



# City of Richmond

## Report to Committee

**To:** Finance Committee

**Date:** November 2, 2017

**From:** John Irving, P.Eng., MPA  
Director, Engineering and  
Chief Executive Officer, Lulu Island Energy  
Company

**File:** 10-6600-10-01/2017-Vol 01

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

**Re:** Lulu Island Energy Company – 3<sup>rd</sup> Quarter 2017 Financial Information

### Staff Recommendation

That the Lulu Island Energy Company report titled "Lulu Island Energy Company – 3<sup>rd</sup> Quarter 2017 Financial Information" dated November 2, 2017 from the Chief Executive Officer and Chief Financial Officer, Lulu Island Energy Company be received for information.

John Irving, P.Eng., MPA  
Director, Engineering and  
Chief Executive Officer,  
Lulu Island Energy Company  
(604-276-4140)

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

Att. 1

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



6911 NO. 3 ROAD  
RICHMOND, BC V6Y 2C1

## Report

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**DATE:** November 2, 2017

**TO:** Board of Directors

**FROM:** John Irving, P.Eng. MPA, Chief Executive Officer  
Jerry Chong, CPA, CA, Chief Financial Officer

**RE:** Lulu Island Energy Company – 3rd Quarter 2017 Financial Information

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### Staff Recommendation

That the report titled “Lulu Island Energy Company – 3<sup>rd</sup> Quarter 2017 Financial Information,” dated November 2, 2017 from the Chief Financial Officer, Lulu Island Energy Company, be approved.

### Background

Staff have not presented LIEC quarterly financial information to Council, since the financial information contained within LIEC was not material in comparison to the City. The asset transfer was completed on March 31, 2017 and LIEC now effectively manages all district energy initiatives. In this context, this report was prepared with the objective to provide pre-audited financial information to the Board and LIEC’s shareholder, represented by the Richmond City Council.

### Analysis

The LIEC’s pre-audited Q3 financial information consists of Statement of Operations, which includes a summary of revenues, expenses, non-operating activity and transfers for the 3<sup>rd</sup> quarter (included in Attachment 1).

### Revenues

Effective January 1, 2017, the Alexandra District Energy Utility operations were transferred to LIEC from the City. The metered billings revenue reflects energy sales. The metered billings revenue, \$922,418 from the Oval Village District Energy Utility (OVDEU) and \$1,225,392 from the Alexandra District Energy Utility (ADEU), is in line with unit rates, however, lower than the annual budget mainly due to the timing of connections to new buildings. The total revenue which includes metered billings, energy modeling review fee, Asset Contribution (ETS Fee), service fee and other income is \$3,471,348, 0.24% over budget.

Expenses

Overall, there is a favourable variance of \$319,190 with respect to expenses with total expenses of \$2,242,278. Amortization expenses are under budget mainly due to the capitalization of assets. The contract expense for OVDEU has increased by 13% mainly due to Corix overhead allocation. Staff are reviewing this increase with Corix with the intention of excluding the overhead portion associated with each capital investment from the overall fixed overhead. The contract expense for ADEU is under budget by 52% due to fewer maintenance incidents in Q3. Overall, contract expense is 13% lower than budgeted. The variance in salaries and benefits (6%) is mainly due to a vacant position, which has subsequently been filled.

The overall net surplus before non-operating activity and transfers at September 30, 2017 was \$1,229,070 which exceeded budget by \$327,538.

Government Business Enterprise Analysis

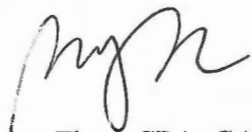
The 3<sup>rd</sup> Quarter 2017 Financial Information was prepared in accordance with Canadian Generally Accepted Accounting Principles as prescribed by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada. LIEC is classified as a Government Business Enterprise (GBE), and at year end and going forward the financial information will be prepared in accordance with International Financial Reporting Standards (IFRS).

**Financial Impact**

None.

**Conclusion**

The pre-audited financial information shows that LIEC's financial position is very good.



