



**SUBJECT:** Financial results for Burlington Hydro for the period ended December 31, 2021

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

**FROM:** Finance Department

Report Number: F-20-22

Wards Affected: not applicable

File Numbers: 125-01

Date to Committee: June 6, 2022

Date to Council: June 21, 2022

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**Recommendation:**

Receive and file finance department report F-20-22 providing financial results for Burlington Enterprises Corporation.

**PURPOSE:**

**Vision to Focus Alignment:**

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

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**Background and Discussion:**

The City has been provided with audited 2021 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 26, 2022.

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

The 2021 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 slight decrease in cash position with cash and temporary investments totaling \$3.6 million (2020 - \$3.7 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 2022. In the 2022 Budget and Ten-Year Forecast dividends for 2022 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, 2021, the consolidated statement of BEC identifies net income of \$4.5 million (2020 - \$4.2 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. (BES I). The comprehensive income was realized as follows:

BEC 2021 Comprehensive Income*	\$	(30,674)
BES I 2021 Comprehensive Income		514,596
BHI 2021 Comprehensive Income		<u>4,240,198</u>
<b>Total Comprehensive Income</b>	<b>\$</b>	<b>4,724,120</b>

\*Dividends paid by BHI and BES I are eliminated on consolidation. Comprehensive income includes remeasurement of liability for future benefits for BHI \$227K (2020 – (\$237K)) which is added from the net income of \$4.5 million to arrive at \$4.7 million in comprehensive income.

**b) BHI**

**i) Balance Sheet**

The balance sheet identifies assets totaling \$233.7 million (2020 - \$220.6 million) of which property, plant and equipment represent \$160.9 million or 68.8% of the total assets. Cash and temporary investments total \$2.4 million (2020 - \$2.9 million).

The company's working capital position remains satisfactory at \$17.3 million (2020 - \$17.0M). 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:

	<b>2021 Budget</b>	<b>2021 Actual</b>	<b>Variance</b>
<b>BHI Net Income</b>	\$ 3,236,000	\$ 4,013,082	\$ 777,082

**Actual - Budget 2021 BHI Net Income**

Significant items affecting net income are as follows:

- Distribution revenue came in at 99% of target, (\$416K) unfavourable. Electricity sales were stronger in Quarters 2 and 3 for the residential class while the large commercial/industrial class saw increased demand as the year progressed. Other operating revenue came below budget by \$469K.
- Offsetting lower sales were positive variances in Operating Expenses and Depreciation. Administration costs were lower than budget by \$766K. This was due to the impacts of Covid-19 and lower Regulatory costs.

Retained earnings were \$44.4 million in 2021 (2020 - \$42.4 million) and reflect dividends paid to BEC of \$2.05 million.

**c) BESI**

**i) Balance Sheet**

The balance sheet identifies an increase in cash and temporary investments to \$0.38 million (2020 - \$0.73 million). In 2021 \$0.20 million in dividends were paid to BEC and contributed to the budgeted dividend paid to the City of \$2.4 million. The cash balance and working capital remain adequate.

**ii) Statement of Earnings and Retained Earnings**

In 2021 earnings were a net profit of \$515K (2020 – \$470K). The water billing services provided to the Region of Halton had revenues and operating expenses matched with 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 Festival of Lights operated at a loss of \$41K vs a budgeted loss of \$67K 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 2021.

Suite Meter operating revenue of \$78K exceeded 2020 levels by \$37K as more water suite meters came on-line in 2021.

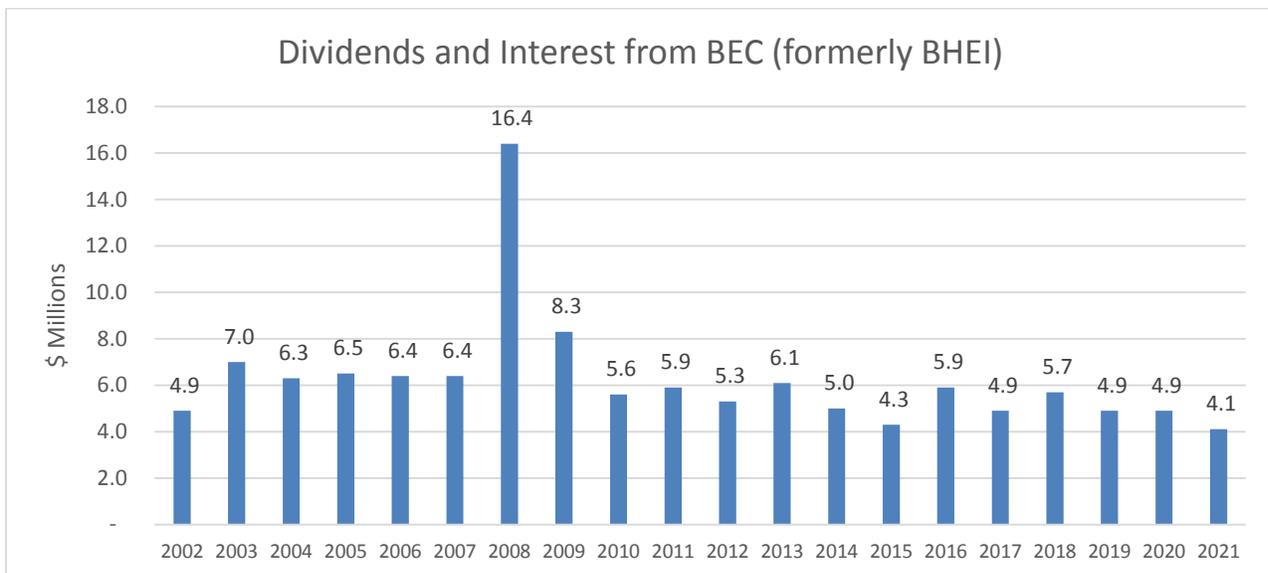
The Vehicle Charging Station Division had an operating loss of (\$3K). Revenues did not reach budget as units budgeted as delays have been encountered in condo buildings contracting for chargers due to both Covid-19 and delays in occupancy.

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## Financial Matters:

The City, as shareholder of BEC realized a dividend flow of \$2.4 million in 2021. 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 \$1.7 million in 2021.

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 BEI. In 2009, the City also received a special one-time dividend amounting to \$2.0 million. In 2022 dividends are forecast to be \$2.4 million.

As noted in Finance report F-03-22 on the Hydro Business Plan as presented to CSSRA on February 2, 2022, 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 which began in 2021. The City previously received an annual dividend of \$2.6 million and this has been reduced to \$2.4

million. 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. 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 \$2.0 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 direct cash contributions towards capital projects as well.

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.

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## **Engagement Matters:**

Burlington Hydro has engaged in a Customer Value Proposition Campaign over the period of 2017-2020. The goals of the campaign are to deliver on four priorities:

1. Bring together various elements the company makes with customers/stakeholders to ensure a consistent "value proposition" message
  2. Engender trust and confidence across all stakeholder and customer audiences
  3. Extol the virtues of the value of electricity in our everyday lives.
  4. Engage all classes of customers and provide practical examples and success stories of how they deliver value back to the customer and through to the community.
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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 BEC and its companies.

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Respectfully submitted,

Michelle Moore

Controller and Manager of Financial Services

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## **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.