

PUBLIC ANNOUNCEMENTS

From Closed Council – February 14, 2017

Release of “District Energy Assets Transfer from the City to Lulu Island Energy”

Closed Council – October 11, 2016

- (1) That the Chief Administrative Officer and the General Manager, Engineering & Public Works be authorized to execute, on behalf of the City, (a) an Asset Purchase Agreement (APA) between the City and Lulu Island Energy Company Inc., a fully owned City corporation, containing 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, from the Director, Engineering, and (b) all other related and ancillary agreements and documents to give effect to the APA, and implement the transactions contemplated therein;
- (2) That the Chief Administrative Officer and the General Manager, Engineering & Public Works be authorized to execute, on behalf of the City, (a) a Municipal Access Agreement (MAA) between the City and Lulu Island Energy Company Inc., a fully owned City corporation, containing 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, from the Director, Engineering, and (b) all other related and ancillary agreements and documents to give effect to the MAA, and implement the transactions contemplated therein;
- (3) That the Chief Administrative Officer and the General Manager, Engineering & Public Works be authorized to execute, on behalf of the City, the statutory right of way over the City lands (9580 and 9600 Odlin Road) on which the Alexandra District Energy Utility energy centre building is located, in favour of Lulu Island Energy Company Inc., a fully owned City corporation, as set out in the staff report titled, “District Energy Assets Transfer from the City to Lulu Island Energy Company” dated August 26, 2016, from the Director, Engineering; and
- (4) That the concept of Fee for Service as presented in the staff report titled, “District Energy Assets Transfer from the City to Lulu Island Energy Company” dated August 26, 2016, from the Director, Engineering be endorsed.

Release of Unanimous Consent Resolutions of the Shareholder of Lulu Island Energy Company Ltd.

Closed Council – November 7, 2016

WHEREAS:

- (A) the City intends to enter into an asset purchase agreement with the Company substantially on the terms and conditions set out in the City staff report titled, "District Energy Assets Transfer from the City to Lulu Island Energy Company" dated August 26, 2016 (the "Staff Report"), from the City's Director, Engineering (the "Asset Purchase Agreement"), pursuant to which the City will transfer certain district energy assets (the "Transferred Assets") to the Company;

- (B) the Asset Purchase Agreement is a principal component of a collection of agreements and transactions contemplated by in the Staff Report (collectively referred to herein as the "Energy Asset Transfer");
- (C) the City has approved the Energy Asset Transfer;
- (D) the City and the Company will determine and settle upon the dollar value of the Transferred Assets (the "Transfer Consideration"), intended by them to be equal to their good faith estimate of the fair market value of such assets as at the contemplated December 31, 2016 closing date, by March 31, 2017, being 90 days following the closing date;
- (E) in payment of the Transfer Consideration the Company will be required to issue to the City additional three hundred and fifty (350) Common shares (the "Consideration Shares") of the Company at a deemed issue price equal to the Transfer Consideration;
- (F) pursuant to Article 3.1 of the Company's Articles, the power to allot, issue and set the issue price for shares of the Company is, pursuant to s. 137 of the Business Corporations Act (BC), reserved to the shareholder; and
- (G) the City council has designated Mayor Malcolm Brodie to be the individual who is authorized and directed to sign these resolutions and otherwise to exercise the City's rights as a shareholder in respect of these resolutions, for and on behalf of the City.

NOW THEREFORE IT IS RESOLVED THAT:

- (1) subject to and upon the transfer of the Transferred Assets from the City to the Company pursuant to the Asset Purchase Agreement, the Company allot and issue to the City Consideration Shares at a deemed issue price equal to the Transfer Consideration as a fully paid and non-assessable shares of the Company in payment for the Transferred Assets;
- (2) the dollar value of the Transfer Consideration be ratified and confirmed by an ordinary resolution of the sole shareholder by March 31, 2017;
- (3) upon the transfer of the Transferred Assets from the City to the Company the Company issue Certificate No. 2 registered in the name of the City to represent the Consideration Shares; and
- (4) any two officers and/or directors of the Company are hereby authorized and directed to do all such acts and things and to execute or cause to be executed all such instruments and other documents as in such officer's and/or director's opinion may be necessary or desirable to implement the matters hereby approved and authorized.

Attachment 1 – Staff Report titled “District Energy Assets Transfer from the City to Lulu Island Energy Company” dated August 26, 2016



**City of
Richmond**

Report to Committee
Closed

To:	General Purposes Committee	Date:	August 26, 2016
From:	John Irving, P.Eng. MPA Director, Engineering	File:	10-8800-10-02/2016- Vol 01
Re:	District Energy Assets Transfer from the City to Lulu Island Energy Company		

