



# City of Richmond

## Report to Committee

**To:** Finance Committee

**Date:** August 11, 2022

**From:** John Irving, P.Eng., MPA  
General Manager, Engineering and Public Works  
Chief Executive Officer, Lulu Island Energy Company

**File:** 01-0060-20-LIEC1/2022-Vol 01

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

**Re:** 2022 Q2 Financial Information for the Lulu Island Energy Company

### Staff Recommendation

That the Lulu Island Energy Company report titled "2022 Q2 Financial Information for the Lulu Island Energy Company", dated August 11, 2022, from the Chief Executive Officer and Chief Financial Officer, be received for information.

John Irving, P.Eng., MPA  
General Manager, Engineering  
Public Works  
Chief Executive Officer,  
Lulu Island Energy Company  
(604-276-4140)

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

<b>REPORT CONCURRENCE</b>	
<b>CONCURRENCE OF GENERAL MANAGER</b> 	
<b>REVIEWED BY SMT</b>	<b>INITIALS:</b> 
<b>APPROVED BY CAO</b> 	



## Report

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**To:** Board of Directors **Date:** July 27, 2022  
**From:** Jerry Chong, CPA, CA,  
Chief Financial Officer  
**Re:** Lulu Island Energy Company – 2022 2<sup>nd</sup> Quarter Financial Information

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### **Staff Recommendation**

That the 2<sup>nd</sup> Quarter Financial Information as presented in the report titled “Lulu Island Energy Company – 2022 2<sup>nd</sup> Quarter Financial Information”, dated July 27, 2022, 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. 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 pre-audited Q2 financial information consists of the interim statement of financial position as of June 30, 2022 (Attachment 1) and the interim income statement for the period ended June 30, 2022 (Attachment 2).

### **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) \$17,610,092 and non-current assets (plant and equipment) \$42,494,860. The total assets are \$60,104,952. The total liabilities of \$25,481,244 include outstanding invoices, deferred contributions and concession liabilities. The shareholder’s equity represents the net worth of the company. It is equal to the total assets minus its total liabilities and measures the company’s financial health. As of June 30, 2022, LIEC’s shareholder equity is \$34,603,708, showing good financial health of the company. Year-to-date budget to actual numbers are shown in Attachment 3.

### Revenues

The metered billing revenue is the total energy sales of Alexandra District Energy Utility (ADEU), Oval Village District Energy Utility (OVDEU) and Interim City Center District Energy Utility (ICCDEU) service areas. The year to date metered billings revenue is \$1,333,194 from the ADEU, \$1,556,642 from the OVDEU and \$299,786 from the ICCDEU. Overall, the first six months of metered billing revenue of \$3,189,623 increased by 20% over 2021. This reflects the addition of one new building connection, increased energy use from customers due to increased occupancy, and the approved 2022 rates. LIEC's second quarter income statement is shown in Attachment 4.

### 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 amortization expenses. The contract expense increased by 23% over 2021 due to the additional operations and maintenance work as a result of more buildings being serviced. The growth in energy demand, due to the addition of more buildings, and operation of the first on-site low carbon energy plant (LCEP), resulted in higher use of electricity and natural gas to run distribution pumps, geo-exchange heat pumps, on-site LCEP air source heat pump, auxiliary equipment and boilers, which are used to deliver energy to customers' buildings. This increased demand paired with electricity and gas rate increases caused the utility expense to increase 55% compared to 2021. The amortization expense increased due to capital asset additions. The year-over-year cost of sales has increased by 17%. The gross margin as a percentage of revenue is 44% for 2022 compared to 50% in the first six months of 2021 due to higher non-controllable expenses.

### General and Administration Expenses

General and administration (G&A) expenses are expenditures that LIEC incurs with respect to supporting operations which includes salaries and benefits, administration expenses, professional fees, etc.. Salaries and benefits are in line with last year, but below budget due to three vacant positions, which are in the process of being filled. Two of the three positions have since been filled after the second quarter, and the third position is in the process of being filled. The administration expense includes the overhead allocation paid to the City of Richmond for the day-to-day support that LIEC receives from City staff. Insurance expense increased due to the general insurance rate increase and additional DEU assets being insured. Professional fees increased in comparison to 2021 due to the additional audit work required due to the increase in LIEC's financial position. Overall, the G&A expenses as a percentage of revenues is 15% compared to 17% in 2021.

### Contributions and Financing Expenses

The contributions and financing expense section represents other sources of income and costs for the business. The developer contributions are higher than 2021 due to additional onsite assets placed into service.

