




INFORMATION REPORT

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	June 20, 2024
SUBJECT/REPORT NO:	Financial Impact of the Losses of Hamilton Renewable Power Inc. on the City of Hamilton (FCS24011) (City Wide) (Outstanding Business List Item)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Collins Kyere (905) 546-2424 Ext. 5745
SUBMITTED BY:	Kirk Weaver Acting Director, Financial Planning, Administration and Policy Corporate Services Department
SIGNATURE:	

COUNCIL DIRECTION

City Council, at its meeting of October 25, 2023, approved the following Motion:

“That City staff be directed to investigate the financial impact of the City of Hamilton should Hamilton Renewable Power Inc.’s losses continue, which would result in a wind up of the corporation and report back to the Audit, Finance and Administration Committee in Q1 2024.”

INFORMATION

Hamilton Renewable Power Inc, at its Shareholders Annual General Meeting (AGM) on October 23, 2023, approved the above motion of City Council. Hamilton Renewable Power Inc. reported losses in the years 2020, 2021, 2022 and realized a net loss in the year 2023.

The purpose of Report FCS24011 is to provide the Audit, Finance and Administration Committee members with information regarding the financial impact to the City of Hamilton should the losses of Hamilton Renewable Power Inc. continue. Staff reviewed Hamilton Renewable Power Inc. financial information, reports, policies and procedures, and agreements in the preparation of Report FCS24011.

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Background

The City of Hamilton wholly owns Hamilton Renewable Power Inc. The corporation owns and operates two renewable power generation facilities located on City-owned lands. Woodward Plant is a 1.6-Megawatt cogeneration facility and fuelled by methane gas provided by the City's Wastewater Treatment Facility. The Glanbrook Plant comprises two separate 1.6 Megawatt generators fuelled by methane gas provided by a methane gas collection system at the Glanbrook Landfill site. Electricity produced by both plants are sold to the Independent Electricity System Operator (IESO) through a contract with the Ontario Power Authority. Thermal energy produced at the Woodward Plant is used by the City's Wastewater Treatment Facility processes and for space heating.

Hamilton Renewable Power Inc. started reporting profits consecutively from 2009 up to 2019 and paid out dividends to shareholders based on their dividend policy. The first net loss was reported in 2020 after which the next four years also reported net losses: 2020 (\$66 K); 2021 (\$256 K); 2022 (\$475 K); 2023 (\$456 K). Table 1 provides a summary of the 2023 financial results relative to budget.

As of December 31, 2023, the City has realized a net financial benefit from Hamilton Renewable Power Inc. since it was established in 2005 in the amount of \$22.3 M. The financial benefits include, dividends paid to shareholders (City of Hamilton) and the net profit earned by Hamilton Renewable Power Inc. As outlined in Table 2 to Report FCS24011 the total dividend revenues paid to the City of Hamilton to date is about \$3.9 M. For the past four fiscal years, Hamilton Renewable Power Inc. has experienced losses. Some of the basis for these losses are due to less methane supply and an aging generator that has resulted in higher costs for repairs and maintenance over the past few years. In 2023 Repairs and Maintenance was 55% of the total expenses for the year (\$1.1 M out of \$2.0 M)

Table 1
2023 Income Statement

Income Statement			
Year Ended December 31, 2023			
	Budget	Actual	Variance
Revenue	2,132,430	1,870,108	(262,322)
Cost of Goods Sold	561,120	473,680	(87,440)
Gross Profit	1,571,310	1,396,428	(174,882)
Expenses	2,069,190	1,978,714	(90,476)
Tax	(131,940)	(126,703)	5,237
Net Loss	(365,940)	(455,583)	(89,643)

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Table 2
Net City Benefits Over Years

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Year	Net Income (loss)	Methane & Salary Recovery	Dividends	City Net Benefit
		a		a+b
2006	(218,363)	11,257	-	11,257
2007	184,301	591,719	-	591,719
2008	(28,544)	447,373	-	447,373
2009	834,850	2,000,345	-	2,000,345
2010	816,973	955,415	1,257,963	2,213,378
2011	635,185	1,296,823	736,920	2,033,743
2012	399,710	1,081,570	626,642	1,708,212
2013	306,585	1,380,015	306,122	1,686,137
2014	279,202	1,337,851	295,816	1,633,667
2015	75,935	1,268,095	249,150	1,517,245
2016	76,892	1,240,498	60,748	1,301,246
2017	128,821	1,148,794	61,514	1,210,308
2018	133,711	1,028,805	103,057	1,131,862
2019	177,646	1,062,496	106,970	1,169,466
2020	(66,331)	1,068,799	142,117	1,210,916
2021	(264,527)	963,239	-	963,239
2022	(474,989)	734,038	-	734,038
2023	(455,583)	735,441	-	735,441
Total	2,541,474	18,352,573	3,947,019	22,299,592

