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Energy+ Inc.

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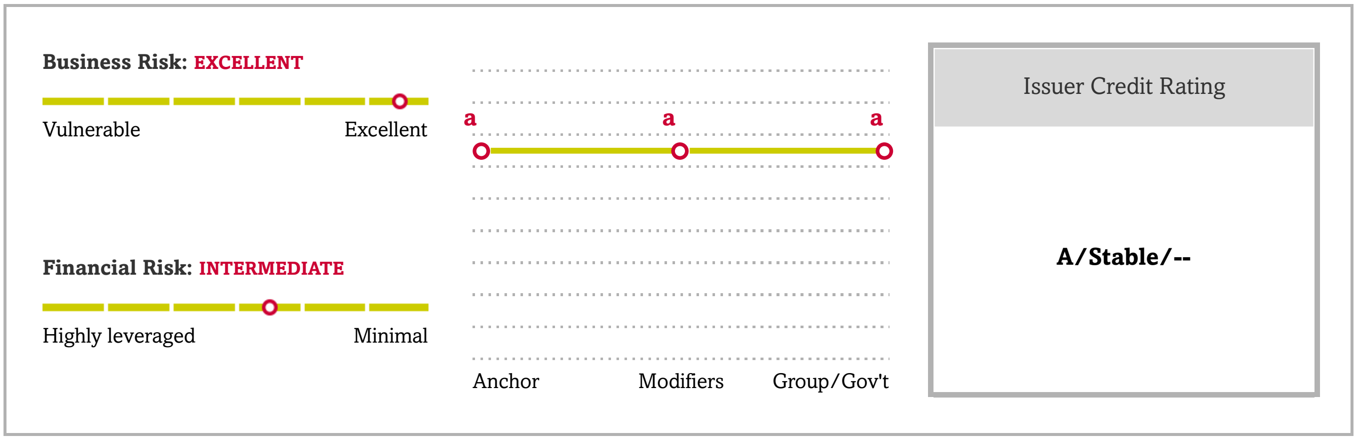

Credit Highlights

Overview

Key Strengths	Key Risks
Low-risk, rate-regulated electricity and utility distribution operations with minimal unregulated operations.	Limited regulatory and geographic diversity.
Stable, transparent, and predictable regulatory environment.	Small customer base composed mostly of residential customers less sensitive to macroeconomic factors.
Ability to recover all prudently incurred costs in a timely manner.	Financial metrics at lower end of the intermediate financial risk profile category.
	Low likelihood of extraordinary government support.

We expect the impact from the COVID-19 pandemic will be minimal. Energy+ Inc.'s (E+) small size and lack of geographic diversity and regulatory diversity makes it more susceptible than peers to the risks associated with the pandemic, such as lower volumetric sales and higher bad debt expense. However, the company generates more than 50% of revenues from residential customers, mitigating these risks. Additionally, the Ontario Energy Board (OEB) established deferral accounts to record costs and losses arising from the pandemic.

The lack of geographic and regulatory diversity is marginally offset by a favorable customer mix and credit-supportive regulatory environment. E+ serves about 67,000 customers in the City of Cambridge, Township of North Dumfries, and County of Brant, all in the province of Ontario, making the company reliant on its sole regulator (OEB) to sustain its credit quality. While E+ has a small customer base, it is composed mostly of residential customers less sensitive to macroeconomic factors. We consider Ontario to be a relatively strong regulatory jurisdiction that is stable, transparent, and predictable, 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 utility peers.

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. We expect management will continue to focus on its core regulated business and that there will be no adverse regulatory decisions during our two-year outlook horizon.

Downside scenario

Although unlikely, we could lower the rating over the next 12-24 months if:

- There is a material adverse regulatory ruling; or
- A significant increase in leverage leads to a sustained deterioration in E+'s forecast financial measures, including funds from operations (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 consistently near or above 23%.

Our Base-Case Scenario

Assumptions

- The regulatory regime remains stable, and there will be no material, adverse regulatory decisions.
- E+ will earn close to its allowed return on equity, based on the deemed capital structure.
- Customer growth will be about 1.5%-2% in 2020-2022.
- Capital expenditure (capex) totals about C$55 million in 2020-2022, including new shared operations facilities and office building.
- Dividend policy remains 50% of previous-year net income.

Key Metrics

	2019A	2020E	2021E
FFO to debt (%)	15.6	13.5-14.5	15.5-16.5
Debt to EBITDA (x)	4.7	4.9-5.2	4.7-5.0

A--Actual. E--Estimate. FFO--Funds from operations.

Company Description

E+ owns and operates the electricity distribution system in its licensed service areas in Cambridge, North Dumfries, and County of Brant, 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 67,000 customers. It also provides low-voltage facilities to Hydro One and Waterloo North Hydro.

Business Risk: Excellent

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

E+ continues to operate under a supportive regulatory regime. The OEB 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 electricity cost is fully passed through to ratepayers.

Further supporting the business risk profile is the company's stable customer base, which largely consists of residential, small business, municipality, university, school board, and hospital customers. They are less sensitive to macroeconomic stresses and business cycles. Other offsetting factors include the company's relatively small customer size, limited geographic footprint, and exposure to a single regulatory regime.

Financial Risk: Intermediate

Our assessment incorporates a base-case scenario that includes adjusted FFO to debt of about 14%-16%, at the lower end of the benchmark range for the intermediate category. Our base-case scenario includes capital spending of about C$55 million from 2020-2022, dividends of about C$3 million annually, continued customer growth, and continued effective management of regulatory risk.

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. This reflects our view of E+'s steady cash flow and rate-regulated utility operations with highly supportive cost recovery.

Liquidity: Adequate

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

Principal Liquidity Sources	Principal Liquidity Uses
• Committed credit facility availability of C$40 million as of June 30, 2020; • About C$3.8 million cash and cash equivalents as of June 30; • Cash FFO of about C$6 million; and • Issued debentures of C$55 million.	• Debt maturities of about C$35.5 million, including short-term debt, as of June 30; • Capex of about C$16 million; and • Dividend payment of about C$3.2 million.

Environmental, Social, And Governance

We consider E+'s environmental footprint in the broader context of environmental, social, and governance factors. E+'s exposure to environmental risk is quite manageable compared with that of its peers because electricity-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 financial distress. The utility is important to the city as the monopoly owner and operator of the electricity distribution network in Cambridge. However, 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 has no formal policy or track record of providing financial relief or support to the utility. This assessment does not affect our rating on E+.

Issue Ratings - Subordination Risk Analysis

Capital structure	Analytical conclusions

E+, the operating subsidiary, has about C$105 million of senior unsecured debentures.	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 (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

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

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- 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

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	**a+/a**	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 November 9, 2020)*

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.