City of Richmond

Report to Committee

To:	Finance Committee	**Date:**	May 17, 2024
From:	John Irving, P.Eng., MPA Deputy CAO Chief Executive Officer, Lulu Island Energy Company Jerry Chong, CPA, CA General Manager, Finance and Corporate Services Chief Financial Officer, Lulu Island Energy Company	**File:**	01-0060-20-LIEC1/2024-Vol 01
Re:	**Lulu Island Energy Company – 2024 1st Quarter Financial Information**		

Staff Recommendation

That the Lulu Island Energy Company report titled "Lulu Island Energy Company – 2024 1st Quarter Financial Information", dated May 17, 2024, from the Chief Executive Officer and Chief Financial Officer, be received for information.

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

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

Att. 4

REPORT CONCURRENCE	
CONCURRENCE OF DEPUTY CAO	
REVIEWED BY SMT	INITIALS:
APPROVED BY CAO	

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RICHMOND, BC V6Y 2C1

Report

DATE: April 23, 2024

TO: Board of Directors

FROM: Jerry Chong, CPA, CA, Chief Financial Officer

Re: **Lulu Island Energy Company – 2024 1st Quarter Financial Information**

Staff Recommendation

That the 1st Quarter Financial Information as presented in the report titled "Lulu Island Energy Company – 2024 1st Quarter Financial Information", dated April 23, 2024, 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. Information regarding LIEC's district energy utility (DEU) operations can be found in Attachment 1. All capital and operating costs are recovered through revenues from user fees, ensuring that the business is financially sustainable. City Council is the regulator and thus sets customer rates.

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 Q1 financial information consists of the interim statement of financial position as of March 31, 2024 (Attachment 2) and the interim income statement for the period ended March 31, 2024 (Attachment 3). Year-to-date budget vs actual comparison are shown in Attachment 4.

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) of $23,694,239 and non-current assets (plant and equipment) of $54,079,783. Current assets increased by $4,374,418 due to advance payments from developers for developer contributed infrastructure and increase in revenue as a result of new building connections. The collection of the advance payments from developers is dependent on the project's construction schedules and the payments will be collected before the building permits issuance.

The total liabilities of $39,956,612 include outstanding invoices, deferred contributions and City Center District Energy Utility (CCDEU) Project Agreement liabilities. Developer contributions and CCDEU Project Agreement liabilities make up the majority of the liabilities as they are the primary source of funding for new infrastructure.

As of March 31, 2024, LIEC's shareholder equity is $37,817,410, increase of $719,510 over the first quarter.

Interim Income Statement and Budget Variance

Revenues

The metered billings reflect the first quarter energy sales of the Alexandra District Energy Utility (ADEU) and City Center District Energy Utility (CCDEU) service areas[1]. The year to date metered billing revenue is $697,491 from ADEU, and $1,668,077 from CCDEU. Overall, Q1 2024 metered billing revenue grew by 20% to $2,365,568 (Q1 2023 - $1,971,217). This increase is due to new building connections, additional energy use by buildings that were not fully occupied in prior years, and the approved 2024 customer rates. The revenue is above budget by 3%.

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. Contract expenses increased by $134,941 to $ 446,645 (Q1 2023 – 311,704) due to additional operations and maintenance requirements as a result of more buildings being serviced, including one additional on-site low carbon energy plant (LCEP). Contract expenses are 18% below budget due to less unplanned maintenance than anticipated.

Compared to Q1 2023, utility costs increased by $177,765 to $631,070 (Q1 2023 – $453,305) due to the additional building connections, the addition of one LCEP, and natural gas and carbon tax rate increases. The variance also includes the commodity rider of $56,751, which was adjusted in the 2023 fiscal year-end. Despite this, utility costs remain 11% below budget. The amortization expense increased from Q1 2023 due to the addition of new capital assets.

The gross margin as a percentage of revenue is 42% compared to 49% in Q1 2023 mainly due to the higher maintenance and utility costs for the LCEP's. Low carbon energy production technologies in LCEP's are more complex than natural gas boilers and are using low carbon electricity which is more expensive than natural gas. The gross margin exceeded the budgeted amount by 11% due to the lower than forecasted utility and contract costs.

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[1] Note that OVDEU is now combined under the CCDEU service area.

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, insurance and professional fees. Comparing to Q1 2023, the general and administration expenses increased by 7% to $537,345 (2023 Q1 - $500,781) and 4% below budget.

- Salaries and benefits are in line with the budget, and 5% lower than the prior year.
- Administration expenses remain consistent with Q1 2023 and in line with the budget. The administration expenses include overhead costs to administer Corix's special purpose entity, LIEC reporting, Canada Infrastructure Bank (CIB) reporting and financial administration requirements. The overhead allocation paid to the City of Richmond for the day-to-day support that LIEC receives from City staff is also included.
- Insurance expenses increased by $17,319 from Q1 2023 due to general insurance rate increases and additional assets being insured under the CCDEU Project Agreement; however, it is 16% below the budget.
- Professional fees are in line with the budget. The increase of $34,933 to $84,153 (2023 Q1 - $49,220) is due to expenses related to the CCDEU Project Agreement and increase in audit fees in line with the growth of the infrastructure assets.

