



City of Richmond

Report to Committee

To: Public Works and Transportation Committee **Date:** April 1, 2015
From: Robert Gonzalez, General Manager,
Engineering & Public Works and Chief Executive
Officer, Lulu Island Energy Company **File:** 10-6600-10-03/2015-
Vol 01

Jerry Chong
Director, Finance and Chief Financial Officer,
Lulu Island Energy Company

Re: **Oval Village District Energy Utility Update**

Staff Recommendation

That the report titled, "Oval Village District Energy Utility Update", dated April 1, 2015, from the Chief Executive Officer and Chief Financial Officer, Lulu Island Energy Company be received for information.

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

Jerry Chong
Director, Finance and Chief Financial Officer,
Lulu Island Energy Company

REPORT CONCURRENCE	
CONCURRENCE OF GENERAL MANAGER 	
REVIEWED BY STAFF REPORT / AGENDA REVIEW SUBCOMMITTEE	INITIALS:
APPROVED BY CAO 	

Report

DATE: April 1, 2015

TO: Robert Gonzalez
Chief Executive Officer, Lulu Island Energy Company

Jerry Chong
Chief Financial Officer, Lulu Island Energy Company

FROM: Alen Postolka, Acting Senior Manager, Sustainability and District Energy

Re: Oval Village District Energy Utility Update

Origin

Staff have received the five-year Capital Plan and updated the business case pro-forma from Corix for the year 2015, both of which have been approved by the Corporation's Board of Directors. The Lulu Island Energy Company (LIEC) is providing the project update report to Council for information.

Background

In 2013, at Council's direction, the LIEC was established as a wholly-owned corporation of the City for the purposes of managing district energy utilities on the City's behalf. Further to that, a District Energy Utilities Agreement between the City and the LIEC was executed, assigning the LIEC the function of providing district energy services on behalf of the City.

In 2014, Council adopted the River Green District Energy Utility Bylaw No. 9134 (the Bylaw) establishing the regulatory framework for the River Green District Energy Utility service area. Subject to Council's approval, the River Green District Energy Utility will be referred to as the Oval Village District Energy Utility (OVDEU) in the future. The business, which encompasses the OVDEU service area and the associated operations, assets and liabilities, will be administered through the LIEC. The OVDEU business was established on the concept that all capital and operating costs would be recovered through revenues from user fees, ensuring that the OVDEU business would be cost neutral over time. In October 2014, the LIEC and Corix Utilities entered into a concession agreement whereby the LIEC would own the OVDEU and its infrastructure, and Corix would design, construct, finance, operate and maintain the OVDEU, subject to the City as the sole shareholder of the LIEC setting rates to customers. As a part of the

agreement between LIEC and Corix, and for the reason that the LIEC was a start-up company with no current assets, City has provided a guarantee of the financial covenants of LIEC under the Concession Agreement, including any obligations arising from a termination of the agreement by LIEC, in the amount of up to \$18.2M.

Analysis

The OVDEU is the first district energy project developed through the LIEC. Staff are working with Corix to provide service in April 2015 to the first two developments: Carrera by Polygon and Riva by Onni, with Cadence by Cressey scheduled immediately afterwards. The following table represents anticipated development connection timelines for the next two years:

Table 1: Development Timing in OVDEU Service Area

	Anticipated Occupancy
Onni (Riva)	April 2015
Polygon (Carrera)	April 2015
Cressey (Cadence)	December 2015
Intracorp (River Park Place)	2016
Amacon (Tempo)	2016
Aspac (Parcel 9 & 12)	2016/2017

The Agreement between the LIEC and Corix stipulates that Corix submit a five year capital plan (Capital Plan) to the LIEC on an annual basis. The Capital Plan represents a five-year capital investment plan and budget, and includes the infrastructure work and operating costs necessary to provide service to customers. The plan is based on the thirty-year outlook of energy loads and capital requirements for the OVDEU, and is updated on a regular basis to maintain the best possible projections. These projections are based on prospective results using assumptions about future conditions and courses of action. The main purpose of the Capital Plan is so that the LIEC can confirm the expected long term rate for customers and prepare annual rate review recommendations to Council.

The highlights of the 2015 five-year Capital Plan and 30-year business case pro-forma are:

- the customer base (serviced floor area) at the full build out is now estimated at 494,000 m² vs. 273,000 in the 2014 pro-forma,
- the total capital cost at the full build out is now estimated at \$32M vs. \$19M in the 2014 pro-forma,
- the 2015 energy rate paid by LIEC is now estimated at \$85.43/MWh vs. \$85.80/MWh in the 2014 pro-forma,
- the percentage of energy delivered from renewable sources at the full build out is now estimated at 67% vs. 85% in the 2014 pro-forma.

The difference in the estimated total capital cost at the full build out is due to the fact that the serviced floor area has increased since the original pro-forma. For the same reason the percentage of energy delivered from renewable sources is now 67% since there is only a limited

amount of energy from sewer heat in the area. These numbers are high level estimates and LIEC will work with Corix to verify and update them on an annual basis.

In accordance with the concession agreement, Corix will procure, finance and construct the infrastructure with respect to the project. However, in order to maintain control over costs, the LIEC will approve all infrastructure capital and operating expenditures before each phase of construction. The concession agreement also includes provisions for third party review to ensure the efficient and optimal deployment of capital.

In order to maintain ownership of the OVDEU and preserve Council's ability to set rates, the agreement with Corix was structured as a concession agreement. Corix will design, construct, finance, operate and maintain the OVDEU. LIEC will report the assets and associated liabilities to Corix in the LIEC financial statements. Since the City's financial statements are prepared on a consolidated basis (by combining the financial statements of separate legal entities controlled by a parent company into one set of financial statements), the LIEC liability to Corix will be included when calculating the City's consolidated approval-free liability zone (AFLZ). The AFLZ is an annual calculation which determines the amount of debt that can be obtained without requiring electorate approval.

Financial Impact

None.

Conclusion

The five-year Capital Plan for 2015 (2015-2019) estimates the total project capital costs in this period to be \$9.5M, and at full build out after 30 years to be \$32M. The 2015 energy rate paid by the LIEC is \$85.43/MWh.



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