



# City of Richmond

## Report to Committee

**To:** Finance Committee

**Date:** December 8, 2020

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

**File:** 10-6600-10-01/2020-Vol 01

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

**Re:** Lulu Island Energy Company – 3<sup>rd</sup> Quarter September 30, 2020 Financial  
Information

### Staff Recommendation

That the Lulu Island Energy Company report titled “Lulu Island Energy Company – 2020 3<sup>rd</sup> Quarter Financial Information”, dated October 30, from the 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  
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Chief Financial Officer,  
Lulu Island Energy Company  
(604-276-4064)

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



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## Report

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**DATE:** October 30, 2020

**TO:** Board of Directors

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

**Re:** Lulu Island Energy Company – 2020 3<sup>rd</sup> Quarter Financial Information

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### Staff Recommendation

That the 3<sup>rd</sup> Quarter Financial Information as presented in the report titled “Lulu Island Energy Company – 2020 3<sup>rd</sup> Quarter Financial Information” dated October 30, 2020 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 Q3 financial information consists of the interim statement of financial position as at September 30, 2020 (Attachment 1) and the interim income statement for the period ended September 30, 2020 (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) \$15,328,566 and non-current assets (plant and equipment) \$34,479,619. The total assets are \$49,808,185. LIEC’s accounts receivable are higher than last year due to some delayed payments for meter billings and an outstanding invoice for an Energy Transfer Station. Staff have contacted the customers and expect the amounts to be collected in full.

The total liabilities of \$17,161,886 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, 2020, LIEC's shareholder equity is \$32,646,299, 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 ADEU and OVDEU service areas. The interim metered billings revenue is \$1,742,596 from the Alexandra District Energy Utility (ADEU) and \$1,535,712 from the Oval Village District Energy Utility (OVDEU). Overall, the first nine months metered billing revenue of \$3,278,308 increased by 20% over 2019. This reflects the addition of two new building connections, increased energy use from customers due to full occupancy, and the approved 2020 rates. The year-to-date metered billings revenue is 5% below budget due to the delayed connection for Berkley House, which has been connected since then. The issued metered billings that have been collected at the quarter end are at 41%. LIEC has been experiencing some delays with payments from customers compared to previous years, which is likely due to the extension given due to the Covid-19 pandemic in Q2. Staff are following up with the customers who have outstanding payments to ensure collection.

### 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 expenses remained on par with last year's expenses as there have been a minimal amount of repairs and maintenance required. The utility expense increased by 20% due to more energy sales and utility rate increases. Additional energy consumption is a result of increased use of distribution pumps, geo-field pumps, cooling towers, and natural gas boilers which are used to deliver the energy to customer buildings. The amortization expense increased due to capital asset additions. The gross margin percentage has increased from 46% to 51%. The gross margin percentage increased by 5% over last year is mainly due to new connections. The new connections increased revenue and there were minimal costs under contract maintenance mainly due to the fact that new connections typically don't require maintenance in the first 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. The 12% increase in salaries and benefits, in comparison to Q3 2019, is primarily due to the approved increase of one additional employee, which we hired in late 2019. 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 general insurance rate increase and additional DEU assets being insured. The professional fees increased due to audit fees due to additional connection fees. Overall, G&A expenses, as a percentage of revenues are at 18%, which is lower than last years Q3.

### Contributions and Financing

The contributions and financing expense section represent other sources of income and cost for the business. The current energy modeling review fee revenues are lower than 2019's due to less building permits being reviewed; there was larger than normal volume of building permit applications in late 2018, which resulted in higher energy modeling review fees collected in 2019. 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 2019 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.

LIEC's Earnings before Interest, Tax, and Amortization (EBITA), used as a proxy to measure the Company's financial performance, increased by 17% compared to the nine months ended in 2019. EBITA as a percentage of revenue is at 58% for 2020 (57% in 2019).

Overall, the net income as a percentage of revenue is 31% for 2020 compared to 28% in 2019. The year to date net income of \$1,232,134 has exceeded the budget by 11%. Consistent with the company's financial plan objectives, any net income will be retained 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.



