity Uses
<ul style="list-style-type: none"> <li>Committed credit facility availability of C\$30 million as of June 30, 2019; and</li> <li>Cash FFO of about C\$13 million.</li> </ul>	<ul style="list-style-type: none"> <li>Debt maturity of about C\$6.0 million, including short-term debt as of June 30, 2019;</li> <li>Capex of about C\$16 million; and</li> <li>Dividend payment of about C\$3.5 million.</li> </ul>

## Environmental, Social, And Governance

We consider E+'s environmental footprint in the broader context of environmental, social, and governance (ESG) factors. E+'s exposure to environmental risk is quite manageable compared with that of its peers because electric-distribution-only companies are more favorably positioned than their counterparts with owned power-generation assets or that operate gas utilities. From a social perspective, E+ has a history of providing safe and reliable electricity to its customers, which should enable it to maintain social cohesion. Governance factors are neutral. E+ has an independent board of directors that, in our view, is capably engaged in risk oversight on behalf of all stakeholders.

## Government Influence

We continue to believe there is a low likelihood that E+'s municipal owner, the City of Cambridge, will provide timely and extraordinary support during periods of financial distress. Although the utility is important to the city as the

monopoly owner and operator of the electricity distribution network in Cambridge, the province, not the city, has oversight of electricity regulation, including tariff setting. In addition, an investor-owned entity can undertake E+'s role, if necessary. Furthermore, the city does not have any formal policy or track record of providing financial relief or support to the utility. For these reasons, we view the likelihood of extraordinary government support for E+ as low, which does not affect our rating on E+.

## Issue Ratings - Subordination Risk Analysis

### Capital structure

E+, the operating subsidiary, has about C\$50 million of senior unsecured debentures and C\$35 million of unsecured promissory notes.

### Analytical conclusions

We rate the senior unsecured debt 'A', the same as the issuer credit rating on E+, because the debt is issued by a qualifying investment-grade utility.

## Ratings Score Snapshot

### Issuer Credit Rating

A/Stable/--

### Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Strong

### Financial risk: Intermediate

- **Cash flow/leverage:** Intermediate

Anchor: a

### Modifiers

- **Diversification/portfolio effect:** Neutral
- **Capital structure:** Neutral
- **Financial policy:** Neutral
- **Liquidity:** Adequate
- **Management and governance:** Satisfactory
- **Comparable rating analysis:** Neutral

### Stand-alone credit profile : a

- **Group credit profile:** a

- **Entity status within group:** Core (no impact)
- **Likelihood of government support:** Low (no impact)

## Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Jul. 1, 2019
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Apr. 1, 2019
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

### Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
<b>Excellent</b>	aaa/aa+	aa	<b>a+ / a</b>	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+ / a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

### Ratings Detail (As Of October 28, 2019)\*

#### Energy+ Inc.

Issuer Credit Rating

A/Stable/--

Senior Unsecured

A

#### Issuer Credit Ratings History

20-Jan-2015

A/Stable/--

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.





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