Staff Recommendation

1. That the Chief Administrative Officer and the General Manager, Engineering & Public Works be authorized to execute, on behalf of the City, (a) an Asset Purchase Agreement (APA) between the City and Lulu Island Energy Company Inc., a fully owned City corporation, containing 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, from the Director, Engineering, and (b) all other related and ancillary agreements and documents to give effect to the APA, and implement the transactions contemplated therein.
2. That the Chief Administrative Officer and the General Manager, Engineering & Public Works be authorized to execute, on behalf of the City, (a) a Municipal Access Agreement (MAA) between the City and Lulu Island Energy Company Inc., a fully owned City corporation, containing 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, from the Director, Engineering, and (b) all other related and ancillary agreements and documents to give effect to the MAA, and implement the transactions contemplated therein.
3. That the Chief Administrative Officer and the General Manager, Engineering & Public Works be authorized to execute, on behalf of the City, the statutory right of way over the City lands (9580 and 9600 Odlin Road) on which the Alexandra District Energy Utility energy centre building is located, in favour of Lulu Island Energy Company Inc., a fully owned City corporation, as set out in the staff report titled, “District Energy Assets Transfer from the City to Lulu Island Energy Company” dated August 26, 2016, from the Director, Engineering.

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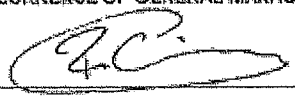

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- 4. That the concept of Fee for Service as presented in the staff report titled, "District Energy Assets Transfer from the City to Lulu Island Energy Company" dated August 26, 2016, from the Director, Engineering be endorsed.



John Irving, P.Eng. MPA
 Director, Engineering
 (604-276-4140)

Att. 3

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

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Staff Report

Statutory Closed Meeting Criteria:

This report meets the following statutory closed meeting criteria:

90(1)(k) negotiations and related discussions respecting the proposed provision of a municipal service that are at their preliminary stages and that, in the view of the council, could reasonably be expected to harm the interests of the municipality if they were held in public

Recommendation on Disclosure

This report will be subject to routine review to determine whether the need for confidentiality has passed and will be brought forward to Council with a recommendation on disclosure when appropriate.

Origin

In December 2012, Council authorized staff to incorporate the Lulu Island Energy Company (LIEC), a wholly owned local government corporation with the City of Richmond as the sole shareholder, to own and operate the Alexandra District Energy Utility (ADEU), with the intention that LIEC manages all district energy utilities on the City's behalf in the future.

In April 2014, Council authorized City staff to execute a District Energy Utilities Agreement between the City and LIEC, assigning LIEC the function of providing district energy services on behalf of the City. Pursuant to the Agreement, City may provide ongoing financial assistance to LIEC to facilitate the proper operation of the district energy systems and provision of the services for the benefit of the residents of the City. Such assistance may include the provision of grants, loans, guarantees or other funding or financial assistance, and the contribution of land, improvements or other capital assets to LIEC, on such terms and conditions as may be agreed to between the City and LIEC from time to time.

This report presents recommendations to transfer the City's district energy assets to LIEC so that it can fully carry out its role as directed by Council.

This report supports Council's 2014-2018 Term Goal #4 Leadership in Sustainability:

Continue advancement of the City's sustainability framework and initiatives to improve the short and long term livability of our City, and that maintain Richmond's position as a leader in sustainable programs, practices and innovations.

- 4.1. *Continued implementation of the sustainability framework.*
- 4.2. *Innovative projects and initiatives to advance sustainability.*

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This report supports Council's 2014-2018 Term Goal #6 Quality Infrastructure Networks:

Continue diligence towards the development of infrastructure networks that are safe, sustainable, and address the challenges associated with aging systems, population growth, and environmental impact.

6.1. Safe and sustainable infrastructure.

Background

The City incorporated Lulu Island Energy Company (LIEC) 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 LIEC was executed under which the City may contribute land, improvements or other capital assets to LIEC, on such terms and conditions as may be agreed to between the City and LIEC from time to time.

LIEC currently operates the Oval Village District Energy Utility (OVDEU) under a concession agreement with Corix Utilities (Corix). During the concession period (30 years), Corix will design, build, finance and operate the OVDEU and will supply energy services to LIEC. LIEC, in turn, supplies energy services to the residential and commercial properties serviced by those facilities; LIEC costs and general and administration expenses are recovered through sales.

Prior to the establishment of LIEC and OVDEU, the City successfully started operation of the Alexandra District Energy Utility (ADEU) within the City's Engineering & Public Works Division. ADEU currently provides heating and cooling services to six developments within the West Cambie neighbourhood (Mayfair Place, Renny, Omega, Alexandra Court, Richmond Jamatkhana and Oxford Lane), connecting over 1100 residential units and over 1 million square feet of floor area. See Attachment 1 for ADEU service area information map.

As of June 30, 2016 (end of second billing quarter), the ADEU system has delivered 7279 MWh of energy to customers for space heating, cooling and domestic hot water heating. While some electricity is consumed for pumping and equipment operations, almost 100% of this energy is produced locally from the geo-exchange fields in the greenway corridor and other City lands located within the West Cambie area. The backup and peaking natural gas boilers and cooling towers in the energy centre have operated for only a few days throughout the system's operation to date. Staff estimate that this has eliminated 1250 tonnes of GHG emissions¹ in the community (see Attachment 2) and are considering these reductions as GHG offsets for neutralizing corporate GHG emissions.

