S&P Global Ratings

Research

Energy+ Inc.

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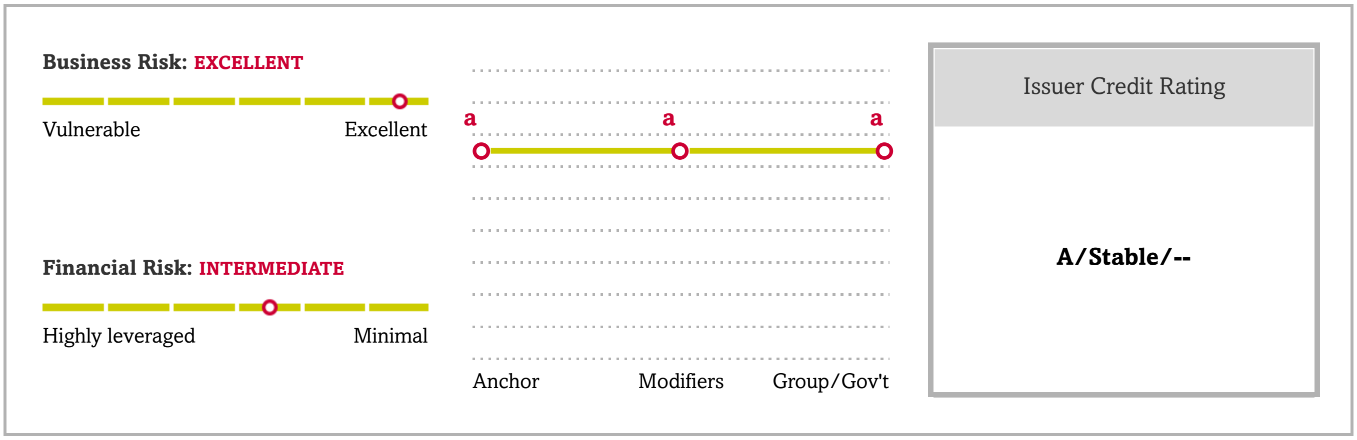

Credit Highlights

Overview

Key strengths	Key risks
Low-risk, rate-regulated electricity and utility distribution operations with minimal unregulated operations.	Small size and limited regulatory and geographic diversity.
Stable, transparent, and predictable regulatory environment.	Negative discretionary cash flow indicates external funding needs.
Ability to recover all prudently incurred costs in a timely manner.	Low likelihood of extraordinary government support.

We expect Energy+ Inc.'s (E+) financial measures to remain flat and in line with our current ratings following its announcement of a proposed merger with the City of Brantford-owned Brantford Power Inc. We view the transaction as supportive of its business risk because the merger will create a slightly larger, regulated company with more diversity. We will continue to monitor developments of the proposed transaction.

We expect the company will continue to effectively manage its regulatory risk and maintain financial measures consistent with the current rating. E+ has submitted an IRM Rate Application to the Ontario Energy Board (OEB) to raise its electricity distribution rates effective Jan. 1, 2022, and we expect the OEB to issue its decision in the first half of 2022. We will continue to monitor any developments related to the rate application. We also forecast the company's funds from operations (FFO) to debt will be in the 18%-20% range throughout our outlook period.

Outlook: Stable

The stable outlook on Energy+ Inc. reflects our expectation for predictable and stable cash flows from its low-risk, regulated distribution business over the next two years. We expect that management will remain focused on its core regulated business and do not assume any adverse regulatory decisions occurring during our two-year outlook horizon.

Downside scenario

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

- It experiences a material adverse regulatory ruling; or
- It significantly increases its leverage, which leads to a sustained deterioration in its forecast financial measures, including FFO to debt falling to less than 13% with no prospects for improvement.

Upside scenario

We could raise our rating on E+ over the next 12-24 months if:

- The company demonstrates a long-term sustainable growth; or
- It improves its financial measures, including FFO to debt of consistently near or above 23%.

Our Base-Case Scenario

Assumptions

- The company's regulatory regime remains stable and there are no material adverse regulatory decisions;
- E+ continues to earn close to its allowed return on equity based on the deemed capital structure;
- Modest customer growth;
- Capital expenditure (capex) averaging about C$26 million annually from 2021-2023; and
- Dividend payments averaging about C$3.5 million annually from 2021-2023.

Key Metrics

	2020a	2021f	2022f
FFO to debt (%)	16.1	19-20	18-19
Debt to EBITDA (x)	4.7	4.0-4.5	4.5-5.0

a--Actual. f--Forecast. FFO--Funds from operations.
Note: Figures are adjusted by S&P Global Ratings.

Company Description

E+ owns and operates the electricity distribution system in its licensed service areas in Cambridge, North Dumfries, and the County of Brant, Ontario. The company is 100% owned by Cambridge and North Dumfries Energy Plus Inc., which is about 92% owned by Cambridge and 8% 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 of E+'s business risk largely reflects its very low-risk electricity distribution operations and effective regulatory risk management.

The company continues to operate under a supportive regulatory regime. The OEB is the provincial regulator that provides a generally transparent, consistent, and independently operated regulatory framework that supports a stable and predictable cash flow model, which we view 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 (PPAs), which reduces operating risk. Furthermore, E+ has limited exposure to commodity risk because it fully passes its electricity cost through to its ratepayers.

Further supporting the company's business risk profile is its stable customer base, which largely comprises residential, small business, municipality, university, school board, and hospital customers, which we view as less sensitive to macroeconomic stresses and business cycles. However, the strengths of the company's business risk profile are marginally offset by its relatively small customer size, limited geographic footprint, and lack of regulatory diversity.

Financial Risk: Intermediate

Our assessment of E+'s financial risk incorporates our base-case scenario assumptions, including S&P Global Ratings-adjusted FFO to debt of about 18%-20%, which is in line with our benchmark range for the intermediate category. Our base-case scenario also assumes annual capital spending averaging about C$26 million from 2021-2023, dividends averaging about C$3.5 million annually, modest customer growth, and continued effective regulatory risk management.

We assess E+'s financial risk profile using our low-volatility financial benchmark table, which reflects its lower-risk regulated electric distribution operations and effective management of regulatory risk. Our assessment further reflects 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 the company's 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 its capex. We also believe it has the flexibility to suspend its dividend payments to preserve its credit metrics.

Principal Liquidity Sources	Principal Liquidity Uses
• About C$17.5 million of cash and cash equivalents as of June 2021; • Credit facility availability of C$40 million; • Cash FFO of about C$15.5 million; and • Issued debentures of about C$33 million.	• Debt maturities of about C$4.5 million over the next 12 months, including short-term debt; • Capex of about C$27 million; and • Dividend payments of about C$3 million.

Environmental, Social, And Governance

We consider E+'s environmental footprint in the broader context of environmental, social, and governance (ESG) factors. The company's exposure to environmental risk is relatively 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 will likely enable it to maintain social cohesion. The company's 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, would provide it with timely and extraordinary support during periods of financial distress. The utility is important to the city because it is the monopoly owner and operator of the electricity distribution network in Cambridge. However, the province, not the city, handles the oversight of its 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 E+'s 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)

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- 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
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Group Rating Methodology, 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 10, 2021)*

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.