



SUBJECT: Financial results for Burlington Hydro for the period ended
December 31, 2020

TO: Corporate Services, Strategy, Risk & Accountability Cttee.

FROM: Finance Department

Report Number: F-23-21

Wards Affected: not applicable

File Numbers: 125-01

Date to Committee: June 7, 2021

Date to Council: June 22, 2021

Recommendation:

Receive and file finance department report F-23-21 providing financial results for Burlington Enterprises Corporation.

PURPOSE:

Vision to Focus Alignment:

- Deliver customer centric services with a focus on efficiency and technology transformation.

Background and Discussion:

The City has been provided with audited 2020 consolidated financial statements for Burlington Enterprises Corporation (BEC) 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, 2021 which was held virtually due to the Covid-19 pandemic.

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

The 2020 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 BEC in accordance with IFRS.

a) BEC

The consolidated balance sheet of BEC shows a decrease in cash position with cash and temporary investments totaling \$3.7 million (2019 - \$5.7 million). The decrease in cash is primarily a result of net regulatory assets increasing by \$3.9 million, dividends of \$2M and principal payments on long term debt of \$1.5 million.

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 2021. In the 2021 Budget and Ten-Year Forecast dividends for 2021 are budgeted at \$2.4 million of which \$2.0 million are from BHI and \$0.4 million are to flow from BES I.

For the year ended December 31, 2020 the consolidated statement of BEC identifies net income of \$4.2 million (2019 - \$5.3 million). The consolidated financial statement includes the accounts of all three companies, BEC and its wholly owned subsidiaries, Burlington Hydro Inc. (BHI) and Burlington Electricity Services Inc. (BESI). The comprehensive income was realized as follows:

BEC 2020 Comprehensive Income*	\$	(37,361)
BESI 2020 Comprehensive Income		469,885
BHI 2020 Comprehensive Income		<u>3,569,366</u>
Total Comprehensive Income	\$	4,001,890

*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 (\$237K) (2019 - \$365K) which is subtracted from the net income of \$4.2 million to arrive at \$4.0 million in comprehensive income.

b) BHI

i) Balance Sheet

The balance sheet identifies assets totaling \$220.6 million (2019 - \$214.1 million) of which property, plant and equipment represent \$148.7 million or 67.4% of the total assets. Cash and temporary investments total \$2.9 million (2019 - \$4.9 million).

The company's working capital position, while lower, remains satisfactory at \$17.0 million (2019 - \$23.0M). This enables the company to tolerate seasonal swings in the IESO power bill.

ii) Statement of Earnings and Retained Earnings

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

	2020 Budget	2020 Actual	Variance
BHI Net Income	\$ 2,589,000	\$ 3,806,126	\$ 1,217,126

Actual - Budget 2020 BHI Net Income

Significant items affecting net income are as follows:

- Distribution revenue came in at 99% of target, (\$348K) unfavourable. Electricity sales were weak in Q2 and Q4 but particularly strong during Q1 and Q3. Other operating revenue came above budget by \$532K.
- Another factor contributing to the results was administration costs which were lower than budget by \$315K. This was due to the impacts of Covid-19 which led to events that were deferred, training initiatives rescheduled and safety program awards and initiatives that were pushed back.

Retained earnings were \$42.4 million in 2020 (2019 - \$40.6 million) and reflect dividends paid to BEC of \$2.0 million.

c) BESI

i) Balance Sheet

The balance sheet identifies an increase in cash and temporary investments to \$0.73 million (2019 - \$0.65 million). In 2020 \$0.60 million in dividends were paid to BEC 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 2020 earnings were a net profit of \$470K (2019 – \$560K). The water billing services provided to the Region of Halton had revenues and operating expenses matched with budget. This resulted in operating income of \$906K or 103% of budget.

The Co-Generation Division experienced an operating profit of \$21K. Included in this division are the Firehall #8 Solar Array and 1340 Brant Micro-Turbine sites. The division realized an favourable variance to budget of \$18K as no operating expenses were incurred.

The Festival of Lights operated at a loss of \$35K vs a budgeted loss of \$55K for the year. Activity represents the operating and depreciation costs of running the Festival net of donations collected. The smaller than anticipated loss was due to higher donations received in 2020.