Other income is made up of energy model review fees. The energy modeling review fee revenues are higher than 2021's due to the timing of anticipated building permit reviews. The net finance

cost is the result of year-to-date finance costs on concession liabilities, offset by interest income, which is higher than 2021 mainly due to the increase in the concession liability. The additional capital expenditure for OVDEU infrastructure has resulted in a higher balance of concession liability compared to the prior year, which also resulted in the additional assets.

LIEC's EBITA (earnings before interest, tax, and amortization), used as a proxy to measure the company's financial performance, increased by 13% compared to the first six months of 2021. EBITA as a percentage of revenue is 56% for 2022 compared to 59% in 2021.

The year-to-date net income of \$956,168 has exceeded the prior year's quarterly net income and the year to date budgeted amount, while as a percentage of revenue is 26% which is in line with 2021. Consistent with the company's financial plan objectives, any net income will be retained in LIEC's equity in order to fund future capital projects and infrastructure replacements.

**Financial Impact**

None.

**Conclusion**

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



Helen Zhao  
Controller  
(604-276-4053)

- Att. 1: Interim Statement of Financial Position as of June 30, 2022 (unaudited)
- 2: Interim Income Statement for the period ending June 30, 2022 (unaudited)
- 3: Year-To-Date Budget vs. Actual Comparison (unaudited)
- 4: LIEC Second Quarter Income Statement (unaudited)

**Interim Statement of Financial Position (Unaudited)**

	As of June 30 2022	As of December 31 2021
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 10,470,050	\$11,707,794
Accounts receivable	3,077,624	1,676,423
Investments	4,062,418	4,047,518
	17,610,092	17,431,735
Non-current assets:		
Plant and equipment	42,494,860	38,905,146
	\$ 60,104,952	\$ 56,336,881
<b>Liabilities and Shareholder's Equity</b>		
Current and non-current liabilities:		
Accounts payable and accrued liabilities	\$ 1,327,382	\$ 2,671,416
Deferred developer contributions	12,059,410	7,753,538
Concession liability	12,114,452	12,264,387
	25,481,244	22,689,341
Shareholder's equity:		
Share capital and contributed surplus	27,397,115	27,397,115
Retained earnings	7,206,593	6,250,425
	34,603,708	33,647,540
	\$ 60,104,952	\$ 56,336,881

**Interim Income Statement (Unaudited)**

	<b>June 30</b>	<b>June 30</b>		
	<b>2022</b>	<b>2021</b>	<b>\$ Changes</b>	<b>% Change</b>
<b>Revenues</b>				
Metered Billings (Quarterly)	\$ 3,189,623	\$ 2,657,581	\$ 532,042	20%
Service fee	490,750	490,500	125	0%
	3,680,373	3,148,081	532,292	17%
<b>Cost of Sales</b>				
Contracts	464,395	379,091	85,304	23%
Utilities	812,075	522,417	289,658	55%
Amortization	801,424	683,830	117,594	17%
	2077,894	1,585,338	492,556	31%
<b>Gross margin</b>	<b>1,602,479</b>	<b>1,562,743</b>	<b>39,736</b>	<b>3%</b>
<b>General and Administration Expenses</b>				
Salaries and benefits	431,455	421,130	10,325	2%
Administration expenses	42,720	39,262	3,458	9%
Insurance	47,627	44,004	3,623	8%
Professional Fees	33,750	28,718	5,032	18%
	555,552	533,114	22,438	4%
<b>Net income before other items</b>	<b>1,046,927</b>	<b>1,029,629</b>	<b>17,298</b>	<b>2%</b>
<b>Contributions and Financing expense</b>				
Developer contributions	184,055	107,432	76,623	59%
Other income	45,862	23,813	22,049	92%
Net financing cost	(320,676)	(309,064)	(11,612)	4%
	(90,759)	(177,819)	87,060	(49%)
<b>Net Income</b>	<b>\$956,168</b>	<b>\$851,810</b>	<b>104,358</b>	<b>12%</b>
<b>Earnings before interest, taxes and amortization (EBITA)</b>				
Net income per above	\$ 956,168	\$ 851,810	\$104,358	12%
Net Financing cost	320,676	309,064	11,612	4%
Amortization expense	801,424	683,830	117,594	17%
<b>EBITA</b>	<b>\$2,078,268</b>	<b>\$1,844,704</b>	<b>\$233,564</b>	<b>13%</b>

