City of Richmond

# Report to Committee

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| **To:** | Finance and Audit Committee | **Date:** | December 4, 2025 |
| **From:** | John Irving, P.Eng., MPA<br>Deputy CAO<br>Chief Executive Officer, Lulu Island Energy Company<br><br>Jerry Chong, CPA, CA<br>General Manager, Finance and Corporate Services<br>Chief Financial Officer, Lulu Island Energy Company | **File:** | 03-0950-01/2025-Vol 01 |
| **Re:** | **Lulu Island Energy Company – 2025 3rd Quarter Financial Information** | | |

## Staff Recommendation

That the Lulu Island Energy Company report titled "Lulu Island Energy Company – 2025 3rd Quarter Financial Information", dated November 20, 2025, from the Chief Executive Officer and Chief Financial Officer, be received for information.

John Irving, P.Eng., MPA
Deputy CAO
Chief Executive Officer,
Lulu Island Energy Company
(604-276-4140)

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

| REPORT CONCURRENCE | |
|---|---|
| REVIEWED BY SMT | INITIALS: |
| APPROVED BY CAO | |

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# Report

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| **DATE:** | November 20, 2025 |
| **TO:** | Board of Directors |
| **FROM:** | Jerry Chong, CPA, CA, Chief Financial Officer |
| **Re:** | **Lulu Island Energy Company – 2025 3rd Quarter Financial Information** |

## Staff Recommendation

That the 3rd Quarter Financial Information as presented in the report titled "Lulu Island Energy Company – 2025 3rd Quarter Financial Information", dated November 20, 2025, 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. Information regarding LIEC's district energy utility (DEU) operations can be found in Attachment 1. All capital and operating costs are recovered through revenues from user fees, ensuring the business is financially sustainable. City Council is the regulator and thus sets customer rates.

This report provides 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 Q3 financial information (unaudited) consists of the interim statement of financial position as of September 30, 2025 (Attachment 2) and the interim income statement for the period ended September 30, 2025 (Attachment 3). Year-to-date budget-to-actual comparison is shown in Attachment 4.

### Interim Statement of 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) of $26,663,971 and non-current assets (plant and equipment) of $84,096,069.

Current assets increased by $973,771 or 4% from December 31, 2024 due to cash generated from operations. Accounts receivable primarily reflect accruals for the third-quarter meter billings, as well as GST receivable and amounts due from related parties. The decrease in accounts receivable from December 31, 2024, is mainly due to the collection of an outstanding developer contribution. Non-current assets increased by $25,967,966 to $84,096,069 (2024 - $58,128,103) due to additional capital expenditures.

The total liabilities include outstanding invoices, deferred developer contributions and City Centre District Energy Utility (CCDEU) Project Agreement liabilities. Deferred developer contributions and CCDEU Project Agreement liabilities make up the majority of the liabilities and are the primary funding sources for new infrastructure. As of September 30, 2025, the total liabilities were $69,389,457 (2024 - $43,963,031). The increase from December 31, 2024, is due to additional capital expenditures and developer contributions received during the year, to support infrastructure development.

Shareholder's equity represents the net worth of the company, calculated as total assets minus total liabilities. As of September 30, 2025, LIEC's shareholder equity was $41,370,583 (2024 - $39,855,272), a 4% increase from December 31, 2024, resulting from net income earned during the year.

## Interim Income Statement and Budget Variance

### *Revenues*

Metered billings reflect energy sales in the ADEU and CCDEU service areas[1]. The year-to-date metered billing revenue was $2,284,008 from ADEU, and $5,234,219 from CCDEU. Overall, 2025 year-to-date metered billing revenue increased by 16% to $7,518,227 (Q3 2024 - $6,504,652). This increase was driven by three new building connections, higher energy consumption from buildings that were not fully occupied in the prior year, and the approved 2025 customer rates. Revenue was in line with the budget.

### *Cost of Sales*

The cost of sales is the accumulated total expenses attributable to the metered billing revenue, which includes contract services, utilities (electricity and natural gas), and depreciation expenses.

Contract expenses increased by $371,443 to $2,006,147 (Q3 2024 – $1,634,704) when compared to Q3 2024, due to the cost to operate and maintain three additional on-site low-carbon energy plants (LCEPs). Despite these increases, contract expenses were 12% below budget due to fewer unplanned maintenance events than anticipated.

Utility costs increased by $315,430 to $1,691,074 (Q3 2024 – $1,375,644) when compared to Q3 2024, primarily due to increased energy usage from three additional buildings connected and higher demand from one building that was not fully occupied in the prior year. Utility costs were

[1] Note that OVDEU was now combined under the CCDEU service area.