¹ Assumed that all energy was provided for heating. The business-as-usual (BAU) assumed that 40% of the building heating load would be provided from electricity and the remaining 60% would be from gas make-up air units.

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AnalysisDistrict Energy Assets Transfer*The Assets and Asset Value*

The ADEU system started operations in 2012 following completion of Phase 1 and 2. The Phase 3 expansion was completed in December 2015. The Phase 4 expansion is currently under construction and is scheduled to be completed by the end of 2016, with some post-commissioning work extending into 2017. Various advanced design activities were also completed through City Centre DEU capital projects. Attachment 3 lists all the City's district energy assets as of the end of 2016. It is recommended that all district energy assets be transferred to LIEC, which will provide clear separation between LIEC and City responsibilities. LIEC will be delivering all district energy projects as originally envisioned when it was incorporated.

The total value of the installed assets after completion of Phase 4 will be in the range of \$25.7M. The exact amount will be defined at the time of executing the Asset Purchase Agreement (APA). ADEU Phases 1 and 2 were funded from the City's Capital Reserve and the rest of the district energy capital projects were funded from the Water and Sewer Utility General Surplus with the intention that the ADEU will repay the City funded amounts with interest. There are no statutory requirements for repayments or accrual of interest on the original funding, and the water and sewer utilities are in surplus positions.

An option of potentially greater value exists whereby LIEC would issue common shares to the City, in exchange for the transferred assets. Therefore, it is recommended that LIEC issue common shares (capital stock) to the City equal to the value of the assets transferred. The City may then in the future declare and authorize payment of dividends to itself as a shareholder. This ensures that LIEC will not be burdened by any additional liabilities, ratepayers are not incurring additional costs and the City will have the ability as the sole shareholder to receive dividend payments or share redemptions in the future.

Oris Partnering Agreement

In 2011, the City and Oris Geo Energy Ltd (Oris) entered into an arrangement under which Oris provided the City with district energy utility design and construction services for Phase 1 of the Alexandra District Energy Utility, and the City and Oris entered into a revenue sharing partnering agreement relating to Oris' Reary and Alexandra Gate developments (the Oris Agreement). The Oris Agreement is currently in a standstill state until Oris and the City mutually agree on the certain aspects of the revenue sharing formula.

In the context of an asset sale and purchase transaction, the existing business agreements relevant to the assets (such as the Oris Agreement, energy services agreements, and operating agreements for the ADEU) are usually assigned to the buyer, and the seller is indemnified against any liability that may arise from those agreements after the asset ownership has been transferred.

In the case of the Oris Agreement, the parties have not reached an agreement on certain aspects of the revenue sharing formula and the revenue payable to Oris, [REDACTED]

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Since the Oris Agreement still has outstanding matters and this agreement originated from the City, it is recommended that the City does not assign the agreement to LIEC. In this case, the City will remain liable for its obligations (if any) under the agreement, however, LIEC will agree, under the APA, to share with the City such portion of the revenues derived from the ADEU-connected Oris building that would match the City's revenue sharing obligation under the agreement. At present, the City is likely only required to revenue share for the period starting with occupancy of the Remy building and ending December 31, 2013.

Municipal Access Agreement

In 2015, LIEC and the City executed a Municipal Access Agreement (MAA) in order for LIEC to access the City's statutory rights of way to install, operate and maintain district energy infrastructure and equipment. This MAA was arranged for the purpose of infrastructure being developed under the Concession Agreement between LIEC and Corix and is limited to such infrastructure only.

When the district energy assets are transferred to LIEC, LIEC will need access to the City's statutory rights of ways and the City park lands where the infrastructure is built or will be built. For this reason staff recommends that the new MAA be executed with LIEC under the following terms:

- Specify locations where the agreement will be applicable (i.e. the Statutory Rights of Ways, City Lands);
- Grant only a non-exclusive licence to access the equipment on the City park lands
- Permit LIEC to grant to its partners a sub-licence to carry out the work in the service corridors on the same terms and conditions as in this MAA;
- Specify required consent for constructing, maintaining, operating, repairing and removing LIEC's equipment, and define the scope of the City's consent;
- Require LIEC to pay causal² costs to the City at the City's discretion;
- Define the conditions under which LIEC may carry out work;
- Specify cost allocations for LIEC equipment to be relocated as a result of any municipal and third party projects;
- Minimize the City's liability due to LIEC's work or equipment;
- Identify the term of the MAA to be 30 years;
- Define and impose fees and charges (e.g. lost productivity costs, permit and inspection costs, and pavement degradation) and their annual CPI increase;
- Require LIEC to assume environmental liability for any hazardous substances that they bring to or cause to be brought to the Statutory Rights of Ways;
- Identify the insurance requirements LIEC must maintain; and
- Include indemnity clauses.