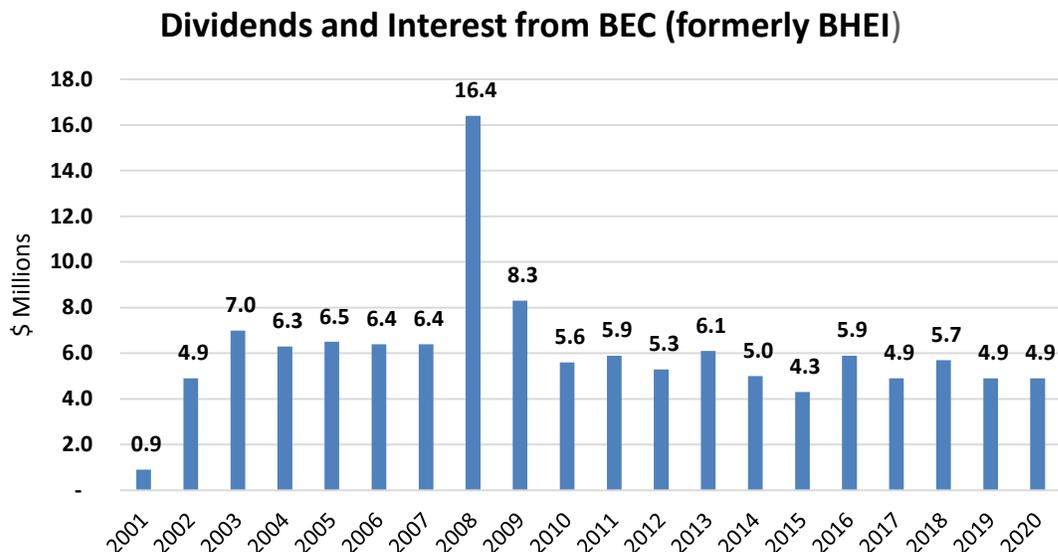
Suite Meter revenue was short of budget as Covid-19 implications resulted in delayed occupancy of condominium units. Full occupancy is expected for Q3 2021. The net operating income for the division at 80% of budget.

The Vehicle Charging Station Division had an operating loss of (\$10K). Revenues did not reach budget as units budgeted for various condominiums were delayed due to Covid-19 and are now expected for Q3 2021.

Financial Matters:

The City, as shareholder of BEC realized a dividend flow of \$2.6 million in 2020. 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 2020.

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 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 2021 dividends are forecast to be \$2.4 million.

As noted in Finance report F-01-21 on the Hydro Business Plan as presented to CSSRA on February 3, 2021, the following are notable areas that will have an impact to the city's Hydro reserve fund.

First, is the decline in the dividend by \$200,000 annually beginning in 2021. In the prior year, the city received an annual dividend of \$2.6 million and this will reduce to \$2.4 million this year. It is likely that this reduction will continue with no planned increases to the dividend in the future. It should be noted that from time-to-time BEC has declared special dividends to the City when circumstances allow.

Secondly, is the interest that the City receives on its promissory note. The original interest rate on the note was 7.25%. With the 2014 cost of service review, the City was impacted by having the interest rate on the promissory note dropped from 5.87% to 4.88%. With the most recent rate application, the interest rate on the promissory note has reduced from 4.88% to 2.85% effective May 1, 2021. This equates to an annual reduction of \$970,000 going forward. This rate is set by the OEB.

The City's Hydro reserve fund is an integral part of the City's capital infrastructure program. It provides \$2.1 million annually to support the annual capital renewal program. Furthermore, it is anticipated over the next five years that it will provide for the annual average repayment of \$2.5 million in debt charges on special circumstances debt towards major capital projects of varying types throughout the city. As well the reserve fund is relied on for city's storm allocation program until 2024 and supports the annual operating budget in the amount of \$250,000.

The Hydro reserve fund is being closely monitored and adjustments will be made as required to ensure a sustainable reserve fund balance.

BEC was successful in removing the requirement for the City to pay a streetlight attachment rate as part of their rate application. This expense item was removed from the 2021 Budget in anticipation of this outcome.

Shareholder Risks

Regulatory/Political Risk

As a regulated business, BHI is subject to the direction of Government legislated boards and committees. The 2018 provincial election saw a change in government that has impacted the utilities particularly in conservation demand management programs which have been centralized under the IESO. Incentives related to the demand management program are no longer paid to the local utilities. Issues related to electricity are expected to remain in the public view.

Total Financial Impact

Not applicable

Source of Funding

Not applicable

Other Resource Impacts

Not applicable

Climate Implications

BHI is a stakeholder committee member in the City's Climate action plan and provides expertise to help contribute to the development of the plan.

Engagement Matters:

Burlington Hydro conducted a customer survey that resulted in a 94% overall customer satisfaction score.

In response to the COVID-19 pandemic Burlington Hydro covered the costs associated with bringing new electrical service and equipment needed to power the temporary Pandemic Response Unit built at Joseph Brant Hospital.

Conclusion:

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

Respectfully submitted,

Michelle Moore

Controller and Manager of Financial Services

905-335-7600 ext. 7535

Report Approval:

All reports are reviewed and/or approved by Department Director, the Chief Financial Officer and the Executive Director of Legal Services & Corporation Counsel.