



SUBJECT: Financial results for Burlington Hydro Electric Inc.

TO: Audit Committee

FROM: Finance Department

Report Number: F-26-17

Wards Affected: not applicable

File Numbers: 125-01

Date to Committee: May 31, 2017

Date to Council: June 12, 2017

Recommendation:

Receive and file finance department report F-26-17 providing information on financial results for Burlington Hydro Electric Inc.

Purpose:

- An Engaging City
- Good Governance

Background and Discussion:

The City has been provided with audited 2016 consolidated financial statements for Burlington Hydro Electric Inc. (BHEI) as well as individual statements for each company. City Council, as the shareholder, received an overview of and approved the financial reports at the Annual General Meeting held on April 27, 2016.

BHEI is accounted for in the City's financial statements on a modified equity basis.

The 2016 statements have been prepared using International Financial Reporting Standards (IFRS). The external auditors, KPMG LLP have expressed their opinion that the statements present fairly, in all material respects, the financial performance of BHEI in accordance with IFRS.

a) BHEI

The consolidated balance sheet of BHEI shows a decrease in cash position with cash and temporary investments totaling \$4.6 million (2015 - \$8.7 million). The decrease

arose primarily from activities of BHI which included \$7 million in capital spending which was sourced from working capital funds and dividends and interest paid during the year amounting to \$3.7 million. Cash generated from operating activities net of customer contributions was \$7M for the year.

As the balance sheet is the consolidation of all three companies, the components of the balance sheet will be discussed in more detail under the analysis of the financial statements for the subsidiaries. The year end cash balance will be used to form part of the semi-annual dividend payments to the City during fiscal 2017. In the 2017 Budget and Ten Year Forecast dividends for 2017 are budgeted at \$2.6 million of which \$2.0 million are from BHI and \$0.6 million are to flow from BESl.

For the year ended December 31, 2016 the consolidated statement of BHEI identifies net income of \$5.1 million (2015 - \$6.3 million). The consolidated financial statement includes the accounts of all three companies, BHEI and its wholly owned subsidiaries, Burlington Hydro Inc. (BHI) and Burlington Electricity Services Inc. (BESl). The comprehensive income was realized as follows:

i) BHEI 2016 Comprehensive Income*	\$ (31,336)
ii) BESl 2016 Comprehensive Income	457,991
iii) BHI 2016 Comprehensive Income	<u>4,472,792</u>
Total Comprehensive Income	\$ 4,899,447

*Dividends paid by BHI of \$3,000,000 and by BESl of \$550,000 are eliminated on consolidation. Comprehensive income includes remeasurement of liability for future benefits for BHI (157K).

b) BHI

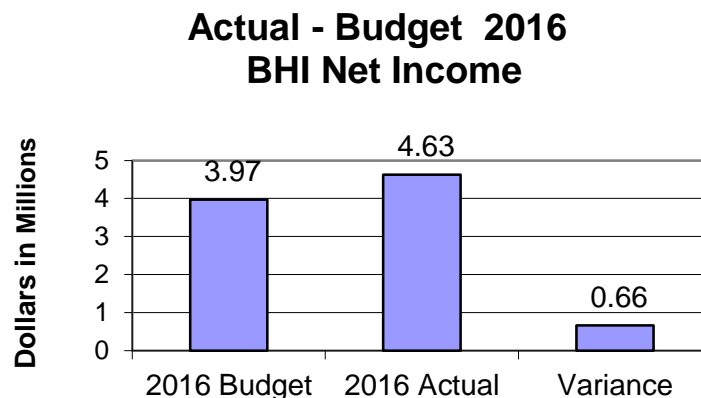
i) Balance Sheet

The balance sheet identifies assets totaling \$186.9 million (2015 - \$178.0 million) of which property, plant and equipment represent \$114.9 million or 61.5% of the total assets. Cash and temporary investments total \$3.6 million (2015 - \$7.7 million), a decrease of \$4.1 million from 2015. The activities contributing to the decrease were:

- The Capital expenditure program was \$7 million sourced through working capital funds.
- Cash generated from Operating Activities net of customer contributions was \$7 million for the year.
- Dividends and interest paid during the year amounted to \$3.7 million.

Statement of Earnings and Retained Earnings

BHI results reflect net income exceeding budget as illustrated in the following chart:



Significant items affecting net income are as follows:

- Distribution revenue came in at 100.5% of target, \$142k favourable. A major contributing factor to this favourable variance was the result of strong electricity consumption in late summer and early fall.
- Other operating Revenue exceeded budget by \$471k. Some items contributing to the favourable variance are \$66k earned for successfully meeting the OPA conservation targets for 2015. \$100k of subdivision administration fee revenue over budget. Also \$85k proceeds from the sale of scrap inventory and redundant equipment.
- Operating expenses were below budget by \$148k. The most significant impact resulted from the delayed hire of a new Billing Manager to replace a vacancy that occurred in January 2016. The new hire did not start until late Q2. The bad debt provision was reduced by \$40k to reflect the status of the uncollected Accounts Receivable at December 31, 2016.

