



City of Richmond

Report to Committee

To: Finance Committee

Date: December 8, 2022

From: John Irving, P.Eng., MPA
General Manager, Engineering and Public Works
Chief Executive Officer, Lulu Island Energy Company

File: 01-0060-20-LIEC1/2022-Vol 01

Jerry Chong, CPA, CA
General Manager, Finance
Chief Financial Officer, Lulu Island Energy Company

Re: 2022 Q3 Financial Information for Lulu Island Energy Company

Staff Recommendation

That the Lulu Island Energy Company report titled “2022 Q3 Financial Information for Lulu Island Energy Company”, dated December 8, 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
General Manager, Finance
Chief Financial Officer,
Lulu Island Energy Company
(604-276-4064)

REPORT CONCURRENCE	
CONCURRENCE OF GENERAL MANAGER	
REVIEWED BY SMT	INITIALS:
APPROVED BY CAO	



6911 NO. 3 ROAD
RICHMOND, BC V6Y 2C1

Report

To: Board of Directors **Date:** November 22, 2022
From: Jerry Chong, CPA, CA,
Chief Financial Officer
Re: Lulu Island Energy Company – 2022 3rd Quarter Financial Information

Staff Recommendation

That the 3rd Quarter Financial Information as presented in the report titled “Lulu Island Energy Company – 2022 3rd Quarter Financial Information”, dated November 22, 2022, be approved.

Background

Richmond’s 2041 Official Community Plan (OCP) establishes a target to reduce greenhouse gas (GHG) emissions 50 percent below 2007 levels by 2020 and 100 percent by 2050. The City identified district energy utilities (DEUs) as a leading strategy to achieve the City’s GHG reduction goals and incorporated Lulu Island Energy Company Ltd. (LIEC) in 2013 for the purposes of carrying out the City’s district energy initiatives on the basis of the following guiding principles:

1. The DEU will provide end users with energy costs that are competitive with conventional energy costs, based on the same level of service; and
2. Council will retain the authority of setting customer rates, fees and charges for DEU services.

The City established three DEU service areas: ADEU, OVDEU, and CCDEU. Table 1 below provides a summary of the developments connected to the DEU service areas to-date.

Table 1 – DEU Service Areas - Current and Projected Connected Space

	Buildings To-Date	Residential Units To-Date	Floor Area	
			To-Date	Build-out
Alexandra District Energy Utility	13	2,200	2.4M ft ²	4.4M ft ²
Oval Village District Energy Utility	12	2,541	2.9M ft ²	6.4M ft ²
City Centre District Energy Utility	2	727	1.2M ft ²	48.0M ft ²
Total	27	5,468	6.5M ft²	58.8M ft²

The ADEU provides heating and cooling services to ten residential buildings, the large commercial development at “Central at Garden City”, the Richmond Jamatkhana temple, and Fire Hall No. 3, comprising over 2,200 residential units and over 2.4 million square feet of floor area. While some electricity is consumed for pumping and equipment operations, most of this energy is currently produced locally from the geo-exchange fields in the greenway corridor and West Cambie Park, and highly efficient air source heat pumps.

The OVDEU services 12 buildings, containing 2,541 residential units. Energy is currently supplied from the two interim energy centres with natural gas boilers which provide 11 MW of heating capacity. LIEC received a \$6.2 million grant from the CleanBC Communities Fund for the design and construction of the sewer heat recovery technology and a permanent energy centre for the area. Once completed (estimated 2025/2026), the system will be able to produce up to 80% of low-carbon energy from the Gilbert Trunk sanitary force main sewer.

LIEC executed agreements with Corix Utilities Inc. and the Canada Infrastructure Bank to design, build, finance, operate, and maintain CCDEU infrastructure providing heating and cooling services to over 170 new residential and mixed-use commercial developments by 2050. The first development in the CCDEU service area comprising of approximately 630,000 square feet and over 550 residential units was connected in January 2022. The project is expected to reduce GHG emissions by one million tonnes by 2050.

LIEC owns and operates DEU infrastructure within the service areas. All capital and operating costs are recovered through revenues from user fees, ensuring that the business is financially sustainable. City Council is the regulator and thus sets customer rates as noted in the principles above.

This report provides 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 Q3 financial information consists of the interim statement of financial position as of September 30, 2022 (Attachment 1) and the interim income statement for the period ended September 30, 2022 (Attachment 2).

Financial Position

The interim statement of financial position provides a summary of assets, liabilities, and shareholder's equity. Total assets are comprised of current assets (cash, investments, and receivables) of \$18,086,038 and non-current assets (plant and equipment) of \$43,731,793. The total assets are \$61,817,831. The total liabilities of \$26,703,133 include outstanding invoices, deferred contributions, and the concession liability. Included in the accrued liabilities is an amount totalling \$419,942, which pertains to the unplanned environmental remediation work related to pipe construction defect, that resulted in a leak and subsequent clean up of the released heat transfer fluid in the Alexandra District Energy Utility (DEU) service area. The prompt response and excellent spill management procedures resulted in a 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 third 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 the total liabilities and measures the company's financial health. As of September 30, 2022, LIEC's shareholder equity is \$35,114,698, showing good financial health of the company. Attachment 3 shows the year-to-date budget to actual numbers.