Helen Zhao, CPA, CA  
Controller  
Lulu Island Energy Company  
(604-276-4053)

Attachment 1: Summary of Q3 Financial Information (unaudited)

## Attachment 1 – Summary of Q3 Financial Information (unaudited)

### LULU ISLAND ENERGY COMPANY LTD.

Statement of Operations

For the quarter ended September 30, 2017

Unaudited, prepared by management

	Budget	Actual	Variance	Variance
<b>REVENUES</b>				
Metered Billings (Quarterly) <sup>1</sup>	\$2,280,000	\$2,147,810	(132,190)	(6%)
Energy Modeling Review Fee	9,000	10,231	1,231	14%
Asset Contributions (ETS fee) <sup>2</sup>	259,000	360,383	101,383	39%
Service Fee	915,000	915,000	-	0%
Other income <sup>3</sup>	-	37,925	37,925	100%
	<b>3,463,000</b>	<b>3,471,348</b>	<b>8,348</b>	<b>0.24%</b>
<b>EXPENSES</b>				
Salaries and Benefits <sup>4</sup>	443,610	417,286	(26,324)	(6%)
General and Administration	42,113	13,287	(28,826)	(68%)
Professional Fees <sup>5</sup>	35,175	26,144	(9,031)	(26%)
Contracts <sup>6</sup>	627,000	542,878	(84,122)	(13%)
Insurance <sup>7</sup>	26,925	-	(26,925)	(100%)
Utilities <sup>8</sup>	447,850	424,072	(23,778)	(5%)
Amortization	838,276	737,881	(100,395)	(12%)
Interest Expense <sup>9</sup>	100,519	80,730	(19,789)	(20%)
	<b>2,561,467</b>	<b>2,242,278</b>	<b>(319,190)</b>	<b>(12%)</b>
Surplus before non-operating activity and transfers	<b>901,533</b>	<b>1,229,070</b>	<b>327,538</b>	<b>36%</b>
<b>Non-Operating Activity</b>				
Assets transfer from the City of Richmond	-	3,839,887	3,837,887	100%
Capital Funding <sup>10</sup>	-	400,000	400,000	100%
	-	4,239,887	4,239,887	100%
Surplus before transfers	<b>\$901,533</b>	<b>\$5,468,958</b>	<b>\$4,567,425</b>	<b>507%</b>
<b>TRANSFERS</b>				
Transfer to Provision <sup>11</sup>	1,480,809	5,846,456	4,365,648	295%
Equity – Amortization <sup>12</sup>	(838,276)	(737,881)	100,395	(12%)
Equity to Capital (ETS) <sup>13</sup>	259,000	360,383	101,383	39%
	<b>901,533</b>	<b>5,468,958</b>	<b>4,567,425</b>	<b>507%</b>
Surplus (Deficit) including transfers	<b>\$0</b>	<b>\$0</b>	<b>-</b>	<b>-</b>

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## Notes

1. The variance is mainly due to timing of new connections.
2. Energy transfer station (building connection fee) paid for Onni Riva Building 3 and ASPAC 9.
3. Interest income earned on existing cash balances.
4. The variance is due to a vacant position in the first quarter, which has subsequently been filled.
5. Professional Fees include: year-end audit, legal and other consulting fees such as SharePoint design.
6. Contracts expense includes both planned and unplanned plant maintenance costs. Overall, Contracts expense has a positive variance. Contracts expense for OVDEU is increased mainly due to Corix overhead allocation which is under review by staff; Contracts expense for ADEU is decreased because fewer maintenance incidents occurred.
7. The company is in the process of setting up its own insurance package. Currently insured under the City policy.
8. Utilities include electricity and natural gas.
9. Interest amount is an actual annual interest on debt of 2.67% from September 2017 Corix schedule, while budget was based on 3.75% used in Pro-forma.
10. The capital funding received from the City for future advanced design of capital projects.
11. Transfer to Provision includes general surplus, appropriated surplus (rate stabilization), and allocated appropriated surplus (capital funding for capital projects)
12. Equity - Amortization reflects the decrease in investment in tangible capital assets within accumulated surplus directly related to amortization expense
13. Equity to Capital (ETS) reflects the increase in investment in tangible capital assets within accumulated surplus