18% below budget, primarily due to the elimination of the BC carbon tax on natural gas used by interim energy centres.

Depreciation expense increased compared to Q3 2024 due to the addition of new capital assets placed in service. However, depreciation remained below budget due to timing differences in the in-service dates of certain assets.

*Gross Margin*

Gross margin as a percentage of revenue decreased to 36% from 40% in prior year due to the overall growth of the on-site Low Carbon Energy Plants (LCEPs). On-site LCEPs are used as an interim strategy to secure future connections to centralized district energy infrastructure while delivering low-carbon energy to customers from day one. LCEPs' air-source heat pump equipment is more complex, and they require more frequent maintenance and higher staffing requirements than centralized interim energy centres. As additional LCEPs come online, a continued downward trend in gross margin is anticipated; however, the long-term plan is to minimize the number of new on-site LCEPs and replace existing on-site LCEPs' equipment with connections to centralized district energy infrastructure, which should reverse the downward trend of the gross margin. Despite this, the gross margin exceeded budget by 28% due to the lower-than-budgeted contract costs, utility costs and depreciation expense.

*General and Administration Expenses*

General and administration (G&A) expenses represent costs incurred by LIEC to support ongoing operations and includes salaries and benefits, administration expenses, insurance, and professional fees. In the third quarter of 2025, G&A expenses increased by 15% compared to the same quarter in 2024. This reflects the company's overall growth and related operational efforts, which is consistent with the LIEC business's growth trajectory. The G&A expenses as percentage of revenue remained at 22%, same as prior year.

- Salaries and benefits were in line with the budget and 17% higher than Q3 2024. This increase was driven by the addition of new employees, approved by the board, to support the additional efforts needed to deliver new infrastructure and operate existing systems necessary to service LIEC customers.

- Administration expenses increased by 8% compared to Q3 2024 due to city staff support related to company growth and general inflation, and were 12% below budget.

- Insurance expense increased by 42% from Q3 2024 primarily due to additional assets being insured, general insurance rate increases, and additional insurance coverage for ADEU assets as directed by the board.

- Professional fees were in line with budget and prior year.

*Contributions, Other Income and Financing Expenses*

The contributions, other income and financing expenses section represents other sources of income and costs for the business. The recognized developer contributions revenue was higher than Q3 2024 due to additional on-site assets being placed into service. It is lower than budget due to the timing of the in-service date.

LIEC continued to invest available cash in secured term deposits. Financing costs related to the CCDEU Project Agreement liabilities were higher than the prior year, reflecting ongoing investment in capital infrastructure to service new customers. However, due to the careful timing of capital investments and slowdown in the development market, these costs remained below budget.

LIEC's earnings before interest, tax, depreciation and amortization (EBITDA) was 10% higher than prior year, while net income was 13% lower than prior year. This decline in net income is primarily due to higher operational cost related to additional on-site LCEPs (see Gross Margin section above). Despite this, the net income exceeded the budget, and EBITDA also exceeded the budget by 22%. Consistent with the company's financial plan objectives, any net income will be retained in LIEC's equity to fund future capital projects and infrastructure replacements.

## Financial Impact

None.

## Conclusion

The pre-audited financial information shows that LIEC's financial position was positive. This report will be presented to Council for information.

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Controller
(604-204-8699)

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Assistant Controller
(604-247-4698)

Att. 1: District Energy in Richmond
2: Interim Statement of Financial Position as of September 30, 2025 (unaudited)
3: Interim Income Statement for the period ending September 30, 2025 (unaudited)
4: Year-To-Date Budget vs. Actual Comparison (unaudited)

## District Energy in Richmond

Richmond's 2041 Official Community Plan (OCP) establishes a target to reduce greenhouse gas (GHG) emissions 50 percent below 2007 levels by 2030 and 100 percent by 2050. The City identified district energy utilities (DEUs) as a leading strategy to achieve the City's GHG reduction goals and incorporated Lulu Island Energy Company Ltd. (LIEC) in 2013 for the purpose of carrying out the City's district energy initiatives based on the following guiding principles:

1. The DEU will provide end users with energy costs that were competitive with conventional energy costs, based on the same level of service.
2. Council will retain the authority to set customer rates, fees and charges for DEU services.
3. The DEU will provide a flexible platform for adopting low-carbon energy technologies.

The City established three DEU service areas: ADEU, OVDEU, and CCDEU. Table 1 below provides a summary of the developments connected under the DEU service areas to date.

