



# City of Richmond

## Report to Committee

**To:** Finance Committee  
**From:** John Irving, P.Eng., MPA  
 General Manager, Engineering and Public Works  
 Chief Executive Officer, Lulu Island Energy Company  
 Jerry Chong, CPA, CA  
 Acting General Manager, Finance and Corporate Services  
 Chief Financial Officer, Lulu Island Energy Company  
**Date:** May 12, 2022  
**File:** 01-0060-20-LIEC1/2022-Vol 01  
**Re:** 2022 Q1 Financial Information for the Lulu Island Energy Company

### Staff Recommendation

That the Lulu Island Energy Company report titled “2022 Q1 Financial Information for the Lulu Island Energy Company”, dated May 12, 2022, from the Chief Executive Officer and Chief Financial Officer, be received for information.

John Irving, P.Eng., MPA  
 General Manager, Engineering and Public Works  
 Chief Executive Officer,  
 Lulu Island Energy Company  
 (604-276-4140)

Jerry Chong, CPA, CA  
 Acting General Manager, Finance and Corporate Services  
 Chief Financial Officer,  
 Lulu Island Energy Company  
 (604-276-4064)

<b>REPORT CONCURRENCE</b>	
<b>CONCURRENCE OF GENERAL MANAGER</b>  	
<b>REVIEWED BY SMT</b>	<b>INITIALS:</b> 
<b>APPROVED BY CAO</b> 	



## Report

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**To:** Board of Directors **Date:** April 27, 2022  
**From:** Jerry Chong, CPA, CA,  
Chief Financial Officer  
**Re:** Lulu Island Energy Company – 2022 1<sup>st</sup> Quarter Financial Information

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### Staff Recommendation

That the 1<sup>st</sup> Quarter Financial Information as presented in the report titled “Lulu Island Energy Company – 2022 1<sup>st</sup> Quarter Financial Information”, dated April 27, 2022, be approved.

### Background

Lulu Island Energy Company (LIEC), a corporation wholly-owned by the City of Richmond, was established to provide district energy services on behalf of the City. This report is prepared with the objective to provide pre-audited financial information to the Board of Directors and LIEC’s shareholder, represented by Richmond City Council.

### Analysis

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). LIEC’s pre-audited Q1 financial information consists of the interim statement of the financial position as of March 31, 2022 (Attachment 1) and the interim income statement for the period ended March 31, 2022 (Attachment 2).

### Financial Position

The interim statement of the financial position provides a summary of assets, liabilities and shareholder’s equity. Total assets are comprised of current assets (cash, investments and receivables) \$16,834,598 and non-current assets (plant and equipment) \$42,433,133. The total assets are \$59,267,731. The total liabilities of \$25,100,580 include outstanding invoices, deferred contributions and concession liabilities. Included in the accrued liabilities is an amount totalling \$ 563,384, which pertains to the unplanned environmental remediation work related to pipe construction defect, which resulted in a leak and subsequent clean up of the released heat transfer fluid in the Alexandra DEU service area. The prompt response and excellent spill management procedures resulted in the quick leak repair and expedient remediation of the spill. The expenses were accrued in the prior year and there are no additional accruals in the first quarter. The

investigation is ongoing and LIEC staff are assessing cost recovery options. The shareholder's equity represents the net worth of the company. It is equal to the total assets minus its total liabilities and measures the company's financial health. As of March 31, 2022, LIEC's shareholder equity is \$34,167,151, showing good financial health of the company. Year-to-date budget to actual numbers are shown in Attachment 3.

### Revenues

The metered billing revenue is the total energy sales of Alexandra District Energy Utility (ADEU), Oval Village District Energy Utility (OVDEU) and Interim City Center District Energy Utility (ICCDEU) service areas. The year to date metered billings revenue is \$684,732 from the ADEU, \$857,671 from the OVDEU and \$61,000 from the ICCDEU. Overall, the first three months of metered billing revenue of \$1,603,403 increased by 15% over 2021. This reflects the addition of one new building connection, increased energy use from customers due to increased occupancy, and the approved 2022 rates. The year-to-date metered billings revenue is slightly above budget due to increased energy use as a result of increased occupancy.