Review Of Strategic Options

In 2017 KPMG was retained by Hamilton Renewable Power Inc. to assist their management and staff with the high-level objective and facts-based analysis of strategic options available to the corporation. Below are the four strategic options that were evaluated:

Option 1: Retain Status Quo

Option 2: Transfer the assets and operations of Hamilton Renewable Power Inc. to the City's Public Works Department

Option 3: Sale of Hamilton Renewable Power Inc. to an arm's length private sector company

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Option 4: Transfer shares of Hamilton Renewable Power Inc. to Hamilton Utilities Corporation

KPMG recommended, in their report dated June 2018, that Option 1: Retain Status Quo was a viable option as the City would continue to receive financial benefits (estimated at \$20.55 M at the midpoint) from continued ownership of Hamilton Renewable Power Inc. with moderate levels of cash receipts over time. The assumption made by KPMG has played out as expected over time. Since 2019 cash receipts have declined moderately while expenses have increased resulting in net losses over the past four years.

Financial Impacts to the City's investments in Hamilton Renewable Power Inc. – Shareholders' Equity

The City of Hamilton, as sole shareholder of the Hamilton Renewable Power Inc., invested \$6 M into the corporation in 2005. Owners' equity in the corporation increased over the years when the corporation was doing well but started declining as the corporation incurred losses. Hamilton Renewable Power Inc.'s 2023 Financial Statements reflected a balance of \$4.4 M in owner's equity. Accumulated losses over the years have been applied to the owners' equity. If the losses continue, the owners' equity will continue to decline. If a decision to wind up the corporation is made, the net value to shareholders would be determined at that time.

Liquidity risk

Every year, auditors assess Hamilton Renewable Power Inc, liquidity risk to ensure that the entity will be able to meet its financial obligations as they become due. Hamilton Renewable Power Inc. manages liquidity risk by ensuring that it has sufficient cash available to meet its obligations. These requirements are met through cash flows from operations. Hamilton Renewable Power Inc. Management believes that the Entity's exposure to liquidity risk and management of this risk has not changed from the previous year.

On December 31, 2023, Hamilton Renewable Power Inc. current liabilities consisted of accounts payable and accrued liabilities and amounts due to a related party. Hamilton Renewable Power Inc. cash and cash equivalents together with projected cash flows over the next 12 months is sufficient to pay these current liabilities.

Financial Benefits to the City of Hamilton

Over the years, Hamilton Renewable Power Inc. has provided both direct financial benefits in the form of dividends and indirect financial benefits through buying methane from the City and paying for services offered by City staff to manage their operations.

Sale of methane to Hamilton Renewable Power Inc. increases the revenue for Waste Management and Hamilton Water Divisions which reduces the burden on the City of Hamilton. The actual revenue was \$474 K out of \$561 K budget based on 2023 methane supply to help offset some expenses in the City budget. In the absence of Hamilton Renewable Power Inc., the City would face a budget pressure to offset this revenue loss in the budget.

Methane sale to Hamilton Renewable Power Inc. is a revenue generating opportunity that the City started receiving when Hamilton Renewable Power Inc. was established in 2005. Prior to the existence of Hamilton Renewable Power Inc., methane did not generate any revenue for the City. Currently, the City has not assessed selling methane to another renewable energy corporation to fill the gaps should Hamilton Renewable Power Inc dissolve. Research and feasibility study should be conducted by the City of Hamilton to determine if there is a potential methane buyer in the region to replace Hamilton Renewable Power Inc. before a decision to wind up is made.

Based on estimates / assumptions for the first three years after Hamilton Renewable Power Inc. is wound up, the City will not receive any revenue from the sale of methane. If methane is not sold, it needs to be flared. The cost of acquisition and installation of a new flare to burn the methane will cost the City is estimated at \$1.0 M plus the cost of operating the flare likely by a third-party contractor.