Johana Vuletin  
Senior Financial Accountant

- Attachment 1: Interim Statement of Financial Position as at September 30, 2020 (unaudited)
- Attachment 2: Interim Income Statement for the period ended September 30, 2020 (unaudited)
- Attachment 3: Year To Date Budget vs. Actual Comparison (unaudited)
- Attachment 4: LIEC Third Quarterly Income Statement (unaudited)

## Interim Statement of Financial Position

	As at September 30 2020	As at December 31 2019
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 6,618,194	\$ 6,233,102
Accounts receivable	3,495,714	1,302,697
Other investments	5,214,658	5,592,923
	15,328,566	13,128,722
Non-current assets:		
Plant and equipment	34,479,619	33,412,384
	\$ 49,808,185	\$46,541,106
<b>Liabilities and Shareholder's Equity</b>		
Current and non-current liabilities:		
Accounts payable and accrued liabilities	\$ 545,278	\$ 777,492
Deferred developer contributions	7,297,336	6,183,224
Concession liability	9,319,272	8,166,226
	17,161,886	15,126,942
Shareholder's equity:		
Share capital and contributed surplus	27,397,115	27,397,115
Retained earnings	5,249,184	4,017,049
	32,646,299	31,414,164
	\$ 49,808,185	\$46,541,106

## Note 1: Investments

Investments represent cash term deposits as follows:

Purchase date	Maturity date (interest rate)	September 30, 2020
Nov 28, 2019	Nov 28, 2020 (2.60%)	\$1,625,590
June 29, 2020	Jun 29, 2021 (0.90%)	2,004,586
Aug 23, 2020	Aug 22, 2021 (1.00%)	1,584,482
		\$5,214,658

## Attachment 2

## Interim Income Statement for the Nine Months Ended

	September 30 2020	September 30 2019	\$ Changes	% Change
<b>Revenues</b>				
Metered Billings (Quarterly)	\$ 3,278,308	\$ 2,742,461	\$535,847	20%
Service fee	736,114	721,681	14,433	2%
	4,014,422	3,464,142	550,280	16%
<b>Cost of Sales</b>				
Contracts	508,058	507,415	643	0%
Utilities	603,727	502,748	100,979	20%
Amortization	869,204	857,770	11,434	1%
	1,980,989	1,867,933	113,056	6%
<b>Gross margin</b>	<b>2,033,433</b>	<b>1,596,209</b>	<b>437,224</b>	<b>27%</b>
<b>General and Administration Expenses</b>				
Salaries and benefits	537,472	478,094	59,378	12%
Administration expenses	77,606	77,251	355	0%
Insurance	78,421	70,639	7,782	11%
Professional Fees	24,111	20,244	3,867	19%
	717,610	646,228	71,382	11%
<b>Net income before other items</b>	<b>1,315,823</b>	<b>949,981</b>	<b>365,842</b>	<b>39%</b>
<b>Contributions and Financing expense</b>				
Developer contributions	111,307	84,952	26,355	31%
Energy modeling review fee	22,546	88,199	(65,653)	(74%)
Net financing cost	(217,542)	(168,106)	(49,436)	29%
	(83,689)	5,045	(88,734)	
<b>Net Income</b>	<b>\$1,232,134</b>	<b>\$955,026</b>	<b>\$277,108</b>	<b>29%</b>
<b>Earnings before interest, taxes and amortization (EBITA)</b>				
Net income per above	\$1,232,134	\$955,026	\$277,108	29%
Net Financing cost	217,542	168,106	49,436	29%
Amortization expense	869,204	857,770	11,434	1%
<b>EBITA</b>	<b>\$2,318,880</b>	<b>\$1,980,902</b>	<b>\$337,978</b>	<b>17%</b>

Notes:

	As at September 30 2020	As at September 30 2019
Percentage of Revenue		
Gross margin percentage	51%	46%
General and administration percentage	18%	19%
Net income percentage	31%	28%
EBITA percentage	58%	57%

