



City of Richmond

Report to Committee

To: Finance Committee

Date: December 13, 2021

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

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Vol 01

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

Re: Lulu Island Energy Company – 3rd Quarter September 30, 2021 Financial
Information

Staff Recommendation

That the Lulu Island Energy Company report titled “Lulu Island Energy Company – 3rd Quarter September 30, 2021 Financial Information”, dated December 13, 2021 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
& Chief Financial Officer,
Lulu Island Energy Company
(604-276-4064)

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



6911 NO. 3 ROAD
RICHMOND, BC V6Y 2C1

Report

DATE: November 16, 2021
TO: Board of Directors
FROM: Jerry Chong, CPA, CA, Chief Financial Officer
Re: **Lulu Island Energy Company – 2021 3rd Quarter Financial Information**

Staff Recommendation

That the 3rd Quarter Financial Information as presented in the report titled “Lulu Island Energy Company – 2021 3rd Quarter Financial Information”, dated November 16, 2021, 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 Q3 financial information consists of the interim statement of the financial position as of September 30, 2021 (Attachment 1) and the interim income statement for the period ended September 30, 2021 (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) \$16,903,563 and non-current assets (plant and equipment) \$38,276,749. The total assets are \$55,180,312. The total liabilities of \$21,469,998 include outstanding invoices, deferred contributions and concession liabilities. 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 September 30, 2021, LIEC’s shareholder equity is \$33,710,314, 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 both Alexandra District Energy Utility (ADEU) and Oval Village District Energy Utility (OVDEU) service areas. The year to date metered billings revenue is \$2,064,718 from the ADEU and \$1,885,832 from the OVDEU. Overall, the first nine months of metered billing revenue of \$3,950,550 increased by 21% over 2020. This reflects the addition of two new building connections, increased energy use from customers due to increased occupancy, and the approved annual increase for the 2021 rates. The year-to-date metered billings revenue is slightly below budget due to a delayed connection in the ADEU service area, expected to be in service by year-end.

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 2020 with more buildings being serviced, resulting in additional operations and maintenance work. 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 rise by 15% compared to 2020. The amortization expense increased due to capital asset additions. The year-over-year cost of sales has increased by 14%. The gross margin as a percentage of revenue has increased from 51% to 52%, which is in line with last year.

General and Administration Expenses

The general and administration (G&A) expenses are expenditures that LIEC incurs to engage in operating activities which include salaries and benefits, administration expenses, professional fees, etc., there is a 15% increase compared to Q3 2020 to align with Administrative Procedure 3001.01 in order to fairly reimburse the City for the cost of salaries and benefits for administrative and operational time that City management staff members incur while conducting LIEC business; however, salaries and benefits are in line with the budget. 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. The professional fees increased compared to 2020 due to additional costs as a result of the delayed completion of the year end third party audit. Overall, the G&A expenses as a percentage of revenues are at 17%, which is in line with last year's Q3 results.

Contributions and Financing

The contributions and financing expense section represents other sources of income and costs for the business. The developer contributions are higher than 2020 due to additional onsite assets built.

The energy modeling review fee revenues are higher than 2020's due to more than anticipated building permit reviews. In August of 2021, the Board approved an amendment to LIEC budget to include 'Other expense' for the ADEU leak as reported in the 2020 financial statements. A leak was discovered in January 2021 in the ADEU service area as a result of a construction defect in the pipe. The accrual that was set up for 2020 has been fully spent and LIEC has incurred further spill mitigation costs as part of the 2021 budget. Spill clean up and remediation work is ongoing and will need to continue into 2022 in order to follow the Provincial Contaminated Sites Regulations. The net finance cost is the result of year-to-date finance costs on concession liabilities, offset by interest income. The net finance cost is higher than 2020 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 on LIEC books.

LIEC's EBITA (earnings before interest, tax, and amortization), used as a proxy to measure the company's financial performance, increased by 6% compared to the first nine months of 2020. LIEC's EBITA before the other expense is 61% used as a proxy to measure LIEC's financial performance, which is higher than last year, which was 58%.

The year-to-date net income of \$973,369 has exceeded the budget by 58%, though, the net income as a percentage of revenue decreased to 21% for 2021 compared to 31% in 2020 due to additional expenses incurred to mitigate the ADEU spill. 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 on January 5, 2022.



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

- Att. 1: Interim Statement of Financial Position as of September 30, 2021 (unaudited)
- 2: Interim Income Statement for the period ending September 30, 2021 (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 2021	As of December 31 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,733,724	\$ 8,604,504
Accounts receivable	3,137,352	3,034,510
Other investments	4,032,487	4,014,336
	16,903,563	15,653,350
Non-current assets:		
Plant and equipment	38,276,749	37,359,845
	\$ 55,180,312	\$ 53,013,195
Liabilities and Shareholder's Equity		
Current and non-current liabilities:		
Accounts payable and accrued liabilities	\$ 587,850	\$ 1,790,919
Deferred developer contributions	7,857,057	7,352,360
Concession liability	13,025,091	11,133,416
	21,469,998	20,276,695
Shareholder's equity:		
Share capital and contributed surplus	27,397,115	27,397,115
Retained earnings	6,313,199	5,339,385
	33,710,314	32,736,500
	\$ 55,180,312	\$ 53,013,195

Interim Income Statement (Unaudited)