Included in the MAA are insurance and indemnity requirements. Currently, the City's insurance coverage has been extended to cover liability associated with LIEC, as a fully owned subsidiary

² Causal costs are costs incurred as a result of additional effort and materials spent working around a private utility installation while maintaining or constructing public infrastructure

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of the City. With the asset transfer, LIEC will acquire appropriate insurance coverage to remove the liability from the City.

LIEC will need to have a secure form of access to its energy plant, which is located on City property. A non-exclusive licence of the type contained in the MAA would not usually be sufficient for an important building such as the energy plant. Therefore, it is recommended that the City also grant to LIEC a statutory right of way for the lands on which the energy centre building is located (9580 and 9600 Odlin Road). The notice of disposition relating to the transfer of the assets will include this as an item, but no elector approval will be required.

District Energy Assets Transfer Recommendation

Considering the above and pursuant to the Partnering Agreement between LIEC and the City, whereas the City may contribute land, improvements or other capital assets to LIEC, on such terms and conditions as may be agreed to between the City and LIEC from time to time, staff recommend that the City's district energy assets be transferred to LIEC under one APA with two closing dates; First Closing Date of December 31, 2016 for all completed assets (Phases 1, 2 and 3) and Second Closing Date of December 31, 2017 for all assets (Phase 4 capital project) not completed by December 31, 2016, to allow for these Phase 4 assets to be transferred at a later date (estimated before December 22, 2017), on the following key terms:

- District energy assets to be transferred based upon fair market value (approximate net book value) of approximately \$25.7M; the exact amount will be defined at the time of executing the APA. The APA will have two closing dates to accommodate transfer of non-completed assets (Phase 4 capital project) at the later date.
- In exchange, the LIEC will issue to the City additional common shares with a fair market value equivalent to the value of the assets transferred, and in lieu of interest payments on funded amounts, the City may in the future declare and authorize payment of dividends to itself as a shareholder. Under s.3.1 of LIEC's Articles, the City, as shareholder, would need to approve the terms and conditions (value, number, etc.) of the issuance of these additional shares. Staff will bring forward report with the details for Council's approval at the LIEC Special General Meeting this Fall, subject to Council's approval of recommendations in this report.
- Transferred assets to be as per Attachment 3.
- Transfer the district energy operations and related accounts to LIEC, including without limitation cash contributions and accumulated surplus.
- The Oris Agreement will not be assigned to LIEC; however, LIEC will share with the City such portion of the revenues derived from the ADBU-connected Oris building that would match the City's revenue sharing obligation under the Oris Agreement.
- Assign Energy Services Agreements with existing customers from the City to LIEC.
- Assign Service Order Agreement with Corix Utilities from the City to LIEC; and
- Implement other closing procedures depending on the final terms of the APA.

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Personnel Consideration

After the asset transfer is completed, it is LIEC's intention to hire the current City of Richmond employees that have developed expertise while working on district energy development. The initiative to hire the City employees was approved by the LIEC Board of Directors. Also, all future district energy staff will be directly employed by LIEC; City human resources policies and procedures will apply.

LIEC Fee for Service and Assistance from City

It is anticipated that as at December 31, 2016, the City, as the LIEC sole shareholder, will own over \$33.1M (ADEU \$24.5M and OVDEU \$7.4M and \$1.2M CCDEU) in district energy infrastructure. At full build out of the two currently approved service areas, the value of the district energy infrastructure will be over \$60M. This value could grow into several hundred millions of dollars in infrastructure value if all current and future district energy expansion opportunities in the City are supported.

In addition, LIEC has been providing numerous tangible and intangible benefits to the City, including:

- Broad recognition of the City and its approach to GHG management and local job creation as evidenced by numerous provincial, national and international distinguished awards.
- Significant contribution to achieving Council's sustainability goals, and Richmond's solution to providing "clean, efficient energy for now and the future."
- Energy security as incorporated in one of Council's goals relating to finding opportunities for increased energy reliance within the local community.
- Contribution to City of Richmond's gross domestic product (GDP); estimated at \$26M over the next 30 years (for OVDEU and ADEU only).
- Generation of numerous jobs as the district energy infrastructure is developed; estimated at 650 jobs over the next 30 years (for OVDEU and ADEU only).
- GHG emissions reductions estimated at current level of 800 tonnes annually (from ADEU only).

In order to achieve all the above and other benefits, a number of planning, development and implementation activities are being performed on daily basis:

- Operation, maintenance, system monitoring and improvements of the existing systems
- Design, construction and commissioning of expansion projects, new customer connections, building permit reviews
- Design, construction and operation of DEU partnership projects; review of capital and capital expenditure plans
- Development, negotiation, execution and management of DEU partnerships; negotiation and execution of various agreements with service providers, customers, developers and other agencies
- Development of DEU associated bylaws and policies; management of DEU business models, budgets and customer rates

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- Identifying and quantifying opportunities for future DEU investments that will maximize benefits for stakeholders and the community
- Support of senior leadership's strategic decisions through various business and technical analyses
- Promoting district energy initiatives and leadership through open houses, presentations, participations in various professional events, award submissions, etc.