Revenues

The metered billing revenue is the total energy sales of Alexandra District Energy Utility (ADEU), Oval Village District Energy Utility (OVDEU) and City Center District Energy Utility (CCDEU) service areas. The year-to-date metered billings revenue is \$2,144,707 from the ADEU, \$2,156,735 from the OVDEU and \$472,289 from the CCDEU. Overall, the first nine months of metered billing revenue of \$4,773,731 increased by 21% over 2021. This reflects the addition of three new building connections, increased energy use from customers due to increased occupancy, and the approved 2022 customer rates.

Cost of Sales

The cost of sales is the accumulated total of all expenses attributable to the metered billing revenue, which includes contract services, utilities (electricity and natural gas), and amortization expenses. The contract expense increased by 40% over 2021 due to the additional operations and maintenance work as a result of more buildings being serviced; the actual is 29% below the budget. The growth in energy demand, due to the addition of more buildings, and operation of the first on-site low carbon energy plant (LCEP), resulted in higher use of electricity and natural gas to run distribution pumps, geo-exchange heat pumps, on-site LCEP air source heat pump, 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 by 78% compared to 2021, and by 5% higher compared to the budget. The amortization expense increased due to capital asset additions. The year-over-year cost of sales has increased by 42%. The gross margin as a percentage of revenue is 42% for 2022 compared to 52% in the first nine months of 2021 due to higher non-controllable expenses.

General and Administration Expenses

General and administration (G&A) expenses are expenditures that LIEC incurs with respect to supporting operations which include salaries and benefits, administration expenses, professional fees, etc.. Salaries and benefits are in line with last year, but below budget due to two vacant positions, that 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 expenses increased due to the general insurance rate increase and additional DEU assets being insured. Professional fees increased in comparison to 2021 due to the additional audit work required due to the increase in LIEC's financial position. Overall, the G&A expenses, as a percentage of revenues are at 15% compared to 17% in 2021.

Contributions and Financing Expenses

The contributions and financing expenses section represents other sources of income and costs for the business. The developer contributions are higher than in 2021 due to additional assets placed in service. The developers' contributions are below budget due to the difference between the 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 higher than 2021's due to additional building permit submissions. Other expenses are lower in 2022 as the company incurred costs in 2021 to address the unplanned environmental remediation. The net financing cost is the result of year-to-date finance costs on concession liabilities, offset by interest income on investments. The overall net financing costs are lower than in 2021, due to higher interest rates on investments.

LIEC's EBITA (earnings before interest, tax, and amortization), used as a proxy to measure the company's financial performance, increased by 25% compared to the first nine months of 2021. EBITA as a percentage of revenue is 56% for 2022 compared to 53% in 2021.

The year-to-date net income of \$1,467,158 has exceeded Q3 2021 (\$973,814) and the budget (\$633,582). 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.



Johana Vuletin
Senior Financial Accountant
(604-204-8699)

- Att. 1: Interim Statement of Financial Position as of September 30, 2022 (unaudited)
- 2: Interim Income Statement for the period ending September 30, 2022 (unaudited)
- 3: Year-To-Date Budget vs. Actual Comparison (unaudited)
- 4: LIEC Third Quarter Income Statement (unaudited)

Interim Statement of Financial Position (Unaudited)

	As of September 30 2022	As of December 31 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,630,343	\$11,707,794
Accounts receivable	2,393,277	1,676,423
Investments	6,062,418	4,047,518
	18,086,038	17,431,735
Non-current assets:		
Plant and equipment	43,731,793	38,905,146
	\$ 61,817,831	\$ 56,336,881
Liabilities and Shareholder's Equity		
Current and non-current liabilities:		
Accounts payable and accrued liabilities	\$ 943,440	\$ 2,671,416
Deferred developer contributions	11,894,602	7,753,538
Concession liability	13,865,091	12,264,387
	26,703,133	22,689,341
Shareholder's equity:		
Share capital and contributed surplus	27,397,115	27,397,115
Retained earnings	7,717,583	6,250,425
	35,114,698	33,647,540
	\$ 61,817,831	\$ 56,336,881

Interim Income Statement (Unaudited)

