



City of Richmond

Report to Committee

To: Finance & Audit Committee

Date: August 7, 2026

From: John Irving
Deputy CAO
Chief Executive Officer, Lulu Island Energy
Company

File: 03-0950-01/2025-Vol
01

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

Re: Lulu Island Energy Company – 2026 2nd Quarter Financial Information

Staff Recommendation

That the Lulu Island Energy Company report titled “Lulu Island Energy Company – 2026 2nd Quarter Financial Information”, from the Chief Executive Officer and Chief Financial Officer, dated July 20, 2026, be received for information.

Executive Summary

This report presents the unaudited financial information of Lulu Island Energy Company for the second quarter of 2026. LIEC reported net income of \$1.4 million, with revenues exceeding expenses.

As of June 30, 2026, LIEC’s total assets were \$116.4 million, total liabilities were \$72.8 million, and shareholder’s equity was \$43.6 million, reflecting a stable financial position to support ongoing capital and operating needs.

Respectfully submitted,

John Irving
Deputy CAO

Jerry Chong
General Manager, Finance and Corporate Services

Endorsed by Serena Lusk, CAO

Att.1 – LIEC 2026 2nd Quarter Financial Information



6911 NO. 3 ROAD
RICHMOND, BC V6Y 2C1

Report

DATE: July 20, 2026

TO: Board of Directors

FROM: Jerry Chong, Chief Financial Officer

Re: Lulu Island Energy Company – 2026 2nd Quarter Financial Information

Staff Recommendation

That the 2nd Quarter Financial Information as presented in the report titled “Lulu Island Energy Company – 2026 2nd Quarter Financial Information”, dated July 20, 2026, 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 Q2 financial information (unaudited) consists of the interim statement of financial position as of June 30, 2026 (Attachment 2) and the interim income statement for the period ended June 30, 2026 (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 \$27,714,660 and non-current assets (plant and equipment) of \$88,650,299.

Current assets increased by \$897,501 from December 31, 2025, mainly due to cash generated from operations. Accounts receivable primarily reflect accruals for the second-quarter meter billings, as well as GST receivable and amounts due from related parties. The decrease from December 31, 2025 is mainly due to the collection of one outstanding invoice, which is reflected in the increase in cash balance.

Non-current assets increased to \$88,650,299 (2025 - \$87,426,728) due to additional capital expenditures, partially offset by depreciation expense recognized in the period.

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 June 30, 2026, the total liabilities were \$72,808,990 (2025 - \$72,069,585). The increase from December 31, 2025, is due to additional capital expenditures to support infrastructure development.

Shareholder's equity represents the net worth of the company, calculated as total assets minus total liabilities. As of June 30, 2026, LIEC's shareholder equity was \$43,555,969 (2025 - \$42,174,302), a 3% increase from December 31, 2025.

Interim Income Statement and Budget Variance

Revenues

Metered billings reflect energy sales in the ADEU and CCDEU service areas¹. Year-to-date metered billing revenue was \$1,558,318 from ADEU, and \$4,432,935 from CCDEU. Overall, 2026 year-to-date metered billing revenue increased by 18% to \$5,991,253 (Q2 2025 - \$5,090,705). This increase was driven by one new connection in 2026 and higher energy consumption from buildings that were newly connected and not fully occupied in 2025. Revenue was 3% below the budget due to the timing of the new customer connection.

Cost of Sales

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

Contract expenses increased by \$318,721 to \$1,671,246 (Q2 2025 – \$1,352,525), primarily due to the planned additional operations and maintenance requirements associated with the three low carbon energy plants brought into service in 2025. The air-source heat pumps used by the LCEPs reduce carbon emissions compared to natural gas boilers; however, the equipment is more complex and requires more frequent maintenance. In addition, on-site energy plants have higher staffing requirements than centralized interim energy centers. Contract expenses were 4% below budget due to fewer unplanned maintenance events in the first half of 2026 compared to previous years.

¹ Note that OVDEU is now combined under the CCDEU service area.

Utility costs decreased by \$80,865 to \$1,224,830 (Q2 2025 – \$1,305,695), primarily due to the elimination of the BC carbon tax. This was partially offset by the increased electricity usage due to the higher demand from three new LCEPs connected in late 2025. Utility costs were 6% below budget, due to moderate weather conditions and the difference in timing of the new connections.