Currently DEU staff (two FTE and two TFT) develop capital assets for the City/LIEC and as such their salaries are charged to capital projects. The funding source for these capital projects has been utility reserves, as approved by Council. As the last phase of ADEU (Phase 4) expansion comes to an end and further district energy initiatives are anticipated to be developed through public-private partnership (where the City or LIEC does not contribute capital), funding for salaries through utility reserves will not be available. At the same time, the amount of assets to be managed (over \$33 million by 2017), ongoing management of operations and customer service is essential. In addition, with the transfer of district energy assets under LIEC, financial reporting and business administration is vital for successful business growth of LIEC.

In the sphere of the utility business, LIEC is still in its infancy stage. As such, LIEC is a start-up corporation which requires some assistance from the City to continue successfully building a district energy utility business for the City. It is also critical that LIEC builds financial strength to manage any future volatility in rates to customers due to factors outside of LIEC control.

For these reasons it is recommended that after the district energy asset transfers are completed, the City provide assistance for LIEC staff expenses and various advanced design activities (i.e. advanced design of district energy ready developments in the City Centre area; coordinating design with the new developments including DEU corridors; professional fees for development and securing a DEU-ready building base; coordinating due diligence, negotiation and execution of partnership agreement for OVDEU and City Centre North DEU; design of the strategy to provide interim energy services outside of defined service areas) which need to be completed for advancing district energy opportunities in the City. This assistance is consistent with the District Energy Utilities Agreement (Partnering Agreement) between LIEC and the City, whereas the City may provide ongoing assistance to LIEC to facilitate the proper operation of DEUs and provision of the services for the benefit of the residents of the City. This assistance could be funded annually without any tax impact through an allocation of surplus. Staff will request this assistance as LIEC's financial needs and condition are known and as part of the City's budget process.

Financial Impact

Assets Transfer

The ADEU and CCDEU were funded from the City's Capital Reserve, or Water and Sewer Utility General Surplus, with the total value of assets at December 31, 2016 estimated at \$25.7M. The district energy business is being established as a financially stable business; the intention was to repay all City funded amounts with interest. However, in lieu of direct cash payment for the assets, it is recommended that LIEC issue common shares (capital stock) to the City equal to the value of the transferred assets (\$25.7M). Under this scenario, LIEC is able to operate without a debt

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burden, which ensures that interest costs are not passed on to its customers through the annual utility rates established.

In lieu of collecting interest (equal to the interest rate earned by the City on its investments) on the funded amounts, the City may from time to time declare and authorize payment of dividends to itself as a shareholder. Consequently, the proposed ADEU and CCDEU assets transfer does not have a financial impact on the City.

City costs for legal counsel to prepare the APA and other assets transfer related documents is estimated to be in the range of \$25,000-\$40,000, to be funded from existing operating budgets and legal accounts.

LIEC Fee for Service and Assistance from City

Staff and advanced design expenses can be funded through the City's surplus with no tax impact. The fee and assistance amount will be reviewed annually.

Conclusion

The transfer of the district energy assets under the LIEC umbrella is recommended to support the ongoing successful establishment of LIEC. The transfer will offer the maximum administration, operation and financial flexibility while maintaining Council oversight and fully realizing the benefits of the district energy business. Also, the transfer will limit the City's liability for DBU operations and will hold LIEC administratively and fiscally accountable.

LIEC's district energy business is an important contributor in achieving City of Richmond's vision to transition into a sustainable, low carbon community. LIEC, through its sustainable district energy systems, builds community resiliency and reduces the overall environmental impact of the City. The LIEC fee for service and assistance from City as presented in this report will be an important step ahead towards the City achieving its sustainability goals.



Alan Postolka, P.Eng., CEM, CP
Manager, District Energy
(604-276-4283)