Table 1 – DEU Bylaw Service Areas - Current and Projected Connected Space

| | Buildings To-Date | Residential Units To-Date | Floor Area To-Date | Floor Area Build-out |
|---|---|---|---|---|
| Alexandra DEU | 13 | 2,200 | 2.4M $ft^2$ | 4.4M $ft^2$ |
| Oval Village DEU | 14 | 3,174 | 3.7M $ft^2$ | 6.4M $ft^2$ |
| City Centre DEU | 6 | 2,164 | 2.2M $ft^2$ | 48M $ft^2$ |
| **Total** | **33** | **7,538** | **8.3M $ft^2$** | **58.8M $ft^2$** |

The ADEU provides heating and cooling services to ten residential buildings, the large commercial development at "Central at Garden City", the Richmond Jamatkhana Temple, and Fire Hall No. 3, comprising 2,200 residential units and over 2.4 million square feet of floor area. While some electricity was consumed for pumping and equipment operations, most of this energy was currently produced locally from the geo-exchange fields in the greenway corridor and West Cambie Park, and highly efficient air source heat pumps.

The OVDEU services 14 buildings, containing 3,174 residential units. Energy is currently supplied from the three interim energy centres with natural gas boilers, which provide 16 MW of heating capacity. LIEC received a $6.2 million grant from the CleanBC Communities Fund for the design and construction of the sewer heat recovery technology and a permanent energy centre for the area. This project is in the detailed design stage and is expected to be completed in 2030. Once completed, the system will be able to produce up to 80% of low-carbon energy from the Gilbert Trunk sanitary force main sewer.

The CCDEU currently services four buildings, comprised of 2,164 residential units and approximately 2.2 million square feet of floor area. While off-site energy infrastructure is being built, CCDEU utilizes on-site low-carbon energy plants to service new customers. At full build-out, 176 developments, 28,000 residential units and approximately 48 million square feet of floor space will be serviced by 5 permanent energy centres with over 130 MW of heating and 115 MW of cooling capacity. The built-out system is estimated to reduce over one million tonnes of GHG emissions compared to conventional service.

## Interim Statement of Financial Position (Unaudited)

| | As of September 30 2025 | As of December 31 2024 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 11,431,421 | $ 7,576,940 |
| Accounts receivable (Note 1) | 3,425,517 | 4,385,448 |
| Other investments | 11,807,033 | 13,727,812 |
| | 26,663,971 | 25,690,200 |
| Non-current assets: | | |
| Plant and equipment | 84,096,069 | 58,128,103 |
| | $110,760,040 | $ 83,818,303 |
| **Liabilities and Shareholder's Equity** | | |
| Current and non-current liabilities: | | |
| Accounts payable and accrued liabilities | $ 1,558,729 | $ 1,377,195 |
| Deferred developer contributions | 39,566,291 | 22,788,278 |
| Government grants | 1,360,090 | 514,462 |
| Project Agreement liability | 26,904,347 | 19,283,096 |
| | 69,389,457 | 43,963,031 |
| Shareholder's equity: | | |
| Share capital and contributed surplus | 27,397,115 | 27,397,115 |
| Retained earnings | 13,973,468 | 12,458,157 |
| | 41,370,583 | 39,855,272 |
| | $110,760,040 | $ 83,818,303 |

Note 1:

| | September 30, 2025 | | | |
|---|---|---|---|---|
| Aging | Gross book balance | Bad debt provision | Proportion of provision | Credit-impaired |
| Current (not past due) | $ 2,429,033 | $ - | - | No |
| 1 to 30 days past due | 117,143 | - | - | No |
| 31 to 60 days past due | - | - | - | - |
| 61 to 90 days past due | - | - | - | - |
| 91 days to 1 year past due | - | - | - | - |
| | $ 2,546,176 | $ - | - | - |

*Trade receivable aging table excludes GST receivable, and due from related parties.

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**Interim Income Statement (Unaudited)**
**For The Nine Months Ended September 30,**