Depreciation expense increased compared to Q2 2025 due to the addition of new capital assets placed into service. Depreciation expense was 6% below the budget due to timing differences in the in-service dates for certain assets.

Gross Margin

Gross margin as a percentage of revenue was 33%, compared to 34% in Q2 2025, remaining generally consistent with the prior year. Gross margin exceeded budget by 2% 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 Q2 2026, G&A expenses increased by 8% compared to the same period in 2025, in line with the overall company growth and the associated operational requirements. As a percentage of revenue, the G&A expenses decreased to 19% from 20% in Q2 2025.

- Salaries and benefits were in line with the budget and 11% higher than Q2 2025, primarily due to filling existing vacant positions to support the delivery of new infrastructure and the operation of existing systems for LIEC customers.
- Administration expenses increased by 3% compared to Q2 2025 due to company growth and general inflation and were 6% below budget.
- Insurance expense decreased by 5%, compared to Q2 2025, primarily due to the absence of a one-time asset valuation service incurred in 2025. This decrease was largely offset by the increase of insurance premiums associated with additional assets being insured during the period.
- Professional fees increased by 25% compared to Q2 2025, primarily due to a one-time consulting expense incurred in Q2 2026, and the higher audit fees for 2026. Professional fees were in line with the budget.

Contributions, Other Income and Financing Expenses

This section represents other sources of income and costs for the business. The recognized developer contributions revenue was higher than Q2 2025 due to additional on-site assets being placed into service. This is in line with the budget.

LIEC continued to invest available cash in secured term deposits. Investment income was lower than last year due to lower interest rates. 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. Due to the careful timing of capital investments, slowdown in the development market, and the change in servicing strategy, these costs remained below budget.

LIEC's earnings before interest, tax, depreciation and amortization (EBITDA) was 39% higher than Q2 2025, while net income increased by 25% compared to the same period last year. This increase is primarily attributable to additional customer connections and the elimination of the BC carbon tax which reduced utility expenses. 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 positive financial results. This report will be presented to Council for information.

Helen Zhao
Controller
(604-204-8699)

Nicole Zhang
Assistant Controller
(604-204-8685)

- Att. 1: District Energy in Richmond
2: Interim Statement of Financial Position as of June 30, 2026 (unaudited)
3: Interim Income Statement for the period ending June 30, 2026 (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	Build-out
Alexandra DEU	13	2,200	2.4M ft ²	4.4M ft ²
Oval Village DEU	15	3,524	3.7M ft ²	6.4M ft ²
City Centre DEU	6	2,631	2.7M ft ²	48M ft ²
Total	34	8,355	8.8M ft²	58.8M ft²

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 15 buildings, containing 3,524 residential units. Energy is currently supplied from the four interim energy centres with natural gas boilers, which provide almost 24 MW of heating capacity. LIEC received a \$6.2 million grant from the CleanBC Communities Fund for the design and construction of a sewer heat recovery permanent energy centre for the area. This project is in the detailed design stage and is expected to be completed in 2031. Once completed, the system will be able to produce up to 70% of low-carbon energy from the Gilbert Trunk sanitary force main sewer.

The CCDEU currently services six buildings, comprised of 2,631 residential units and approximately 2.7 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 centers 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 June 30 2026	As of December 31 2025
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,524,808	\$ 4,434,012
Accounts receivable (Note 1)	3,854,385	4,378,708
Prepaid expenses	28,045	35,361
Other investments	18,107,422	17,969,078
	27,714,660	26,817,159
Non-current assets:		
Plant and equipment	88,650,299	87,426,728
	\$ 116,364,959	\$ 114,243,887
Liabilities and Shareholder's Equity		
Current and non-current liabilities:		
Accounts payable and accrued liabilities	\$ 1,941,787	\$ 2,075,720
Deferred developer contributions	38,330,941	39,107,207
Government grants	1,529,289	1,360,090
Project Agreement liability	31,006,973	29,526,568
	72,808,990	72,069,585
Shareholder's equity:		
Share capital and contributed surplus	27,397,115	27,397,115
Retained earnings	16,158,854	14,777,187
	43,555,969	42,174,302
	\$ 116,364,959	\$ 114,243,887

Note 1:

	June 30, 2026			
Aging	Gross book balance	Bad debt provision	Proportion of provision	Credit- impaired
Current (not past due)	\$ 2,834,846	\$ -	-	No
1 to 30 days past due	-	-	-	-
31 to 60 days past due	-	-	-	-
61 to 90 days past due	-	-	-	-
91 days to 1 year past due	-	-	-	-
	\$ 2,834,846	\$ -	-	-

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

Interim Income Statement (Unaudited)
For The Six Months Ended June 30, 2026

	2026	2025	\$ Changes	% Change
Revenues				
Metered billings (Quarterly)	\$ 5,991,253	\$ 5,090,705	\$ 900,548	18%
Service fee	490,743	490,743	-	-
	6,481,996	5,581,448	900,548	16%
Cost of Sales				
Contracts	1,671,246	1,352,525	318,721	24%
Utilities	1,224,830	1,305,695	(80,865)	(6%)
Depreciation	1,428,466	1,051,482	376,984	36%
	4,324,542	3,709,702	614,840	17%
Gross margin	2,157,454	1,871,746	285,708	15%
General and Administration Expenses				
Salaries and benefits	694,860	624,386	70,474	11%
Administration expenses	200,795	195,587	5,208	3%
Insurance	184,538	194,314	(9,776)	(5%)
Professional fees	153,238	122,730	30,508	25%
	1,233,431	1,137,017	96,414	8%
Net income before other items	924,023	734,729	189,294	26%
Contributions and Financing Expense				
Developer contributions	776,266	454,863	321,403	71%
Other income	6,622	8,036	(1,414)	(18%)
Financing income	391,442	466,903	(75,461)	(16%)
Financing cost	(716,686)	(555,254)	(161,432)	29%
	457,644	374,548	83,096	22%
Net Income	\$ 1,381,667	\$ 1,109,277	\$ 272,390	25%
Earnings before interest, taxes, depreciation and amortization (EBITDA)				
Net income per above	\$ 1,381,667	\$ 1,109,277	\$ 272,390	25%
Net financing cost	325,244	88,351	236,893	-
Depreciation expense	1,428,466	1,051,482	376,984	36%
EBITDA	\$ 3,135,377	\$ 2,249,110	\$ 886,267	39%

Notes:

	Ending June 30 2026	Ending June 30 2025
Percentage of Revenue		
Gross margin percentage	33%	34%
General and administration percentage	19%	20%
Net income percentage	21%	20%
EBITDA percentage	48%	40%

Year-To-Date Budget vs. Actual Comparison (Unaudited)
For The Six Months Ended June 30, 2026

	Budget	Actual	\$ Variance	% Variance
Revenues				
Metered billings (Quarterly)	\$ 6,184,043	\$ 5,991,253	\$ (192,790)	(3%)
Service fee	490,743	490,743	-	-
	6,674,786	6,481,996	(192,790)	(3%)
Cost of Sales				
Contracts	1,745,018	1,671,246	(73,772)	(4%)
Utilities	1,298,470	1,224,830	(73,640)	(6%)
Depreciation	1,525,887	1,428,466	(97,421)	(6%)
	4,569,375	4,324,542	(244,833)	(5%)
Gross margin	2,105,411	2,157,454	52,043	2%
General and Administration Expenses				
Salaries and benefits	689,531	694,860	5,329	1%
Administration expenses	213,133	200,795	(12,338)	(6%)
Insurance	185,269	184,538	(731)	-
Professional fees	156,978	153,238	(3,740)	(2%)
	1,244,911	1,233,431	(11,480)	(1%)
Net income before other items	860,500	924,023	63,523	7%
Contributions and Financing Expense				
Developer contributions	776,734	776,266	(468)	-
Other income	7,000	6,622	(378)	(5%)
Financing income	326,667	391,442	64,775	20%
Financing cost	(894,723)	(716,686)	178,037	(20%)
	215,678	457,644	241,966	112%
Net Income	\$ 1,076,178	\$ 1,381,667	\$ 305,489	28%
Earnings before interest, taxes, depreciation and amortization (EBITDA)				
Net income per above	\$ 1,076,178	\$ 1,381,667	\$ 305,489	28%
Net financing cost	568,056	325,244	(242,812)	(43%)
Depreciation expense	1,525,887	1,428,466	(97,421)	(6%)
EBITDA	\$ 3,170,121	\$ 3,135,377	\$ (34,744)	(1%)