### Cost of Sales

The cost of sales is the accumulated total of expenses attributable to the metered billing revenue, which includes contract services, utilities (electricity and natural gas), and amortization expenses. The contract expense increased by 5% over 2021 due to the additional operations and maintenance work as a result of more buildings being serviced. The growth in energy demand, due to the addition of more buildings, resulted in an increased use of electricity and natural gas to run distribution pumps, geo-exchange heat pumps, auxiliary equipment and boilers, which are used to deliver energy to customers' buildings. This increased demand paired with electricity and gas rate increases caused the utility expense to increase 9% compared to 2021. The amortization expense increased due to capital asset additions. The year-over-year cost of sales has increased by 16%. The gross margin as a percentage of revenue is 48%, which is in line with last year.

### General and Administration Expenses

General and administration (G&A) expenses are expenditures that LIEC incurs with respect to supporting operations which includes salaries and benefits, administration expenses, professional fees, etc.. Salaries and benefits are in line with last year, but below budget due to three vacant positions which are in the process of being filled. The administration expense includes the overhead allocation paid to the City of Richmond for the day-to-day support that LIEC receives from City staff. Insurance expense increased due to the general insurance rate increase and additional DEU assets being insured. Professional fees increased in comparison to Q1 2021 due to the timing of invoicing and the additional audit work required due to the increase in LIEC's financial position. Overall, the G&A expenses as a percentage of revenues is 16%, which is in line with last year.

### Contributions and Financing Expenses

The contributions and financing expense section represents other sources of income and costs for the business. The developer contributions are higher than 2021 due to additional onsite assets placed into service. The developers' contributions are below budget due to the difference between estimated and actual value of the equipment contributed by the developers.

Other income is made up of energy model review fees. The energy modeling review fee revenues are lower than 2021's due to less than anticipated building permit reviews. The net finance cost is the result of year-to-date finance costs on concession liabilities, offset by interest income, which is higher than 2021 mainly due to the increase in the concession liability. The additional capital expenditure for OVDEU infrastructure has resulted in a higher balance of concession liability compared to the prior year, which also resulted in the additional assets.

LIEC's EBITA (earnings before interest, tax, and amortization), used as a proxy to measure the company's financial performance, increased by 18% compared to the first three months of 2021. EBITA as a percentage of revenue increased to 58% for 2022 compared to 56% in 2021.

The year-to-date net income of \$519,609 has exceeded budget, while as a percentage of revenue is 28% which is line with 2021. Consistent with the company's financial plan objectives, any net income will be maintained in LIEC's equity in order to fund future capital projects and infrastructure replacements.

### **Financial Impact**

None.

### **Conclusion**

The pre-audited financial information shows that LIEC's financial position is positive. This report will be presented to Council for information.



Helen Zhao  
Controller  
(604-276-4053)

- Att. 1: Interim Statement of Financial Position as of March 31, 2022 (unaudited)
- 2: Interim Income Statement for the period ending March 31, 2022 (unaudited)
- 3: Year-To-Date Budget vs. Actual Comparison (unaudited)

**Interim Statement of Financial Position (Unaudited)**

	As of March 31 2022	As of December 31 2021
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 10,695,963	\$11,707,794
Accounts receivable	2,076,217	1,676,423
Other investments	4,062,418	4,047,518
	16,834,598	17,431,735
Non-current assets:		
Plant and equipment	42,433,133	38,905,146
	\$ 59,267,731	\$ 56,336,881
<b>Liabilities and Shareholder's Equity</b>		
Current and non-current liabilities:		
Accounts payable and accrued liabilities	\$ 1,599,822	\$ 2,671,416
Deferred developer contributions	11,268,898	7,753,538
Concession liability	12,231,860	12,264,387
	25,100,580	22,689,341
Shareholder's equity:		
Share capital and contributed surplus	27,397,115	27,397,115
Retained earnings	6,770,036	6,250,425
	34,167,151	33,647,540
	\$ 59,267,731	\$ 56,336,881

