



# City of Richmond

## Report to Committee

**To:** Finance Committee

**Date:** April 18, 2019

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

**File:** 10-6600-10-01/2019-Vol 01

Jerry Chong, CPA, CA  
Director, Finance and Chief Financial Officer,  
Lulu Island Energy Company

**Re:** Lulu Island Energy Company - 1<sup>st</sup> Quarter Financial Information

### Staff Recommendation

That the Lulu Island Energy Company report titled "Lulu Island Energy Company – 1<sup>st</sup> Quarter Financial Information" dated April 18, 2019 from the Chief Executive Officer and Chief Financial Officer, Lulu Island Energy Company be received for information.

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

Jerry Chong, CPA, CA  
Director, Finance and  
Chief Financial Officer,  
Lulu Island Energy Company  
(604-276-4064)

Att. 1

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





6911 NO. 3 ROAD  
RICHMOND, BC V6Y 2C1

## Report

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**DATE:** April 9, 2019

**TO:** Board of Directors

**FROM:** Jerry Chong, CPA, CA, Chief Financial Officer

**Re:** Lulu Island Energy Company – 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 – 1<sup>st</sup> Quarter Financial Information” dated April 9, 2019 from the Chief Financial Officer, Lulu Island Energy Company, 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 was prepared with the objective to provide pre-audited financial information to the Board and LIEC’s shareholder, represented by Richmond City Council.

### Analysis

Financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The LIEC’s pre-audited Q1 financial information consists of a Statement of Comprehensive Income, which includes a summary of revenues, expenses, other activities and net income for the quarter (included in Attachment 1).

### Revenues

The metered billing revenue is the total energy sales of both ADEU and OVDEU service areas. The metered billings revenue is \$471,383 from the Alexandra District Energy Utility (ADEU) and \$502,188 from the Oval Village District Energy Utility (OVDEU). Overall, the first quarter metered billing revenue of \$973,571 is in the line with the projected revenue.

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 is below budget by 16% mainly due to fewer unscheduled repairs and maintenance. The utility expenses are below budget by 3% due to lower than projected use of electricity and natural gas. The amortization expense is 6% below budget due to timing of capitalization. Overall, the cost of sales of \$661,459 has a favorable variance.

General and Administration Expenses

The general and administration expenses are expenditures that LIEC incurs to engage in business development activities which include salaries and benefits, administration expenses, professional fees, etc. The administration expenses include the overhead allocation paid by LIEC to the City of Richmond for the support provided by the City. Overall, the general and administration expenses have a favorable variance of 9%.

Contributions and Financing

The contributions and financing expense section represent other sources of revenue and financing expense for the business. The energy modeling review fee of \$59,591 is higher than budget due to more building permits being reviewed in the first quarter. The net finance cost is the result of finance costs on concession liabilities in the first quarter, offset by interest income. The advanced payment received from developers for future building connections resulted in higher cash balances in the first quarter. Therefore, interest income is higher than expected and the net finance cost of \$49,351 is below budget by 42%.

LIEC's EBITA (earnings before interest, tax, and amortization), used as a proxy to measure LIEC's financial performance, at the end of the first quarter is 20% higher than budget. The net income at the end of the first quarter is \$391,615. Consistent with the corporation's financial plan objectives, any net income will be maintained in LIEC's equity in order to fund future capital replacements.

**Financial Impact**

None.

**Conclusion**

The pre-audited financial information shows that LIEC's financial position is positive.



Helen Zhao, CPA, CA  
Controller

Attachment 1: Summary of Q1 Financial Information (unaudited)

**Attachment 1 – Summary of Q1 Financial Information (unaudited)**

	<b>2019 Q1 Actual</b>	<b>2019 Q1 Budget</b>	<b>\$ Changes</b>	<b>% Change</b>
<b>Revenues</b>				
Metered Billings (Quarterly)	\$ 973,571	\$ 973,800	(229)	0%
Service fee	240,560	240,560	-	0%
	1,214,131	1,214,360	(229)	0%
<b>Cost of Sales</b>				
Contracts	158,189	187,496	(29,307)	(16%)
Utilities	241,963	249,017	(7,054)	(3%)
Amortization	261,307	277,722	(16,415)	(6%)
	661,459	714,235	(52,776)	(7%)
<b>Gross margin</b>	<b>552,672</b>	<b>500,125</b>	<b>52,547</b>	<b>11%</b>
<b>General and Administration Expenses</b>				
Salaries and benefits	160,940	167,263	(6,323)	(4%)
Administration expenses	19,165	28,947	(9,782)	(34%)
Insurance	17,500	17,500	-	0%
Professional Fees	382	3,500	(3,118)	(89%)
	197,987	217,210	(19,223)	(9%)
<b>Net income before other items</b>	<b>354,685</b>	<b>282,915</b>	<b>71,770</b>	<b>25%</b>
<b>Contributions and Financing expense</b>				
Developer contributions	26,690	26,690	-	0%
Energy modeling review fee	59,591	16,000	43,591	272%
Net financing cost	(49,351)	(84,835)	35,484	(42%)
	36,930	(42,145)	79,075	(188%)
<b>Net Income</b>	<b>\$391,615</b>	<b>\$240,770</b>	<b>\$150,845</b>	<b>63%</b>
<b>Earnings before interest, taxes and amortization (EBITA)</b>				
Net income per above	391,615	240,770	150,845	63%
Financing expense	104,614	114,835	(10,221)	(9%)
Amortization expense	261,307	277,722	(16,415)	(6%)
<b>EBITA</b>	<b>757,536</b>	<b>633,327</b>	<b>124,209</b>	<b>20%</b>