



City of Richmond

Report to Committee

To: Finance Committee

Date: January 11, 2016

From: Robert Gonzalez, P.Eng.
Deputy CAO and General Manager, Engineering and Public Works and Chief Executive Officer, Lulu Island Energy Company

File: 01-0060-20-
LIEC1/2016-Vol 01

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

Re: 2016 Operating Budget for the Lulu Island Energy Company

Staff Recommendation

That the report titled "2016 Operating Budget for the Lulu Island Energy Company" dated January 11, 2016 from the Chief Executive Officer and Chief Financial Officer, Lulu Island Energy Company be received for information.

Robert Gonzalez, P.Eng.
Deputy CAO and General Manager, Engineering and 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: January 11, 2016

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

Jerry Chong
Chief Financial Officer, Lulu Island Energy Company

FROM: Alen Postolka, District Energy Manager

Re: 2016 Operating Budget for the Lulu Island Energy Company

Origin

The 2016 Operating Budget for the Lulu Island Energy Company (LIEC) has been prepared by management and approved by the Corporation's Board of Directors. LIEC is providing its annual budget report to Council for information.

Background

LIEC, a corporation wholly-owned by the City of Richmond, was established to provide district energy services for the City. Under direction from Council, and following receipt of the necessary approval from the Inspector of Municipalities, the incorporation of LIEC was completed in August 2013.

In June 2014, the City and LIEC executed a District Energy Utilities Agreement, assigning LIEC the function of establishing and operating district energy systems as well as providing thermal energy services on behalf of the City.

In October 2014, LIEC and Corix Utilities executed a Concession Agreement whereby LIEC would own the Oval Village District Energy Utility's (OVDEU) infrastructure, and Corix would design, construct, finance, operate and maintain OVDEU, subject to the City, as shareholder of LIEC, setting rates for customers and defining service areas.

Analysis

OVDEU is the first district energy project developed under the oversight of LIEC. Staff are working with Corix on the successful delivery of Phase 1 of the OVDEU project; the first two connections (Onni’s Riva 1 and Polygon’s Carrera) and associated infrastructure were completed on time and under budget. Corix is continuing construction of the infrastructure necessary to connect more developments per LIEC’s direction. The following table represents anticipated development connection timelines for the next two years:

Table 1: Development Timing in OVDEU Service Area

	Anticipated Occupancy
Polygon (Carrera)	Occupied/Connected
Onni (Riva 1)	Occupied/Connected
Onni (Riva 2)	February 2016
Intracorp (River Park Place 1)	June 2016
Cressey (Cadence)	December 2016
Amacon (Tempo)	February 2017
Onni (Riva 3)	April 2017
Aspac (Parcel 9)	October 2017

The City of Richmond also owns and operates the Alexandra District Energy Utility (ADEU). LIEC was established as a separate legal entity for the purpose of operating and managing district energy utilities on the City’s behalf, however, ADEU is currently not an asset of LIEC. Staff intend to bring forward a report with a recommendations to transfer ADEU assets and operations to LIEC in the current year.

Operating Budget

	2015	2016	\$ Increase (decrease)	% Increase (decrease)
REVENUES				
Service Connection Fee	\$988,000	\$1,020,000	\$32,000	3%
User Fee	\$252,907	\$547,342	\$294,435	164%
Energy Modeling Review Fee	\$27,000	\$27,000	\$0	0%
	\$1,267,907	\$1,594,342	\$326,435	26%
EXPENSES				
ETS Payment to Corix	\$988,000	\$1,020,000	\$32,000	3%
Corix Monthly Fee	\$230,832	\$420,892	\$190,060	82%
Administration Fee	\$0	\$70,000	\$70,000	100%
Memberships	\$0	\$3,000	\$3,000	100%
Meeting Expenses	\$0	\$1,000	\$1,000	100%
Marketing	\$1,200	\$5,000	\$3,800	317%
Insurance	\$0	\$30,000	\$30,000	100%
Overhead (billing/admin./IT)	\$0	\$3,150	\$3,150	100%
Professional Services Fees	\$10,000	\$30,000	\$20,000	200%
Legal and Accounting Fees	\$6,500	\$6,695	\$195	3%
	\$1,236,532	\$1,589,737	\$353,205	29%
Total LIEC Annual Net Budget	\$31,375	\$4,605	(\$26,770)	(85%)

OVDEU is in its early stages of operation, and as a result its utility (electricity and natural gas), operation and maintenance costs are still largely based on projections of the financial model. In addition, the customers' energy use (building performance) is estimated based on the average building performance in the region and energy modeling reports prepared by the building designers. The 2016 Operating budget incorporates estimated revenues and expenses from the OVDEU based on the above projections and development activity. Over time, metered energy consumption and actual utility, operation and maintenance costs will be used to plan the budget.

In 2015, its first year of operations, LIEC's performance was better than budgeted with a larger than projected surplus; however staffing, overhead and other administration expenses were funded through assistance from the City as per the partnering agreement between the City and LIEC. District energy in Richmond was established on the basis that all capital and operating costs would be recovered through revenues from user fees, ensuring that the district energy utilities (DEU) are financially self-sustaining over the long term. Projected LIEC revenues for 2016 allow for some funding for administration and overhead to reduce the assistance from the City: an estimated 0.5 FTE staff was included in this year's budget as an Administration Fee recognizing staff's management of contracts and implementation support of OVDEU infrastructure and expansion, administration of City Centre North DEU development and LIEC;

overhead expense for City staff time recovery for billing, administration and IT support; an insurance expense in anticipation of ADEU asset transfer to LIEC; Professional Services Fees expense to include for the legal expenses for the ADEU assets transfer.

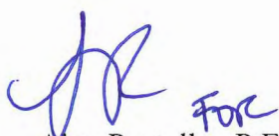
The 2016 operating budget is consistent with projections from the original business case for the Oval Village District Energy Utility and the LIEC.

Financial Impact

None.

Conclusion

The 2016 Operating budget has an overall budgeted net surplus of \$4,605, which will be transferred to a provision account to be used towards future capital repayments.



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

AP:ap