



To: Finance Committee

Date: July 20, 2018

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

File: 10-6600-10-01/2018-Vol 01

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

Re: Lulu Island Energy Company – 2018 Operating Budget Amendment and 2nd Quarter
Financial Information

Staff Recommendation

That the Lulu Island Energy Company report titled “Lulu Island Energy Company – 2018 Operating Budget Amendment and 2nd Quarter Financial Information” dated July 20, 2018 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 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 1A / 5B	INITIALS:
APPROVED BY CAO	





6911 NO. 3 ROAD
RICHMOND, BC V6Y 2C1

Report

DATE: July 20, 2018

TO: Board of Directors

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

Re: **Lulu Island Energy Company – 2018 Operating Budget Amendment and 2nd Quarter Financial Information**

Staff Recommendation

1. That the 2018 Operating Budget Amendment as presented in the staff report titled, “Lulu Island Energy Company – 2018 Operating Budget Amendment and 2nd Quarter Financial Information” dated July 20, 2018 from the Chief Financial Officer, Lulu Island Energy Company, be approved.
2. That the 2nd Quarter Financial Information as presented in the report titled “Lulu Island Energy Company – 2018 Operating Budget Amendment and 2nd Quarter Financial Information” dated July 20, 2018 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 the Richmond City Council.

Analysis

2018 Operating Budget Amendment

With the continued rapid development pace within the City of Richmond, LIEC is in the process of developing and capturing new business opportunities, specifically through the development of both a City Centre-wide DEU strategy and the recently approved Interim City Centre DEU strategy (ICCDEU).

Given the rapid emergence of these business opportunities, staff will routinely monitor the budget and expenditure progress closely to identify any need for adjustments.

After approval of the 2018 operating budget, LIEC staff and City staff have further estimated the costs for services that LIEC receives from the city in support of additional growth and made adjustments. Specifically, the increased overhead allocation paid by LIEC to the City of Richmond in 2018 is estimated at \$64,000. It is recommended to amend the overhead allocation in the general administration expense of the 2018 operating budget.

The 2018 operating budget has been adjusted to reflect the changes in LIEC operations and to present the operating budget in the same format as the financial statements (Attachment 1).

2018 2nd Quarter Financial Information

Financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The LIEC's pre-audited Q2 financial information consists of Statement of Comprehensive Income, which includes a summary of revenues, expenses, other activities and net income for the quarter (included in Attachment 2).

The metered billings revenue reflects energy sales. The metered billings revenue, \$834,798 from the Oval Village District Energy Utility (OVDEU) and \$903,792 from the Alexandra District Energy Utility (ADEU), is in line with the budget. The total revenue from energy sales for the second quarter is \$1,738,590.

The cost of sales is the direct variable cost relating to the operating revenue, which includes utilities (electricity and natural gas), contract services and amortization expenses. The total cost of sales is in line with budget. Contract services are 2% higher than budget and amortization expenses are 2% lower than the budget. The gross margin is 2% lower than the budget.

The general and administration expenses are expenditures that LIEC incurs to engage in business development activities and includes 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. The general and administration expenses are 2% below the budget.

LIEC's overall financial performance is higher than the budget by 3% and the net income at the end of the second quarter is \$414,231. Consistent with strategic objectives, the net income will be set aside in LIEC's equity to build a reserve fund for future capital replacement.

Financial Impact

None.

Conclusion

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



Helen Zhao, CPA, CA
Controller
Lulu Island Energy Company
(604-276-4053)

Attachment 1 – 2018 Amended Operating Budget
Attachment 2 – Summary of Q2 Financial Information (unaudited)

Attachment 1 – 2018 Amended Operating Budget

	Amended Budget	Original Budget	\$ Changes	% Change
Revenues				
Metered Billings (Quarterly)	\$ 3,379,124	\$3,379,124	-	-
Service fee	934,215	934,215	-	-
	4,313,339	4,313,339	-	-
Cost of Sales				
Contracts	655,569	655,569	-	-
Utilities	732,314	732,314	-	-
Amortization	1,131,384	1,131,384	-	-
	2,519,267	2,519,266	-	-
Gross margin	1,794,072	1,794,072	-	-
General and Administration Expenses				
Salaries and benefits	615,393	615,393	-	-
Administration expenses ¹	128,211	64,211	64,000	100%
Advertising and marketing	5,305	5,305	-	-
Insurance	65,000	65,000	-	-
Professional Fees	65,000	65,000	-	-
	878,909	814,909	64,000	8%
Net income before undernoted items	915,163	979,163	(64,000)	(7%)
Contributions and Financing expense				
Developer contributions	86,324	86,324	-	-
Other income	20,000	20,000	-	-
Finance income	30,000	30,000	-	-
Finance expense	(419,519)	(419,519)	-	-
	(283,195)	(283,195)	-	-
Net Income	631,968	695,968	(64,000)	(9%)

Notes:

1. A fee of \$64,000 included in administration expense is projected for the day-to-day support received from the City staff over the year

Attachment 2 – Summary of Q2 Financial Information (unaudited)

	Amended Budget	2018 Q2 Actual	\$ Variance	% Change
Revenues				
Metered Billings (Quarterly)	\$ 1,757,606	\$ 1,738,590	(19,016)	(1%)
Service fee	467,108	467,108	-	-
	2,224,714	2,205,697	(19,016)	(1%)
Cost of Sales				
Contracts ¹	327,784	334,903	7,119	2%
Utilities ²	366,157	365,700	(457)	(0%)
Amortization	565,692	556,190	(9,502)	(2%)
	1,259,633	1,256,793	(2,840)	(0%)
Gross margin	965,081	948,904	(16,177)	(2%)
General and Administration Expenses				
Salaries and benefits	307,696	302,316	(5,380)	(2%)
Administration expenses ³	60,805	60,921	116	0%
Advertising and marketing ⁴	2,652	478	(2,174)	(82%)
Insurance	32,500	33,000	500	2%
Professional Fees	32,500	29,798	(2,702)	(8%)
	436,154	426,514	(9,640)	(2%)
Net income before undernoted items	528,927	522,390	(6,537)	(1%)
Contributions and Financing expense				
Developer contributions	43,162	53,380	10,218	24%
Other income	10,000	12,216	2,216	22%
Finance income	30,000	30,355	355	1%
Finance expense ⁵	(209,760)	(204,110)	5,650	(3%)
	(126,598)	(108,159)	18,439	(15%)
Net Income⁶	402,329	414,231	11,902	3%

Notes:

1. The contract expenses include both planned maintenance and unplanned maintenance costs for ADEU and OVDEU.
2. Utilities include electricity and natural gas.
3. Administration costs include the overhead allocation paid to the City of Richmond for the day-to-day support provided.
4. The variance is due to advertising and marketing costs incurred eventually during the year.
5. Financing cost on the concession agreement
6. The net income will be set aside in LIEC's equity to build a reserve fund for future capital replacement.