AP:ap

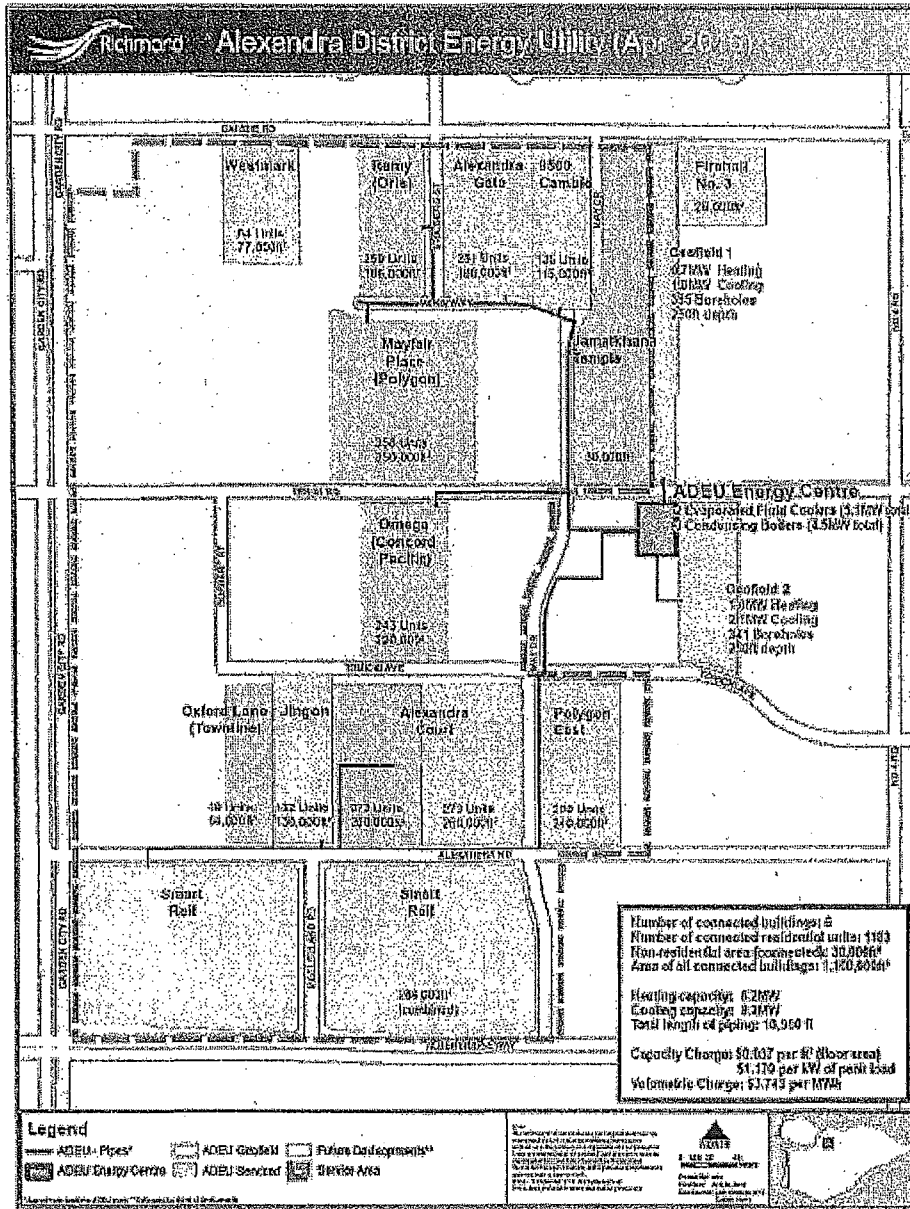
- Att. 1: ADEU Service Area Information Map
- 2: ADEU GHG Emissions Reduction Graph
- 3: District Energy Assets List

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Attachment 1 – ADEU Service Area Information Map



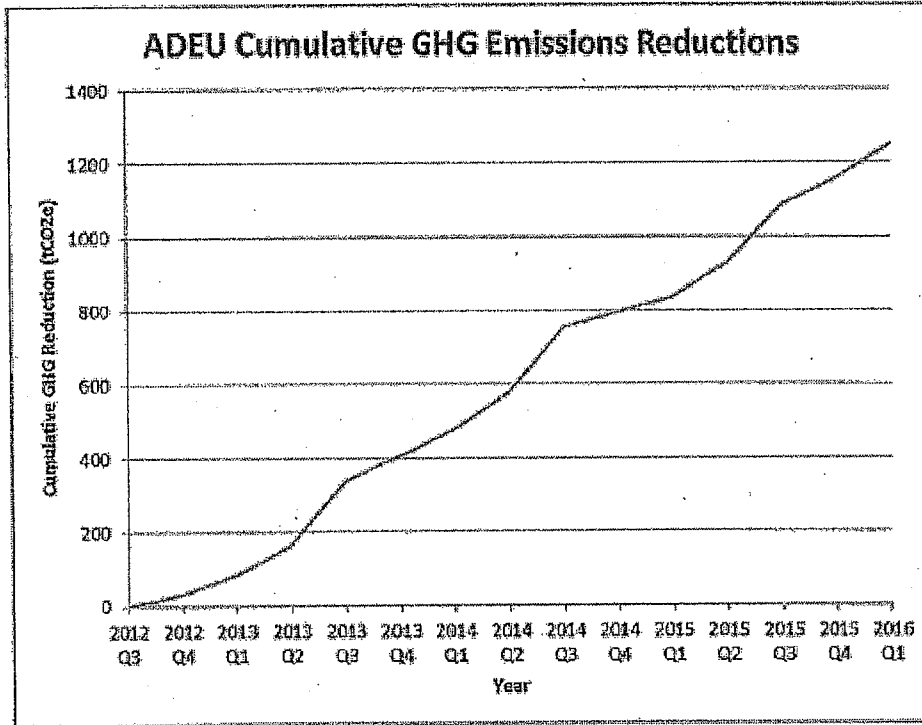
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Attachment 2 -- ADEU GHG Emission Information Graph



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Attachment 3 – District Energy Assets List

The ADEU Phase 1 and 2 constructions were completed in 2012 and include the following assets:

- Energy centre building with mechanical, electrical, plumbing, controls and other related equipment, located at 9580 and 9600 Odlin Road;
- Geo-exchange field with the vault and related equipment, located in the Greenway Corridor between Cambie Rd and Odlin Rd;
- Distribution supply and return piping, fittings, valves and related equipment located in the West Cambie Park, Odlin Rd, May Dr, McKim Way and Stolberg St between energy centre building and Mayfair Place, Omega and Remy building; and
- Energy transfer stations and related equipment in Mayfair Place, Omega and Remy buildings, and distribution piping and related equipment on site from the energy transfer station to the connection in the street.