| | 2025 | 2024 | $ Changes | % Change |
|---|---|---|---|---|
| **Revenues** | | | | |
| Metered billings (Quarterly) | $ 7,518,227 | $ 6,504,652 | $ 1,013,575 | 16% |
| Service fee | 736,115 | 736,115 | - | 0% |
| | 8,254,342 | 7,240,767 | 1,013,575 | 14% |
| **Cost of Sales** | | | | |
| Contracts | 2,006,147 | 1,634,704 | 371,443 | 23% |
| Utilities | 1,691,074 | 1,375,644 | 315,430 | 23% |
| Depreciation | 1,619,886 | 1,321,485 | 298,401 | 23% |
| | 5,317,107 | 4,331,833 | 985,274 | 23% |
| **Gross margin** | **2,937,235** | **2,908,934** | **28,301** | **1%** |
| **General and Administration Expenses** | | | | |
| Salaries and benefits | 934,141 | 800,371 | 133,770 | 17% |
| Administration expenses | 286,540 | 264,111 | 22,429 | 8% |
| Insurance | 293,662 | 206,290 | 87,372 | 42% |
| Professional fees | 320,082 | 321,746 | (1,664) | (1%) |
| | 1,834,425 | 1,592,518 | 241,907 | 15% |
| **Net income before other items** | 1,102,810 | 1,316,416 | (213,606) | (16%) |
| **Contributions and Financing Expense** | | | | |
| Developer contributions | 628,502 | 383,053 | 245,449 | 64% |
| Other income | 8,036 | 41,307 | (33,271) | (81%) |
| Financing income | 679,015 | 676,413 | 2,602 | - |
| Financing cost | (903,052) | (675,144) | (227,908) | 34% |
| | 412,501 | 425,629 | (13,128) | (3%) |
| **Net Income** | **$ 1,515,311** | **$ 1,742,045** | **$ (226,734)** | **(13%)** |

| **Earnings before interest, taxes, depreciation and amortization (EBITDA)** | | | | |
|---|---|---|---|---|
| Net income per above | $ 1,515,311 | $ 1,742,045 | $ (226,734) | (13%) |
| Net financing cost | 224,037 | (1,269) | 225,306 | - |
| Depreciation expense | 1,619,886 | 1,321,485 | 298,401 | 23% |
| **EBITDA** | $ 3,359,234 | $ 3,062,261 | $ 296,973 | 10% |

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Notes:

| | Ending September 30 2025 | Ending September 30 2024 |
|---|---|---|
| Percentage of Revenue | | |
| Gross margin percentage | 36% | 40% |
| General and administration percentage | 22% | 22% |
| Net income percentage | 18% | 24% |
| EBITA percentage | 41% | 42% |

**Year-To-Date Budget vs. Actual Comparison (Unaudited)**
**For The Nine Months Ended September 30, 2025**

| | Budget | Actual | $ Variance | %Variance |
|---|---|---|---|---|
| **Revenues** | | | | |
| Metered Billings (Quarterly) | $ 7,573,407 | $ 7,518,227 | $ (55,180) | (1%) |
| Service fee | 736,115 | 736,115 | - | 0% |
| | 8,309,522 | 8,254,342 | (55,180) | (1%) |
| **Cost of Sales** | | | | |
| Contracts | 2,279,434 | 2,006,147 | (273,287) | (12%) |
| Utilities | 2,057,150 | 1,691,074 | (366,076) | (18%) |
| Depreciation | 1,680,342 | 1,619,886 | (60,456) | (4%) |
| | 6,016,926 | 5,317,107 | (699,819) | (12%) |
| **Gross margin** | **2,292,596** | **2,937,235** | **644,639** | **28%** |
| **General and Administration Expenses** | | | | |
| Salaries and benefits | 942,419 | 934,141 | (8,278) | (1%) |
| Administration expenses | 325,318 | 286,540 | (38,778) | (12%) |
| Insurance | 310,864 | 293,662 | (17,202) | (6%) |
| Professional Fees | 328,613 | 320,082 | (8,531) | (3%) |
| | 1,907,214 | 1,834,425 | (72,789) | (4%) |
| **Net income before other items** | 385,382 | 1,102,810 | 717,428 | |
| **Contributions and Financing Expense** | | | | |
| Developer contributions | 665,659 | 628,502 | (37,157) | 6% |
| Other income | 27,000 | 8,036 | (18,964) | (70%) |
| Financing income | 575,867 | 679,015 | 103,148 | 18% |
| Financing cost | (1,234,351) | (903,052) | 331,299 | (27%) |
| | 34,175 | 412,501 | 378,326 | |
| **Net Income** | **$ 419,557** | **$ 1,515,311** | **$ 1,095,754** | |

| **Earnings before interest, taxes, depreciation and amortization (EBITDA)** | | | | |
|---|---|---|---|---|
| Net income per above | $ 419,557 | $ 1,587,312 | $ 1,095,754 | |
| Net Financing cost | 658,484 | 224,037 | (434,447) | (66%) |
| Depreciation expense | 1,680,342 | 1,619,886 | (60,456) | (4%) |
| **EBITDA** | $ 2,758,383 | $ 3,359,234 | $ 600,851 | 22% |

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