Notes:

	Ending June 30 2022	Ending June 30 2021
Percentage of Revenue		
Gross margin percentage	44%	50%
General and administration percentage	15%	17%
Net income percentage	26%	27%
EBITA percentage	56%	59%

## Year-To-Date Budget vs. Actual Comparison (Unaudited)

	2022 Q2 Budget	2022 Q2 Actual	\$ Variance	% Variance
<b>Revenues</b>				
Metered Billings (Quarterly)	\$ 3,159,309	\$ 3,189,623	30,314	1%
Service fee	490,750	490,750	-	-%
	3,650,059	3,680,373	30,314	1%
<b>Cost of Sales</b>				
Contracts	700,275	464,395	(235,880)	(34%)
Utilities	769,872	812,075	42,203	5%
Amortization	895,524	801,424	(94,100)	(11%)
	2,365,671	1,693,233	(287,777)	(12%)
<b>Gross margin</b>	<b>1,284,388</b>	<b>1,602,479</b>	<b>318,091</b>	<b>25%</b>
<b>General and Administration Expenses</b>				
Salaries and benefits	481,565	431,455	(50,110)	(10%)
Administration expenses	73,919	42,720	(31,199)	(42%)
Insurance	60,000	47,627	(12,373)	(21%)
Professional Fees	44,400	33,750	(10,650)	(24%)
	659,884	555,552	(104,332)	(16%)
<b>Net income before other items</b>	<b>624,504</b>	<b>1,046,927</b>	<b>422,423</b>	<b>68%</b>
<b>Contributions and Financing expense</b>				
Developer contributions	259,985	184,055	(75,930)	(29%)
Other income	24,000	45,862	21,862	91%
Other expenses	(209,000)	-	209,000	(100%)
Net financing cost	(328,485)	(320,676)	7,809	(2%)
	(253,500)	(90,759)	162,741	(64%)
<b>Net Income</b>	<b>\$371,004</b>	<b>\$956,168</b>	<b>\$585,164</b>	<b>158%</b>
<b>Earnings before interest, taxes and amortization (EBITA)</b>				
Net income per above	\$371,004	\$956,168	\$585,164	158%
Net Financing cost	328,485	320,676	(7,809)	(2%)
Amortization expense	895,524	801,424	(94,100)	(11%)
<b>EBITA</b>	<b>\$1,595,013</b>	<b>\$2,078,268</b>	<b>\$483,255</b>	<b>30%</b>



## LIEC Second Quarter Income Statement

	2022 Q2 Actual	2021 Q2 Actual	\$ Variance	% Variance
<b>Revenues</b>				
Metered Billings (Quarterly)	\$ 1,586,219	\$ 1,266,258	\$319,961	25%
Service fee	245,375	245,250	125	0%
	1,831,594	1,511,508	320,086	21%
<b>Cost of Sales</b>				
Contracts	287,118	211,011	76,107	36%
Utilities	417,910	161,406	256,504	159%
Amortization	406,923	376,768	30,155	8%
	1,111,951	749,185	362,766	48%
<b>Gross margin</b>	<b>719,643</b>	<b>762,323</b>	<b>(42,680)</b>	<b>(6%)</b>
<b>General and Administration Expenses</b>				
Salaries and benefits	222,882	212,785	10,097	5%
Administration expenses	21,628	18,739	2,889	15%
Insurance	18,877	15,254	3,624	24%
Professional Fees	-	9,988	(9,988)	(100%)
	263,387	256,766	6,621	3%
<b>Net income before other items</b>	<b>456,256</b>	<b>505,557</b>	<b>(49,301)</b>	<b>(10%)</b>
<b>Contributions and Financing expense</b>				
Developer contributions	98,517	53,749	44,768	83%
Other income	43,917	(1,291)	45,208	(3501%)
Net financing cost	(162,133)	(157,440)	(4,693)	3%
	(19,699)	(104,982)	85,284	(81%)
<b>Net Income</b>	<b>\$436,557</b>	<b>\$400,575</b>	<b>\$35,982</b>	<b>9%</b>
<b>Earnings before interest, taxes and amortization (EBITA)</b>				
Net income per above	\$527,311	\$400,575	\$35,982	9%
Net Financing cost	162,133	157,440	4,693	3%
Amortization expense	406,923	376,768	30,155	8%
<b>EBITA</b>	<b>\$1,005,613</b>	<b>\$934,783</b>	<b>\$70,830</b>	<b>8%</b>