The ADEU Phase 3 expansion was completed in 2015 and includes the following assets:

- Energy centre building addition with mechanical, electrical, plumbing, controls and other related equipment, located at 9580 and 9600 Odlin Road;
- Geo-exchange field with the vault and related equipment, located in the West Cambie park;
- Distribution supply and return piping, fittings, valves and related equipment located in the West Cambie Park, May Dr and Alexandra Rd between the energy centre building and Alexandra Court building; and
- Energy transfer stations and related equipment in Alexandra Court and Jamatkhana Temple buildings, and distribution piping and related equipment on site from the energy transfer station to the connection in the street.

The ADEU Phase 4 expansion is currently under construction and will include the following assets upon completion scheduled in the early fall this year (by the time the assets will be transferred):

- Satellite energy centre building with mechanical, electrical, plumbing, controls and other related equipment, located on the roof of the SmartREIT's "Central at Garden City" Building B;
- Energy transfer stations and related equipment in the Building A/B and Wal-Mart mechanical rooms;
- Distribution supply and return piping, fittings, valves and related equipment (above and below ground) on the SmartREIT's "Central at Garden City" site from satellite plant to the building system connection in the Building A/B and Wal-Mart mechanical rooms;
- Distribution supply and return piping, fittings, valves and related equipment located in Alexandra Rd between the Alexandra Court building and Oxford Lane development;
- Distribution supply and return piping, fittings, valves and related equipment located in Alexandra Rd between the Oxford Lane connection and the SmartREIT development
- Distribution supply and return piping, fittings, valves and related equipment located in May Dr and Cambie Rd from the intersection of May Dr and McKim Way to Fire Hall No 3; and
- Energy transfer stations and related equipment in Oxford Lane and Fire Hall No. 3 buildings, and distribution piping and related equipment on site from the energy transfer station to the connection in the street.

Various advanced design activities completed through City Centre DEU capital projects (e.g. advanced design of district energy ready developments in the City Centre area; coordinating design

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with the new developments including DEU corridors; professional fees for development and securing DEU-ready building base; coordinating due diligence, negotiation and execution of partnership agreement for OVDEU and City Centre North DEU; design of the strategy to provide interim energy services outside of defined service areas)

The district energy operations and related accounts to LPEC, including without limitation cash, investments, accounts receivable, other financial assets, accounts payable, deposits, deferred revenue, other liabilities, inventory, prepaid expenses, surplus.

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Attachment 2 – Memorandum titled “Special General Meeting of the Lulu Island Energy Company – Transfer of District Energy Assets” dated October 12, 2016



Memorandum

To: Mayor and Councillors (“the Shareholder”) **Date:** October 12, 2016

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

Robert Gonzalez
CEO, Lulu Island Energy Company

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

The purpose of this memorandum is to request that the Shareholder approve the resolutions in Attachment 2 in order to complete the transfer of district energy assets to Lulu Island Energy Company (LIEC), as approved by Council in the closed Council meeting on October 11, 2016.

On October 11, 2016, Council authorized staff to transfer the City’s district energy 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. The total value of the transferred assets is estimated to be in the range of \$25.7M. Following the assets transfer terms and conditions, in exchange for the assets LIEC will be issuing additional common shares to the City with a fair market value equivalent to the value of the assets transferred. Under Section 3.1 of LIEC’s Articles, the City as the Shareholder needs to approve the terms and conditions of the issuance of these additional shares. The proposed resolutions in Attachment 2 detail the terms and conditions of the issuance of 350 additional shares to be issued to the City.

Upon approval of the resolution, the following steps are required to complete the assets transfer:

1. The City publishes a Notice of (assets) Disposition;
2. The City and LIEC execute an Assets Purchase Agreement (as authorized by Council, the Chief Administrative Officer and General Manager, Engineering and Public Works will sign on behalf of the City); and
3. As of January 1, 2017, all district energy assets are managed by LIEC with the City regulating and setting the customer rates.