The City of Hamilton also receives staff salary recovery from Hamilton Renewable Power Inc. for the various roles that City staff play in managing Hamilton Renewable Power Inc. Departments, including Public Works (Hamilton Water) and Corporate Services, receive a portion of this revenue to offset their budget. The total annual revenue from staff recoveries for the past two years is approximately \$238 K. City employees that provide services to Hamilton Renewable Power Inc. are budgeted full-time employees. If Hamilton Renewable Power Inc. winds up, there will be revenue loss relating to the salary recovery.

Assumptions / Estimates

Table 3 to Report FCS24011 summarizes the estimated costs over three years should a decision be made to wind up the Corporation. Assumptions related to these estimates are listed below:

- Dividend Revenue – There will be no dividend loss after winding up as the company did not make any profit in the past four years. Shareholders are not expected to receive dividends in the short term.
- Staff Recovery Revenue – Staff salary recovery is estimated at \$238 K based on actual revenue for the past two years.
- Methane Sales Revenue - Is estimated at \$473 K in years 1, 2 and 3 due to lower methane supply at the Glanbrook landfill.

- Methane Flare / Flaring – Estimate of \$1 M includes acquisition, installation, operations and operational maintenance of flare by third-party contractor.
- Average Cost Per Year to the City over three Years \$1.1 M

Table 3
Estimated Financial Impact to the City of Hamilton After Dissolution

Description	Year 1	Year 2	Year 3	Year 1 - Year 3 Total
Revenues	\$0	\$0		\$0
Dividend Revenue Received	\$0	\$0	\$0	\$0
Staff Recovery Revenue	\$238	\$238	\$238	\$714
Methane Sales Revenue	\$473	\$473	\$473	\$1,419
Methane Flare / Flaring	\$1,100	\$100	\$100	\$1,300
Estimated Total Cost by Year	\$1,811	\$811	\$811	\$3,433
Average Cost Per Year				\$1,144

Hamilton Renewable Power Inc. has active contracts with Toromont Cat, a division of Toromont Industries Limited, to operate and maintain generators at Glanbrook and Woodward facilities until December 17, 2025, and December 31, 2027, respectively. Winding up Hamilton Renewable Power Inc. means these contracts must terminate. The termination clauses do not have specific penalty stipulations included in the operational and maintenance agreement so this may need further investigation for termination costing.

Land restoration cost is another unforeseen future cost, if any, that cannot be quantified, at this time, if Hamilton Renewable Power Inc. is to wind up. Environmental obligations to restore land or if the land will be handed back to the City at the current state is currently unknown.

Corporate Social Responsibility / Environmental Pollution / Vision 2050

Hamilton Renewable Power Inc. was created with the City of Hamilton's desire to construct, operate, and maintain a cogeneration facility, a source of a renewable energy. When methane is not used for generating power, it needs to be flared. This has an environmental impact and affects the City's Vision 2050 regarding climate change.

Methane production was at its lowest level in 2023 in the amount of 147,700 one million British thermal units (MMBtu). If the Glanbrook landfill continues to produce methane and is flared every year, the environmental result will be approximately 10,593 (tCO₂e) tons of carbon dioxide equivalent. This is equivalent to 2,357 gasoline powered passenger vehicles being driven for one year. This is calculated by using The Greenhouse Gas Equivalencies Calculator which can be found at <https://www.epa.gov/energy/greenhouse-gas-equivalencies-calculator>.

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Summary

Hamilton Renewable Power Inc. is a 19-year-old corporation established by the City of Hamilton as the shareholders. Over the years, the corporation has generated electricity and sold to the Independent Electricity System Operator (IESO) with the aim of making profits. Over the past three years, the company has been unable to generate profits for the owners. The City of Hamilton continues to receive indirect financial benefit through staff salary recoveries and methane sale to Hamilton Renewable Power Inc. If the losses continue which may lead to the corporation winding up, below are the costs to the City of Hamilton:

- Year 1 – (\$1.8 M)
- Year 2 – (\$811 K)
- Year 3 – (\$811 K)
- At the end of year three, the total estimated financial cost to the City of Hamilton is estimated \$3.4 M.
- The total environmental impact to the City is approximately 10,593 (tCo2e) tons of carbon dioxide emissions equivalent. This is equivalent to 2,357 gasoline powered passenger vehicles being driven for one year.

APPENDICES AND SCHEDULES ATTACHED

None

CK/dt