	September 30 2021	Restated* September 30 2020	\$ Changes	% Change
Revenues				
Metered Billings (Quarterly)	\$ 3,950,550	\$ 3,278,308	\$ 672,242	21%
Service fee	735,750	736,114	(364)	0%
	4,686,300	4,014,422	671,878	17%
Cost of Sales				
Contracts	532,575	508,058	24,517	5%
Utilities	692,803	603,727	89,076	15%
Amortization	1,025,745	869,204	156,541	18%
	2,251,123	1,980,989	270,134	14%
Gross margin	2,435,177	2,033,433	401,744	20%
General and Administration Expenses				
Salaries and benefits	634,740	553,186	81,554	15%
Administration expenses	60,197	61,892	(1,695)	(3%)
Insurance	88,007	78,421	9,586	12%
Professional Fees	28,718	24,111	4,607	19%
	811,662	717,610	94,052	13%
Net income before other items	1,623,515	1,315,823	307,692	23%
Contributions and Financing expense				
Developer contributions	177,139	111,307	65,832	59%
Energy modeling review fee	23,852	22,546	1,306	6%
Other expense	(388,431)	-	(388,431)	100%
Net financing cost	(462,261)	(217,542)	(244,719)	112%
	(649,701)	(83,689)	(566,012)	
Net Income	\$973,814	\$1,232,134	(\$258,320)	(21%)

*Restated in accordance with Administrative Procedure 3001.01.

Earnings before interest, taxes and amortization (EBITA)

Net income per above	\$ 973,814	\$ 1,232,134	(\$ 258,320)	(21%)
Net Financing cost	462,261	217,542	244,719	112%
Amortization expense	1,025,745	869,204	156,541	18%
EBITA	\$ 2,461,820	\$ 2,318,880	\$ 142,940	6%

Notes:

	Ending September 30 2021	Ending September 30 2020
Percentage of Revenue		
Gross margin percentage	52%	51%
General and administration percentage	17%	18%
Net income percentage	21%	31%
EBITA percentage (before other expense)	61%	58%

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

	Amended 2021 Q3 Budget	2021 Q3 Actual	\$ Variance	%Variance
Revenues				
Metered Billings (Quarterly)	\$ 4,103,763	\$ 3,950,550	(\$153,213)	(4%)
Service fee	736,114	735,750	(364)	0%
	4,839,877	4,686,300	(153,577)	(3%)
Cost of Sales				
Contracts	619,618	532,575	(87,043)	(14%)
Utilities	870,134	692,803	(177,331)	(20%)
Amortization	1,068,918	1,025,745	(43,173)	(4%)
	2,558,670	2,251,123	(307,547)	(12%)
Gross margin	2,281,207	2,435,177	153,970	7%
General and Administration Expenses				
Salaries and benefits	635,920	634,740	(1,180)	0%
Administration expenses	101,815	60,197	(41,618)	(41%)
Insurance	86,250	88,007	1,757	2%
Professional Fees	55,905	28,718	(27,187)	(49%)
	879,890	811,662	(68,228)	(8%)
Net income before other items	1,401,317	1,623,515	222,198	16%
Contributions and Financing expense				
Developer contributions	196,018	177,139	(18,879)	(10%)
Energy modeling review fee	29,250	23,852	(5,398)	(18%)
Other expense	(542,488)	(388,431)	154,057	(28%)
Net financing cost	(467,237)	(462,261)	4,976	(1%)
	(784,457)	(649,701)	134,756	(17%)
Net Income	\$616,860	\$973,814	\$356,954	58%
Earnings before interest, taxes and amortization (EBITA)				
Net income per above	\$ 616,860	\$ 973,814	\$ 356,954	58%
Net Financing cost	467,237	462,261	(4,976)	(1%)
Amortization expense	1,068,918	1,025,745	(43,173)	(4%)
EBITA	\$ 2,153,015	\$ 2,461,820	\$ 308,805	14%

LIEC Third Quarter Income Statement

	2021 Q3 Actual	Restated 2020 Q3 Actual	\$ Variance	% Variance
Revenues				
Metered Billings (Quarterly)	\$ 1,292,969	\$ 1,064,383	228,586	21%
Service fee	245,250	245,371	(121)	0%
	1,538,219	1,309,754	228,465	17%
Cost of Sales				
Contracts	153,483	160,733	(7,250)	(5%)
Utilities	170,387	179,664	(9,277)	(5%)
Amortization	341,915	289,735	52,180	18%
	665,785	630,132	35,653	6%
Gross margin	872,434	679,622	192,812	28%
General and Administration Expenses				
Salaries and benefits	213,610	176,253	37,357	21%
Administration expenses	20,935	18,388	2,547	14%
Insurance	44,004	39,211	4,793	12%
Professional Fees	-	107	(107)	
	278,549	233,959	44,590	19%
Net income before other items	593,885	445,663	148,222	33%
Contributions and Financing expense				
Developer contributions	69,707	38,436	31,271	81%
Energy modeling review fee	39	12,410	(12,371)	(100%)
Other expense	(388,431)	-	(388,431)	100%
Net financing cost	(153,197)	(77,895)	(75,302)	97%
	(471,882)	(27,049)	(444,833)	
Net Income	\$122,003	\$418,614	(\$296,611)	(71%)
Earnings before interest, taxes and amortization (EBITA)				
Net income per above	\$ 122,003	\$ 418,614	\$ (296,611)	(71%)
Net Financing cost	153,197	77,895	75,302	97%
Amortization expense	341,915	289,735	52,180	18%
EBITA	\$ 617,115	\$ 786,244	(\$ 169,129)	(22%)