## Interim Income Statement (Unaudited)

	March 31 2022	March 31 2021	\$ Changes	% Change
<b>Revenues</b>				
Metered Billings (Quarterly)	\$ 1,603,403	\$ 1,391,323	\$ 212,080	15%
Service fee	245,375	245,250	125	0%
	1,848,778	1,636,573	212,205	13%
<b>Cost of Sales</b>				
Contracts	177,277	168,080	9,197	5%
Utilities	394,165	361,011	33,154	9%
Amortization	394,502	307,062	87,440	28%
	965,944	836,153	129,791	16%
<b>Gross margin</b>	<b>882,834</b>	<b>800,420</b>	<b>82,414</b>	<b>10%</b>
<b>General and Administration Expenses</b>				
Salaries and benefits	208,573	208,346	227	0%
Administration expenses	21,093	20,523	570	3%
Insurance	28,750	28,750	-	-%
Professional Fees	33,750	18,730	15,020	80%
	292,166	276,349	15,817	6%
<b>Net income before other items</b>	<b>590,668</b>	<b>524,071</b>	<b>66,597</b>	<b>13%</b>
<b>Contributions and Financing expense</b>				
Developer contributions	85,539	53,683	31,856	59%
Other income	1,944	25,104	(23,160)	(92%)
Net financing cost	(158,542)	(151,624)	(6,918)	5%
	(71,059)	(72,837)	1,778	(2%)
<b>Net Income</b>	<b>\$519,609</b>	<b>\$451,234</b>	<b>68,325</b>	<b>15%</b>
<b>Earnings before interest, taxes and amortization (EBITA)</b>				
Net income per above	\$ 519,609	\$ 451,234	68,375	15%
Net Financing cost	158,542	151,624	6,918	5%
Amortization expense	394,502	307,062	87,440	28%
<b>EBITA</b>	<b>\$ 1,072,653</b>	<b>\$ 909,920</b>	<b>\$ 162,733</b>	<b>18%</b>

Notes:

	Ending March 31 2022	Ending March 31 2021
Percentage of Revenue		
Gross margin percentage	48%	49%
General and administration percentage	16%	17%
Net income percentage	28%	28%
EBITA percentage	58%	56%

## Year-To-Date Budget vs. Actual Comparison (Unaudited)

	2022 Q1 Budget	2022 Q1 Actual	\$ Variance	% Variance
<b>Revenues</b>				
Metered Billings (Quarterly)	\$ 1,575,765	\$ 1,603,403	27,638	2%
Service fee	245,375	245,375	-	-%
	1,821,140	1,848,778	27,638	2%
<b>Cost of Sales</b>				
Contracts	350,137	177,277	(172,860)	(49%)
Utilities	383,553	394,165	10,612	3%
Amortization	447,762	394,502	(53,260)	(12%)
	1,181,452	965,944	(215,508)	(18%)
<b>Gross margin</b>	<b>639,688</b>	<b>882,834</b>	<b>243,146</b>	<b>38%</b>
<b>General and Administration Expenses</b>				
Salaries and benefits	240,782	208,573	(32,209)	(13%)
Administration expenses	36,501	21,093	(15,408)	(42%)
Insurance	30,000	28,750	(1,250)	(4%)
Professional Fees	40,000	33,750	(6,250)	(16%)
	347,283	292,166	(55,117)	(16%)
<b>Net income before other items</b>	<b>292,405</b>	<b>590,668</b>	<b>298,263</b>	<b>102%</b>
<b>Contributions and Financing expense</b>				
Developer contributions	129,993	85,539	(44,454)	(34%)
Other income	12,000	1,944	(10,056)	(84%)
Other expenses	(104,500)	-	104,500	(100%)
Net financing cost	(156,992)	(158,542)	(1,550)	1%
	(119,499)	(71,059)	48,440	(41%)
<b>Net Income</b>	<b>\$172,906</b>	<b>\$519,609</b>	<b>\$346,703</b>	<b>201%</b>
<b>Earnings before interest, taxes and amortization (EBITA)</b>				
Net income per above	\$ 172,906	\$ 519,609	\$ 346,703	201%
Net Financing cost	156,992	158,542	1,550	1%
Amortization expense	447,762	394,502	(53,260)	(12%)
<b>EBITA</b>	<b>\$ 777,660</b>	<b>\$ 1,072,653</b>	<b>\$ 294,993</b>	<b>38%</b>