## Attachment 3

## Year-To-Date Budget vs. Actual Comparison

	2020 Q3 Budget	2020 Q3 Actual	\$ Variance	% Variance
<b>Revenues</b>				
Metered Billings (Quarterly)	\$ 3,448,998	\$ 3,278,308	(170,690)	(5%)
Service fee	736,114	736,114	-	0%
	4,185,112	4,014,422	(170,690)	(4%)
<b>Cost of Sales</b>				
Contracts	580,942	508,058	(72,884)	(13%)
Utilities	647,670	603,727	(43,943)	(7%)
Amortization	914,638	869,204	(45,434)	(5%)
	2,143,250	1,980,989	(162,261)	(8%)
<b>Gross margin</b>	<b>2,041,862</b>	<b>2,033,433</b>	<b>(8,429)</b>	<b>0%</b>
<b>General and Administration Expenses</b>				
Salaries and benefits	549,627	537,472	(12,155)	(2%)
Administration expenses	109,925	77,606	(32,319)	(29%)
Insurance	71,250	78,421	7,171	10%
Professional Fees	52,361	24,111	(28,250)	(54%)
	783,163	717,610	(65,553)	(8%)
<b>Net income before other items</b>	<b>1,258,699</b>	<b>1,315,823</b>	<b>57,124</b>	<b>5%</b>
<b>Contributions and Financing expense</b>				
Developer contributions	127,416	111,307	(16,109)	(13%)
Energy modeling review fee	38,250	22,546	(15,704)	(41%)
Net financing cost	(316,067)	(217,542)	98,525	(31%)
	(150,401)	(83,689)	66,712	(44%)
<b>Net Income</b>	<b>\$1,108,298</b>	<b>\$1,232,134</b>	<b>\$123,836</b>	<b>11%</b>
<b>Earnings before interest, taxes and amortization (EBITA)</b>				
Net income per above	\$1,108,298	\$1,232,134	\$123,836	11%
Net Financing cost	316,067	217,542	(98,525)	(31%)
Amortization expense	914,638	869,204	(45,434)	(5%)
<b>EBITA</b>	<b>\$2,339,003</b>	<b>\$2,318,880</b>	<b>(\$20,123)</b>	<b>(1%)</b>



## Attachment 4

## LIEC Third Quarter Income Statement

	2020 Q3 Actual	2019 Q3 Actual	\$ Variance	%Variance
<b>Revenues</b>				
Metered Billings (Quarterly)	\$ 1,064,383	\$ 874,352	190,031	22%
Service fee	245,371	240,560	4,811	2%
	1,309,754	1,114,912	194,842	17%
<b>Cost of Sales</b>				
Contracts	160,733	165,598	(4,865)	(3%)
Utilities	179,664	127,588	52,076	41%
Amortization	289,735	300,463	(10,728)	(4%)
	630,132	593,649	36,483	6%
<b>Gross margin</b>	<b>679,622</b>	<b>521,263</b>	<b>158,359</b>	<b>30%</b>
<b>General and Administration Expenses</b>				
Salaries and benefits	171,015	158,604	12,411	8%
Administration expenses	23,626	17,375	6,251	36%
Insurance	39,211	35,639	3,572	10%
Professional Fees	107	1,137	(1,030)	(91%)
	233,959	212,755	21,204	10%
<b>Net income before other items</b>	<b>445,663</b>	<b>308,508</b>	<b>137,155</b>	<b>44%</b>
<b>Contributions and Financing expense</b>				
Developer contributions	38,436	31,571	6,865	22%
Energy modeling review fee	12,410	-	12,410	100%
Net financing cost	(77,895)	(67,111)	(10,784)	16%
	(27,049)	(35,540)	8,491	(24%)
<b>Net Income</b>	<b>\$418,614</b>	<b>\$272,968</b>	<b>\$145,646</b>	<b>53%</b>
<b>Earnings before interest, taxes and amortization (EBITA)</b>				
Net income per above	\$418,614	\$272,968	\$145,646	53%
Net Financing cost	77,895	67,111	10,784	16%
Amortization expense	289,735	300,463	(10,728)	(4%)
<b>EBITA</b>	<b>\$786,244</b>	<b>\$640,542</b>	<b>\$145,702</b>	<b>23%</b>