



SUBJECT: 2017 financial results for Burlington Hydro Electric Inc.

TO: Committee of the Whole

FROM: Finance Department

Report Number: F-28-18

Wards Affected: not applicable

File Numbers: 125-01

Date to Committee: July 9, 2018

Date to Council: July 16, 2018

Recommendation:

Receive and file finance department report F-28-18 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 2017 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 23, 2018.

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

The 2017 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 an increase in cash position with cash and temporary investments totaling \$13.7 million (2016 - \$4.6 million). The increase arose primarily from moving to monthly billing from bi-monthly billing. There is a corresponding decrease in unbilled revenue which decreases from \$27.8 million in 2016 to \$18.8 million in 2017.

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 2018. In the 2018 Budget and Ten Year Forecast dividends for 2018 are budgeted at \$2.6 million of which \$2.0 million are from BHI and \$0.6 million are to flow from BESI.

For the year ended December 31, 2017 the consolidated statement of BHEI identifies net income of \$5.0 million (2016 - \$5.1 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. (BESI). The comprehensive income was realized as follows:

i) BHEI 2017 Comprehensive Income*	\$ (22,426)
ii) BESI 2017 Comprehensive Income	833,876
iii) BHI 2017 Comprehensive Income	<u>4,023,532</u>
Total Comprehensive Income	\$ 4,834,982

*Dividends paid by BHI of \$2,000,000 and by BESI of \$600,000 are eliminated on consolidation. Comprehensive income includes remeasurement of liability for future benefits for BHI (212K) which is deducted from net income of \$5.0 million to arrive at \$4.8 million in comprehensive income.

b) BHI

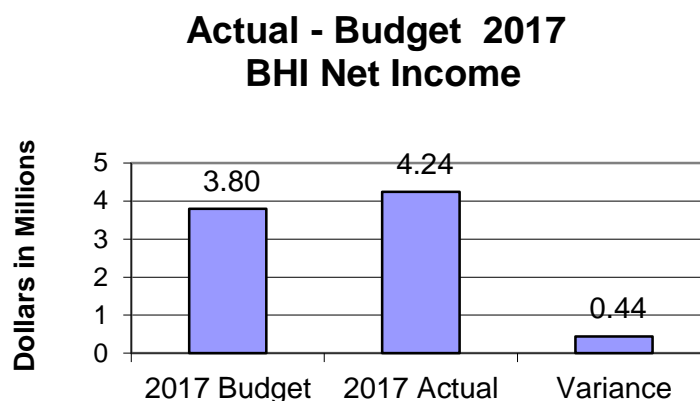
i) Balance Sheet

The balance sheet identifies assets totaling \$190.3 million (2016 - \$186.9 million) of which property, plant and equipment represent \$123.0 million or 64.6% of the total assets. Cash and temporary investments total \$13.1 million (2016 - \$3.6 million), an increase of \$9.5 million from 2016. The activity contributing to the increase as noted above was the move to monthly customer billing from bi-monthly customer billing.

The company's working capital position remains strong at \$29.8 million. This enables the company to tolerate seasonal swings in the IESO power bill.

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 100.2% of target, \$72k favourable. A major contributing factor to this favourable variance was the strong electricity consumption as a result of a cold December.
- Operating expenses were below budget by \$267k. The most significant impact was in the area of operations and maintenance which was \$321k below budget. A new tree trimming contractor in 2017 resulted in cost reduction. As well a lack of major storm activity positively impacted overtime and contractor expenses. Billing and collection costs were \$185k under budget due to a reduction in the bad debt provision as a result of a strong position of uncollected accounts receivable at yearend. Administrative costs were over budget by \$239k due to temporary staffing in IT to prepare for the OEB cybersecurity framework implementation.

Retained earnings were \$35.7 million in 2017 (2016 - \$33.4 million) and reflect dividends paid to BHEI of \$2.0 million.

c) BESI

i) Balance Sheet

The balance sheet identifies a decrease in cash and temporary investments to \$.52 million (2016 - \$.90 million). In 2017 \$0.60 million in dividends were paid to BHEI and contributed to the budgeted dividend paid to the City of \$2.6 million. The cash balance and working capital remain adequate.

ii) Statement of Earnings and Retained Earnings

In 2017 earnings were a net profit of \$834k (2016 – 458k). The water billing services provided to the Region of Halton realized operating income at 105% of target. The net income compared to budget of \$493k resulted in a favourable variance of \$341k. This was primarily due to the street light retrofit project which had been unbudgeted.

The Co-Generation Division experienced an operating profit of \$74k. Included in this division are the Firehall #8 Solar Array, 1340 Brant Micro-Turbine and Haber Co-Gen Design/Build Project. The Solar Array and Micro Turbine revenues were on budget whereas the design/build project came in slightly under budget. Lower than budgeted maintenance costs were experienced for the Micro Turbine.

The Vehicle Charging Station Division had an operating loss of (\$18k). Multi residential unit rentals were budgeted in 2017 but no contracts were completed. Operating costs were related to marketing expenses.

The Street Light Division realized a gross margin of \$420k. This is a project for the supply and installation of LED luminaires in City street lights to replace high pressure sodium lights.

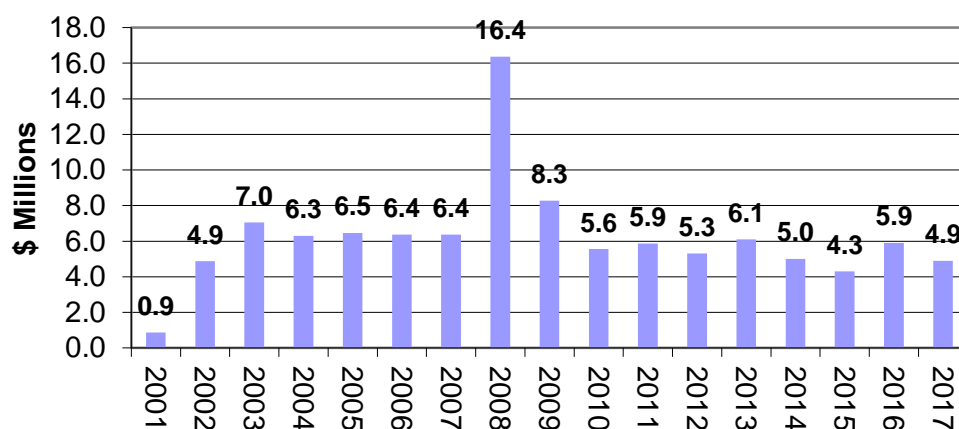
In December of 2017, Milton Hydro signed a contract to have BESI provide control room services. Revenue generated by this division included an upfront fee of \$20k.

Financial Matters:

The City, as shareholder of BHEI was forecast to realize a dividend flow of \$2.6 million in 2017. Due to strong financial results in 2017, a special dividend was presented to the City in April, 2018 of \$750k. 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 2017.

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 BESI. In 2009, the City also received a special one-time dividend amounting to \$2.0 million. In 2018 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 due to the provincial election in 2018, 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.

As an unregulated company BESI provides the best opportunity to design strategic initiatives that provide value to the shareholder.

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

EXT 7648

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.