	September 30 2022	September 30 2021	\$ Changes	% Change
Revenues				
Metered Billings (Quarterly)	\$ 4,773,731	\$ 3,950,550	\$ 823,181	21%
Service fee	736,125	735,750	375	0%
	5,509,856	4,686,300	823,556	18%
Cost of Sales				
Contracts	747,552	532,575	214,977	40%
Utilities	1,229,949	692,803	537,146	78%
Amortization	1,208,347	1,025,745	182,602	18%
	3,185,848	2,251,123	934,725	42%
Gross margin	2,324,008	2,435,177	(111,169)	(5%)
General and Administration Expenses				
Salaries and benefits	645,243	634,740	10,503	2%
Administration expenses	63,722	60,197	3,525	6%
Insurance	71,440	88,007	(16,567)	(19%)
Professional Fees	33,750	28,718	5,032	18%
	814,155	811,662	2,493	0%
Net income before other items	1,509,853	1,623,515	(113,662)	(7%)
Contributions and Financing expense				
Developer contributions	282,571	177,139	105,432	60%
Other income	75,825	23,852	51,973	218%
Other expense	-	(388,431)	388,431	(100%)
Net financing cost	(401,091)	(462,261)	61,170	(13%)
	(42,695)	(649,701)	607,006	(93%)
Net Income	\$1,467,158	\$973,814	493,344	51%
Earnings before interest, taxes and amortization (EBITA)				
Net income per above	\$1,467,158	\$ 973,814	\$493,344	51%
Net Financing cost	401,091	462,261	(61,170)	(13%)
Amortization expense	1,208,347	1,025,745	182,602	18%
EBITA	\$3,076,596	\$2,461,820	\$614,776	25%

Notes:

	Ending September 30 2022	Ending September 30 2021
Percentage of Revenue		
Gross margin percentage	42%	52%
General and administration percentage	15%	17%
Net income percentage	27%	21%
EBITA percentage	56%	53%

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

	2022 Q3 Budget	2022 Q3 Actual	\$ Variance	% Variance
Revenues				
Metered Billings (Quarterly)	\$ 4,810,426	\$ 4,773,731	(36,695)	(1%)
Service fee	736,114	736,125	11	0%
	5,546,540	5,509,856	(36,684)	(1%)
Cost of Sales				
Contracts	1,050,412	747,552	(302,860)	(29%)
Utilities	1,173,045	1,229,949	56,904	5%
Amortization	1,343,286	1,208,347	(134,939)	(10%)
	3,566,743	3,185,848	(380,895)	(11%)
Gross margin	1,979,797	2,324,008	344,211	17%
General and Administration Expenses				
Salaries and benefits	722,347	645,243	(77,104)	(11%)
Administration expenses	112,213	63,722	(48,491)	(43%)
Insurance	90,000	71,440	(18,560)	(21%)
Professional Fees	53,351	33,750	(19,601)	(37%)
	977,911	814,155	(163,756)	(17%)
Net income before other items	1,001,886	1,509,853	507,967	51%
Contributions and Financing expense				
Developer contributions	409,173	282,571	(126,602)	(31%)
Other income	36,000	75,825	39,825	111%
Other expenses	(313,500)	-	313,500	(100%)
Net financing cost	(499,977)	(401,091)	98,886	(20%)
	(368,304)	(42,695)	325,609	(88%)
Net Income	\$633,582	\$1,467,158	\$833,576	132%
Earnings before interest, taxes and amortization (EBITA)				
Net income per above	\$633,582	\$1,467,158	\$833,576	132%
Net Financing cost	499,977	401,091	(98,886)	(20%)
Amortization expense	1,343,286	1,208,347	(134,939)	(10%)
EBITA	\$2,476,845	\$3,076,596	\$599,751	24%

LIEC Third Quarter Income Statement

	2022 Q3 Actual	2021 Q3 Actual	\$ Variance	% Variance
Revenues				
Metered Billings (Quarterly)	\$ 1,584,108	\$ 1,292,969	291,139	23%
Service fee	245,375	245,250	125	0%
	1,829,483	1,538,219	291,264	19%
Cost of Sales				
Contracts	283,157	153,483	129,674	84%
Utilities	417,873	170,387	247,486	145%
Amortization	406,923	341,915	65,008	19%
	1,107,953	665,785	442,168	66%
Gross margin	721,530	872,434	(150,904)	(17%)
General and Administration Expenses				
Salaries and benefits	213,788	213,610	178	0%
Administration expenses	21,004	20,935	69	0%
Insurance	23,813	44,004	(20,191)	(46%)
Professional Fees	-	-	-	0%
	258,605	278,549	(19,944)	(7%)
Net income before other items	462,925	593,885	(130,960)	(22%)
Contributions and Financing expense				
Developer contributions	98,517	69,707	28,810	41%
Other income	29,964	39	29,925	(76731%)
Other expense	-	(388,431)	388,431	(100%)
Net financing cost	(80,539)	(153,197)	72,658	(47%)
	47,942	(471,882)	519,824	(110%)
Net Income	\$510,867	\$122,003	\$388,864	319%
Earnings before interest, taxes and amortization (EBITA)				
Net income per above	\$510,867	\$122,003	\$388,864	319%
Net Financing cost	80,539	153,197	(72,658)	(47%)
Amortization expense	406,923	341,915	65,008	19%
EBITA	\$998,329	\$617,115	\$381,214	62%