



**SUBJECT: Financial Results of Burlington Hydro for December 31, 2018**

**TO: Committee of the Whole**

**FROM: Finance Department**

Report Number: F-22-19

Wards Affected: not applicable

File Numbers: 125-01

Date to Committee: June 10, 2019

Date to Council: June 17, 2019

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**Recommendation:**

Receive and file finance department report F-22-19 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 2018 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 May 6, 2019.

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

The 2018 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 \$14.8 million (2017 - \$13.7 million). The increase reflects strong liquidity and working capital positions.

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 2019. In the 2019 Budget and Ten-Year Forecast dividends for 2019 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, 2018 the consolidated statement of BHEI identifies net income of \$5.6 million (2017 - \$5.0 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 2018 Comprehensive Income*	\$	(19,127)
ii) BESI 2018 Comprehensive Income		721,513
iii) BHI 2018 Comprehensive Income		<u>5,164,196</u>
Total Comprehensive Income	\$	5,866,582

\*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 of \$250K (2017 was -\$212k) which is added to net income of \$5.6 million to arrive at \$5.9 million in comprehensive income.

## **b) BHI**

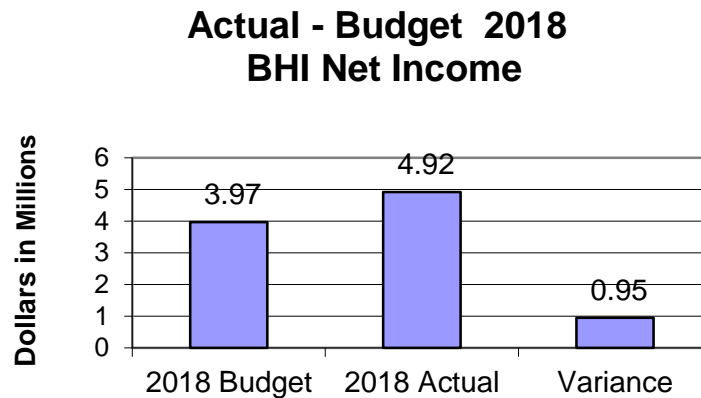
### **i) Balance Sheet**

The balance sheet identifies assets totaling \$198.5 million (2017 - \$190.3 million) of which property, plant and equipment represent \$130.0 million or 65.5% of the total assets. Cash and temporary investments total \$14.0 million (2017 - \$13.1 million), an increase of \$0.9 million from 2017. This represents a strong cash position.

The company's working capital position remains strong at \$31.3 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 101% of target, \$258k favourable. Electricity sales tracked close to budget throughout the year. Other operating revenue came in above budget by \$1M. The major contributing factor to this increase was a \$925k bonus incentive for having successfully exceeded conservation requirements.
- Another factor contributing to the results were net financing costs which were \$301k below budget a 10% favourable variance. The favourable variance is due to the Infrastructure Ontario loan not being drawn down until December 2018.

Retained earnings were \$37.8 million in 2018 (2017 - \$35.7 million) and reflect dividends paid to BHEI of \$2.0 million.

## c) **BESI**

### i) **Balance Sheet**

The balance sheet identifies an increase in cash and temporary investments to \$0.76 million (2017 - \$0.52 million). In 2018 \$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 2018 earnings were a net profit of \$722k (2017 – \$834k). The water billing services provided to the Region of Halton realized operating income at 105% of target. The net income compared to budget of \$682k resulted in a favourable variance of \$40k. Operating expenses at 89% of budget in the billing services division contributed significantly to the favourable result.

The Co-Generation Division experienced an operating profit of \$52k. 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 expenses were below budget due to budgeted consulting costs that were not incurred for the Micro Turbine.

The Vehicle Charging Station Division had an operating loss of (\$31k). Revenues were derived from the sale of several EV units to the City of Burlington at cost rather than from multi-residential rentals as was budgeted. Operating costs were related to marketing expenses.

The Street Light Division realized a positive variance of \$56k. The project for the supply and installation of LED luminaires in City street lights to replace high pressure sodium lights was completed in 2018.

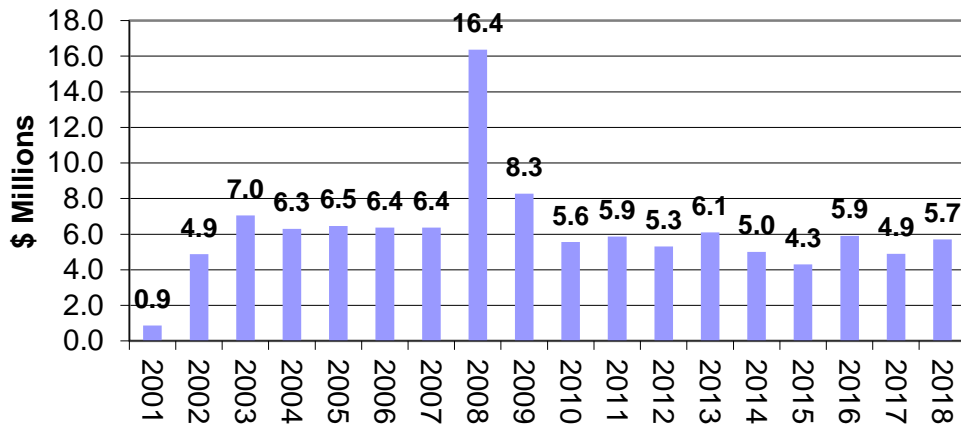
In December of 2017, Milton Hydro signed a contract to have BESI provide control room services. This business was not part of the 2018 budget as it was negotiated after the budget approval process. BESI has contracted the provisioning of this service to BHI.

### **Financial Matters:**

The City, as shareholder of BHEI was forecast to realize a dividend flow of \$2.6 million in 2018. 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 2018.

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 2019 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, the provincial government focus on energy matters can impact the operations of Burlington Hydro. The new provincial government has focused its attention on reducing red tape and championing affordability issues in the energy sector, among other policy concerns. A decision to remove the delivery of conservation programs from local utilities has impacted Burlington Hydro in that an expected incentive payment for achieving conservation targets will not be received. This bonus would have provided additional dividends to the shareholder.

Moving forward, the shareholder will need to work closely with Hydro staff to monitor any effects on the cash flow by government legislation 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 and other strategic projects such as the street light retrofit project which is expected to generate 65% in electricity savings for the City.

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### **Public Engagement Matters:**

In 2018 Burlington Hydro conducted a customer satisfaction survey. The survey results showed that 88% of customers surveyed agreed that Burlington Hydro quickly handles outages and restores power.

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### **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.

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Respectfully submitted,

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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.