



City of Richmond

Report to Committee

To: General Purposes Committee **Date:** February 28, 2017

From: George Duncan **File:** 01-0060-20-
 Chief Administrative Officer and Chair of the Board, Lulu Island Energy Company LIEC1/2016-Vol 01

Robert Gonzalez
 Deputy CAO and General Manager, Engineering and Public Works and Chief Executive Officer,
 Lulu Island Energy Company

Re: **Lulu Island Energy Company - District Energy Assets Transfer Consideration Value Ratification**

Staff Recommendation

That the ordinary resolution of the shareholder in Attachment 1 of the Lulu Island Energy Company report dated February 15, 2017 that ratifies the value of the district energy assets transferred to Lulu Island Energy Company (LIEC) be approved and adopted.

George Duncan
 Chief Administrative Officer and
 Chair of the Board, Lulu Island
 Energy Company Inc.
 (604-276-4338)

Robert Gonzalez, P.Eng
 Deputy CAO and General Manager,
 Engineering and Public Works and
 Chief Executive Officer,
 Lulu Island Energy Company Inc.
 (604-276-4150)

Att. 2

REPORT CONCURRENCE		
ROUTED TO:	CONCURRENCE	CONCURRENCE OF GENERAL MANAGER
Law	<input checked="" type="checkbox"/>	
REVIEWED BY STAFF REPORT / AGENDA REVIEW SUBCOMMITTEE	INITIALS: AJ	APPROVED BY CAO



Report

6911 NO. 3 ROAD
RICHMOND, BC V6Y 2C1

DATE: February 15, 2017

TO: Board of Directors

FROM: Alen Postolka, District Energy Manager

Cindy Gilfillan, Manager, Financial Reporting

Re: Special General Meeting of the Lulu Island Energy Company District Energy Assets Transfer Consideration Value Ratification

Staff Recommendation

That the Board recommends to the Council (Shareholder) to approve and adopt the ordinary resolution in Attachment 1 of the staff report dated February 15, 2017 which will approve and ratify the dollar value of the Assets transferred to Lulu Island Energy Company (LIEC).

Origin

On October 11, 2016, Council authorized staff to transfer the City's district energy assets ("the Assets") to LIEC under the material terms and conditions set out in the staff report titled, "District Energy Assets Transfer from the City to Lulu Island Energy Company" dated August 26, 2016.

On November 7, 2016, the Shareholder approved that LIEC allot and issue to the City an additional three hundred fifty (350) common shares at a deemed issue price equal to the fair market value of the transferred Assets after the transfer is completed. At the same meeting, Shareholder also resolved that the dollar value of the transferred Assets ("Transfer Consideration") be ratified and confirmed by an ordinary resolution of the sole shareholder by March 31, 2017.

The purpose of this report is to request that the Shareholder consider and adopt the ordinary resolution which will approve and ratify the dollar value of the Assets transferred to Lulu Island Energy Company (LIEC).

Analysis

As directed by Council and endorsed by the LIEC Board of Directors, the Asset Purchase Agreement (APA) dated December 16, 2016 has been executed and provides for an initial closing date of December 31, 2016 and a second and final closing date of March 31, 2017. As per the APA, a Closing Valuation Statement has been prepared determining and setting out the value of the Assets (Attachment 2).

The value of the Assets is based on the net book value of the Assets as of the date(s) of closing, calculated in accordance with generally accepted accounting principles.

The operations of the Alexandra District Energy Utility are transferred to LIEC effective December 31, 2016 at 11:59:59pm. Effectively, all operations for 2016 are recorded under the City and activity as of January 1, 2017 is recorded under LIEC. Note, there is no overall impact to the consolidated financial statements; however, the activity will be presented under the appropriate segment for the period of control.

Financial Impact

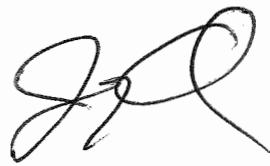
The City is to receive 350 common shares valued at \$26,997,113.50.

Conclusion

The completion of the district energy assets transfer to LIEC was the final step towards Council's goal of assigning LIEC the function of providing district energy services on behalf of the City. The ratification of the fair and correct dollar value of the transferred assets is a requirement under the Shareholder's resolution of November 7, 2016 and is important in order to support the ongoing successful establishment of LIEC, which will return additional benefits to Richmond residents in the long term.



Alen Postolka, P.Eng, CEM
Manager, District Energy
Lulu Island Energy Company
(604-276-4283)



Jerry Chong
Chief Financial Officer,
Lulu Island Energy Company
Director, Finance, City of Richmond,
(604-276-4064)

RG:ap

- Att. 1: Lulu Island Energy Company Consent Resolutions of the Shareholder
- 2: Closing Valuation Statement



**CONSENT RESOLUTIONS OF THE SHAREHOLDER OF
LULU ISLAND ENERGY COMPANY LTD.
(the "Company")**

The undersigned, being the sole voting shareholder of the Company, hereby consents to and adopts in writing the following resolutions:

Transfer Consideration

WHEREAS:

A. The Company entered into an asset purchase agreement dated for reference December 16, 2016, with the City of Richmond (the "**Asset Purchase Agreement**"), providing for the transfer of the Assets (as that term is defined in the Asset Purchase Agreement) in exchange for the issuance of shares by the Company at an issue price equal to the net book value of the Assets (the "**Transfer Consideration**").

B. The Asset Purchase Agreement provides that the Company and the City of Richmond shall determine the net book value of the Transfer Consideration on or before March 31, 2017.

C. Pursuant to the resolution of the Company's shareholder dated November 7, 2016, the dollar value of the Transfer Consideration is to be ratified and confirmed by ordinary resolution of the shareholder by March 31, 2017.

RESOLVED THAT:

1. the value of the Transfer Consideration is hereby ratified and confirmed to be \$26,997,113.50; and
2. the issue price for each of the 350 Common shares issued to the City of Richmond on March 31, 2017, is hereby determined to be \$77,134.61 per share.

DATED as of _____, 2017.

CITY OF RICHMOND

Per: _____

District Energy Utility Asset Closing Valuation Statement

	December 31, 2016	March 31, 2017	Total transfer value
Net Book Value of Tangible Capital Assets			
Alexandra Phase 1 and 2 assets and associated ETS	3,840,309.88	-	3,840,309.88
Alexandra Phase 3 assets and associated ETS	12,320,291.59	1,842.03	12,322,133.62
Alexandra Phase 4 assets and associated ETS	6,996,624.58	40,001.74	7,036,626.32
Total NBV of TCA	\$23,157,226.05	\$41,843.73	\$23,199,069.62
	December 31, 2016	March 31, 2017	Total transfer value
Unspent Capital Funding			
Alexandra Phase 3	-	199,256.95	199,256.95
Alexandra Phase 4	-	666,563.75	666,563.75
City Centre	-	406,625.29	406,625.29
Total Unspent Capital Funding	\$-	\$1,274,465.99	\$1,274,465.99
	December 31, 2016	March 31, 2017	Total transfer value
DEU Operations			
ADEU accumulated surplus	\$-	\$2,523,577.89	\$2,523,577.89
	December 31, 2016	March 31, 2017	Total transfer value
Total Value of Asset Transfer	\$23,157,226.05	\$3,839,887.46	\$26,997,113.50

Note: all March 31, 2017 figures are projected.