



City of Richmond

Report to Committee

To: Finance Committee

Date: May 7, 2021

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

File: 10-6600-10-01/2021-Vol 01

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

Re: Lulu Island Energy Company – 1st Quarter March 31, 2021 Financial Information

Staff Recommendation

That the Lulu Island Energy Company report titled “Lulu Island Energy Company – 1st Quarter March 31, 2021 Financial Information”, dated May 7, 2021 from the Chief Executive Officer and Chief Financial Officer, be received for information.

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

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

REPORT CONCURRENCE	
CONCURRENCE OF GENERAL MANAGER	
REVIEWED BY SMT	INITIALS:
APPROVED BY CAO	



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RICHMOND, BC V6Y 2C1

Report

DATE: April 13, 2021
TO: Board of Directors
FROM: Jerry Chong, CPA, CA, Chief Financial Officer
Re: **Lulu Island Energy Company – 2021 1st Quarter Financial Information**

Staff Recommendation

That the 1st Quarter Financial Information as presented in the report titled “Lulu Island Energy Company – 2021 1st Quarter Financial Information” dated April 13, 2021 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 is prepared with the objective to provide pre-audited financial information to the Board 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 Q1 financial information consists of the interim statement of the financial position as of March 31, 2021 (Attachment 1) and the interim income statement for the period ended March 31, 2021 (Attachment 2).

Financial Position

The interim statement of the financial position provides a summary of assets, liabilities and shareholder’s equity. Total assets are comprised of current assets (cash, investments and receivables) \$16,191,474 and non-current assets (plant and equipment) \$38,049,109. The total assets are \$54,240,583. The total liabilities of \$21,052,847 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 March 31, 2021, LIEC’s shareholder equity is \$33,187,736, 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 both ADEU and OVDEU service areas. The metered billings revenue for Q1 was \$645,174 from the Alexandra District Energy Utility (ADEU) and \$746,149 from the Oval Village District Energy Utility (OVDEU). Overall, the first three months of metered billing revenue totalled \$1,391,323 which increased by 23% over 2020. This reflects the addition of two new building connections in Q3 of 2020 and the minor increase in 2021 rates. The year-to-date metered billings revenue is 3% higher than budget.

Cost of Sales

The cost of sales is the accumulated total of expenses attributable to the metered billing revenue, which includes contract services, utilities (electricity and natural gas), and amortization expenses. The contract expense increased by 5% over 2020 with more buildings being serviced needing additional operations and maintenance work. The growth in energy demand, due to the addition of more buildings, resulted in an increased use of electricity and natural gas to run distribution pumps, geo-field pumps, 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 rise by 35% compared to 2020. The amortization expense increased due to capital asset additions. The year over year cost of sales has increased by 18%.

General and Administration Expenses

The general and administration (G&A) expenses are expenditures that LIEC incurs to engage in operating activities which include salaries and benefits, administration expenses, professional fees, etc. Salaries and benefits increased by 11% compared to Q1 2020 due to the alignment with the Administration Procedure 3001.01 in order to fairly reimburse the City for administrative and operational time that City management staff members incur while conducting LIEC business, however, salaries and benefits are in line with budget. 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. The insurance expense increased due to a general insurance rate increase and additional DEU assets being insured. The professional fees are in line with the budget. Overall, G&A expenses have increased 12% compared to Q1 2020, however, as a percentage of revenues they are in line at 17% versus 18%.

Contributions and Financing

The contributions and financing expense section represent other sources of income and cost for the business. The current energy modeling review fee is more than 2020's fee due to more building permits being submitted and reviewed. The net finance cost is the result of year-to-date finance costs on concession liabilities, offset by interest income. The net finance cost is higher than 2020 mainly due to the increase in the concession liability and the reduction in investment income due to low interest rates. The additional capital expenditure for OVDEU infrastructure has resulted in a higher balance of concession liability than the prior year.

LIEC's EBITA (earnings before interest, tax, and amortization), used as a proxy to measure the Company's financial performance, increased by 22% compared to the Q1 of 2020. EBITA as a percentage of revenue increased to 56% for 2021 compared to 54% in 2020.

The year to date net income of \$451,236 has exceeded the budget by 31%, though, the net income as a percentage of revenue decreased to 28% for 2021 compared to 29% in 2020. Consistent with the company's financial plan objectives, any net income will be maintained 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.