Retained earnings were \$33.4 million in 2016 (2015 - \$31.8 million) and reflect dividends paid to BHEI of \$3.0 million.

c) BESI

i) Balance Sheet

The balance sheet identifies a modest increase in cash and temporary investments to \$.90 million (2015 - \$.84 million). In 2016 \$0.55 million in dividends were paid to BHEI and contributed to the budgeted dividend paid to the City of \$3.6 million. The cash balance and working capital remain adequate.

ii) Statement of Earnings and Retained Earnings

In 2016 earnings were a net profit of \$458k (2015 - 360K). The water billing services provided to the Region of Halton realized operating income at 99.5% of target.

The Fire hall Co-Generation Division experienced an operating profit of \$4k. The solar array operated as expected in 2016 with minimal maintenance costs and continuance of approximately \$1k of monthly revenues.

The Micro Turbine Co-Generator Division had profits of \$62k against a budgeted loss of (\$6k). Lower maintenance and Ministry reporting costs resulted in the improved performance of this division.

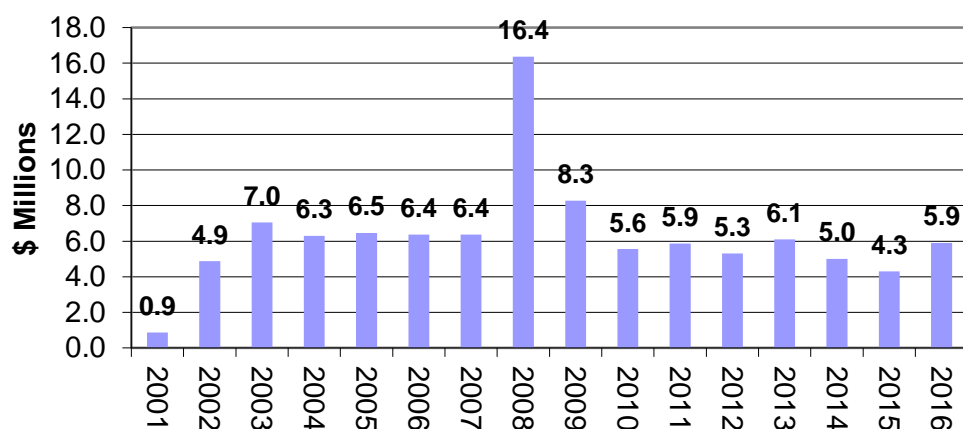
The Vehicle Charging Station Division had an operating loss of (\$5k) due to marketing expenses that were incurred to market the charging station initiative. Data collected from this initiative will help Burlington Hydro understand electric vehicle impacts on the electricity grid. This will be valuable information for the future as use of electric vehicles is adopted more widely.

Financial Matters:

The City, as shareholder of BHEI was forecast to realize a dividend flow of \$2.6 million in 2016. Due to strong financial results in 2015, a special dividend was presented to the City in April, 2016 of \$1million. In addition to dividends received, the City realized an increase in cash flow through interest on the note payable to the City from BHI. The City realized total interest payments of \$2.3 million in 2016.

Together with interest payments on the promissory note from BHI, the City as shareholder has enjoyed a sustained contribution to its capital plan. The following graph illustrates payments made to the City:

Dividends and Interest from BHEI



Dividends and interest paid in 2008 include proceeds from the sale of the Fibrewired component of BESl. In 2009, the City also received a special one-time dividend amounting to \$2.0 million. In 2017 dividends are forecast to be \$2.6 million.

Shareholder Risks

The City, as shareholder of BHEI, places a heavy reliance on the cash flow from dividends received from BHEI and interest payments on the promissory note with BHI to support its capital financing strategy. Although the OEB is the regulatory body that governs provincial utilities, with the potential for a shift in government focus on energy matters, the shareholder will need to work closely with Hydro staff to monitor any effects on the cash flow and to look at strategic investments that will return value to the shareholder.

One initiative that is designed to increase shareholder value is the GridSmartCity Cooperative. The GridSmartCity consortium was established in 2009, and is made up of partner LDCs, smart grid innovators, government, academia and other electricity stakeholders. It operates within a formalized structure, and as a legal cooperative entity with a focus on productivity and efficiency improvements; advancements in smart grids; piloting new technologies; and community energy planning, among other initiatives.

Connections:

Burlington Hydro continues to work in partnership with the City on the implementation of the Community Energy Plan.

Conclusion:

As Shareholder, the City wishes to thank the Board and Management of Hydro for the continued strong results achieved by BHEI and its companies.

Respectfully submitted,

Sandy O'Reilly

Controller and Manager of Financial Services

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Report Approval:

All reports are reviewed and/or approved by Department Director, Director of Finance and Director of Legal. Final approval is by the City Manager.