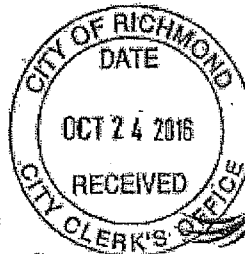
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(Special Closed)



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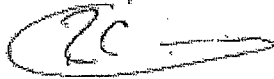
Attached herein are the agenda items for the Special General Meeting (SGM) of the LIEC to be held on November 7, 2016 adjacent to the General Purposes Committee meeting at Richmond City Hall:

Attachment 1: Notice of SGM, sent at least 10 days prior to the SGM on November 7, 2016

Attachment 2: Resolutions of the Sole Shareholder, consenting to the resolution required to be passed at this meeting - "Transfer of District Energy Assets 2016"



George Duncan
Chair of the Board,
Lulu Island Energy Company
(604-276-4336)



Robert Gonzalez
Chief Executive Officer,
Lulu Island Energy Company
(604-276-4150)

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Attachment 1: Lulu Island Energy Company Notice of Special General Meeting
Attachment 2: Lulu Island Energy Company Resolutions of the Sole Shareholder

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(Closed)



Notice of Special General Meeting

NOTICE IS HEREBY GIVEN THAT the Special General Meeting of the Shareholder of:
Lulu Island Energy Company Ltd
(the "Company")

will be held on Monday, November 7, 2016 adjacent to the General Purposes Committee meeting at
Richmond City Hall, 6911 No. 3 Road, Richmond, British Columbia to consider, and if thought advisable,
approve the following business:

- 1. to, subject to and upon the transfer of certain district energy assets from the City to the
Company pursuant to an asset purchase agreement, allot and issue to the City additional three
hundred and fifty (350) common shares (the "Consideration Shares") at a deemed issue price
equal to the good faith estimate of the City and the Company of the fair market value of such
assets as at the contemplated December 31, 2016 closing date (such value to be settled upon by
March 31, 2017) as a fully paid and non-assessable share of the Company in payment by the
Company for the transferred district energy assets;
2. to acknowledge that the dollar value of the transferred district energy assets will be ratified and
confirmed by an ordinary resolution of the sole shareholder of the Company by March 31, 2017;
3. to acknowledge that upon the transfer of the district energy assets from the City to the
Company the Company will issue Certificate No. 2 registered in the name of the City to
represent the Consideration Shares;
4. to authorize and direct any two officers and/or directors of the Company to do all such acts and
things and to execute or cause to be executed all such instruments and other documents as in
such officer's and/or director's opinion may be necessary or desirable to implement the matters
related to transfer of district energy assets.

Dated this 24 day of October, 2016.

On behalf of the Board of Directors
George Duncan, Chair

Robert Gonzalez, CEO

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(Special Closed)

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

The undersigned, City of Richmond, (the "City") being the sole shareholder of the Company, hereby consents to and adopts in writing the following unanimous resolutions:

Transfer of District Energy Assets 2016

WHEREAS:

A. the City intends to enter into an asset purchase agreement with the Company substantially on the terms and conditions set out in the City staff report titled, "District Energy Assets Transfer from the City to Lulu Island Energy Company", dated August 26, 2016 (the "Staff Report"), from the City's Director, Engineering (the "Asset Purchase Agreement"), pursuant to which the City will transfer certain district energy assets (the "Transferred Assets") to the Company;

B. the Asset Purchase Agreement is a principal component of a collection of agreements and transactions contemplated by in the Staff Report (collectively referred to herein as the "Energy Asset Transfer");

C. the City has approved the Energy Asset Transfer;

D. the City and the Company will determine and settle upon the dollar value of the Transferred Assets (the "Transfer Consideration"), intended by them to be equal to their good faith estimate of the fair market value of such assets as at the contemplated December 31, 2016 closing date, by March 31, 2017, being 90 days following the closing date;

E. in payment of the Transfer Consideration the Company will be required to issue to the City additional three hundred and fifty (350) Common shares (the "Consideration Shares") of the Company at a deemed issue price equal to the Transfer Consideration;

F. pursuant to Article 3.1 of the Company's Articles, the power to allot, issue and set the issue price for shares of the Company is, pursuant to s. 137 of the *Business Corporations Act* (BC), reserved to the shareholder;

G. the City council has designated Mayor Malcolm Brodie to be the individual who is authorized and directed to sign these resolutions and otherwise to exercise the City's rights as a shareholder in respect of these resolutions, for and on behalf of the City.

NOW THEREFORE IT IS RESOLVED THAT:

1. subject to and upon the transfer of the Transferred Assets from the City to the Company pursuant to the Asset Purchase Agreement, the Company allot and issue to the City

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(Special Closed)**

Consideration Shares at a deemed issue price equal to the Transfer Consideration as a fully paid and non-assessable shares of the Company in payment for the Transferred Assets;

2. the dollar value of the Transfer Consideration be ratified and confirmed by an ordinary resolution of the sole shareholder by March 31, 2017;

3. upon the transfer of the Transferred Assets from the City to the Company the Company Issue Certificate No. 2 registered in the name of the City to represent the Consideration Shares;

4. any two officers and/or directors of the Company are hereby authorized and directed to do all such acts and things and to execute or cause to be executed all such instruments and other documents as in such officer's and/or director's opinion may be necessary or desirable to implement the matters hereby approved and authorized.

5. Notwithstanding the date of execution, these resolutions will be deemed to be dated and effective as of _____, 2016.

CITY OF RICHMOND

Per: _____
Mayor Malcolm Brodie

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(Special Closed)**