Owen Sinclair
Budget and Training Coordinator

- Attachment 1: Interim Statement of Financial Position (unaudited)
- Attachment 2: Interim Income Statement (unaudited)
- Attachment 3: Year-To-Date Budget vs. Actual Comparison (unaudited)

Interim Statement of Financial Position (Unaudited)

	As at March 31 2021	As at December 31 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,126,353	\$ 8,604,504
Accounts receivable	2,039,441	3,034,510
Other investments	4,025,680	4,014,336
	16,191,474	15,653,350
Non-current assets:		
Plant and equipment	38,049,109	37,359,845
	\$ 54,240,583	\$ 53,013,195
Liabilities and Shareholder's Equity		
Current and non-current liabilities:		
Accounts payable and accrued liabilities	\$ 1,341,298	\$ 1,790,919
Deferred developer contributions	7,298,678	7,352,360
Concession liability	12,412,871	11,133,416
	21,052,847	20,276,695
Shareholder's equity:		
Share capital and contributed surplus	27,397,115	27,397,115
Retained earnings	5,790,621	5,339,385
	33,187,736	32,736,500
	\$ 54,240,583	\$ 53,013,195

Interim Income Statement (Unaudited)

	March 31 2021	Restated March 31 2020	\$ Changes	% Change
Revenues				
Metered Billings (Quarterly)	\$ 1,391,323	\$ 1,129,815	\$ 261,508	23%
Service fee	245,250	245,372	(122)	0%
	1,636,573	1,375,187	261,386	19%
Cost of Sales				
Contracts	168,080	159,541	8,539	5%
Utilities	361,011	267,144	93,867	35%
Amortization	307,062	280,338	26,724	10%
	836,153	707,023	129,130	18%
Gross margin	800,420	668,164	132,256	20%
General and Administration Expenses				
Salaries and benefits	208,345	188,189	20,156	11%
Administration expenses	20,523	16,744	3,779	23%
Insurance	28,750	23,750	5,000	21%
Professional Fees	18,730	17,655	1,075	6%
	276,348	246,338	30,010	12%
Net income before other items	524,072	421,826	101,246	24%
Contributions and Financing expense				
Developer contributions	53,683	36,436	17,247	47%
Energy modeling review fee	25,104	4,766	20,338	427%
Net financing cost	(151,623)	(62,871)	(88,752)	141%
	(72,836)	(21,669)	(51,167)	
Net Income	\$451,236	\$400,157	\$51,079	13%
Earnings before interest, taxes and amortization (EBITA)				
Net income per above	\$ 451,236	\$ 400,157	\$ 51,079	13%
Net Financing cost	151,623	62,871	88,752	141%
Amortization expense	307,062	280,338	26,724	10%
EBITA	\$ 909,921	\$ 743,366	\$ 166,555	22%

Notes:

	As at March 31 2021	As at March 31 2020
Percentage of Revenue		
Gross margin percentage	49%	49%
General and administration percentage	17%	18%
Net income percentage	28%	29%
EBITA percentage	56%	54%

Attachment 3**Year-To-Date Budget vs. Actual Comparison (Unaudited)**

	2021 Q1 Budget	2021 Q1 Actual	\$ Variance	% Variance
Revenues				
Metered Billings (Quarterly)	\$ 1,346,447	\$ 1,391,323	\$ 44,876	3%
Service fee	245,371	245,250	(121)	0%
	1,591,818	1,636,573	44,755	3%
Cost of Sales				
Contracts	175,078	168,080	(6,998)	(4%)
Utilities	361,676	361,011	(665)	0%
Amortization	354,306	307,062	(47,244)	(13%)
	891,060	836,153	(54,907)	(6%)
Gross margin	700,758	800,420	99,662	14%
General and Administration Expenses				
Salaries and benefits	211,973	208,345	(3,628)	(2%)
Administration expenses	28,591	20,523	(8,068)	(28%)
Insurance	28,750	28,750	-	0%
Professional Fees	18,635	18,730	95	1%
	287,949	276,348	(11,601)	(4%)
Net income before other items	412,809	524,072	111,263	27%
Contributions and Financing expense				
Developer contributions	61,970	53,683	(8,287)	(13%)
Energy modeling review fee	9,750	25,104	15,354	157%
Net financing cost	(140,121)	(151,623)	(11,502)	8%
	(68,401)	(72,836)	(4,435)	6%
Net Income	\$344,408	\$451,236	\$106,828	31%
Earnings before interest, taxes and amortization (EBITA)				
Net income per above	\$ 344,408	\$ 451,236	\$ 106,828	31%
Net Financing cost	140,121	151,623	11,502	8%
Amortization expense	354,306	307,062	(47,244)	(13%)
EBITA	\$ 838,835	\$ 909,921	\$ 71,086	8%