Overall, the G&A expenses as a percentage of revenues are 21% in Q1 2024 compared to 23% in 2023. Compared with budget, the G&A expenses as a percentage of revenues are 2% lower than budget. As more customers are connected to the utility, the general and administration expenses in relation to the revenue is expected to further decrease.

Contributions and Financing Expenses

The contributions and financing expense section represents other sources of income and costs for the business. The recognized developer contributions revenue is higher than 2023 due to additional onsite assets being placed into service. The net finance cost is the net balance of year-to-date finance costs on CCDEU Project Agreement liabilities, offset by interest income. The net finance cost is higher than Q1 2023 due to additional capital expenditures. LIEC has taken advantage of the higher interest rates by investing in short-term term deposits which have yielded higher returns compared to budgeted rate. This has resulted in a positive variance in the budget comparison.

LIEC's earnings before interest, tax, and amortization (EBITA), used as a proxy to measure the company's financial performance, as a percentage of revenue decreased to 45% from 48% in Q1 2023. This is mainly due to the initial operation and administration setup costs necessary for the CCDEU project infrastructure expansion. This is as expected and has been encountered in the past with the existing Oval Village District Energy Utility (OVDEU) and ADEU projects. As more customers are connected to the system, the EBITA is expected to increase. Notwithstanding, the EBITA percentage has exceeded budget by 10%.

The net income for Q1 2024 is $719,511. LIEC's overall financial performance exceeded budget by $303,112. 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. This report will be presented to Council for information.

Cody Lan

Helen Zhao
Controller
(604-204-8699)

Cody Lan
Assistant Controller
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Att. 1: District Energy in Richmond
2. Interim Statement of Financial Position as of March 31, 2024 (unaudited)
3: Interim Income Statement for the period ending March 31, 2024 (unaudited)
4: Year-To-Date Budget vs. Actual Comparison (unaudited)

District Energy in Richmond

Richmond's 2041 Official Community Plan (OCP) establishes a target to reduce greenhouse gas (GHG) emissions 50 per cent below 2007 levels by 2030 and 100 per cent by 2050. The City identified district energy utilities (DEUs) as a leading strategy to achieve the City's GHG reduction goals and incorporated Lulu Island Energy Company Ltd. (LIEC) in 2013 for the purposes of carrying out the City's district energy initiatives on the basis of the following guiding principles:

1. The DEU will provide end users with energy costs that are competitive with conventional energy costs, based on the same level of service; and
2. Council will retain the authority of setting customer rates, fees and charges for DEU services.

The City established three DEU service areas: ADEU, OVDEU, and CCDEU. Table 1 below provides a summary of the developments connected under the DEU service areas to-date.

Table 1 – DEU Service Areas - Current and Projected Connected Space

	Buildings To-Date	Residential Units To-Date	Floor Area To-Date	Floor Area Build-out
Alexandra DEU	13	2,200	2.4M ft^2	4.4M ft^2
Oval Village DEU	14	3,174	3.7M ft^2	6.4M ft^2
City Centre DEU	3	1,082	1.2M ft^2	48.0M ft^2
Total	**30**	**6,456**	**7.3M ft^2**	**58.8M ft^2**

The ADEU provides heating and cooling services to ten residential buildings, the large commercial development at "Central at Garden City", the Richmond Jamatkhana Temple and Fire Hall No. 3, comprising of 2,200 residential units and over 2.4 million square feet of floor area. While some electricity is consumed for pumping and equipment operations, most of this energy is currently produced locally from the geo-exchange fields in the greenway corridor and West Cambie Park, and highly efficient air source heat pumps.

The OVDEU services 14 buildings, containing 3,174 residential units. Energy is currently supplied from the three interim energy centres with natural gas boilers which provide 16 MW of heating capacity. LIEC received a $6.2 million grant from the CleanBC Communities Fund for the design and construction of the sewer heat recovery technology and a permanent energy centre for the area. This project is in the preliminary design stage and is expected to be completed in 2028. Once completed, the system will be able to produce up to 80% of low-carbon energy from the Gilbert Trunk sanitary force main sewer.

The CCDEU currently services three buildings, comprised of 1,082 residential units and approximately 1.2M ft^2 of floor area. While offsite energy centres progress through development, CCDEU utilizes on-site low carbon energy plants as a source of energy production. At full build-out, 176 developments, 28,000 residential units and approximately 48M ft^2 of floor space will be serviced by five permanent energy centres with over 130 MW of heating and 115 MW of cooling capacity. The built out system is estimated to reduce over one million tonnes of GHG emissions compared to conventional service.

Interim Statement of Financial Position (Unaudited)

	As of March 31 2024	As of December 31 2023
Assets		
Current assets:		
Cash and cash equivalents	$ 2,006,286	$ 2,511,976
Accounts receivable	9,491,069	4,792,892
Other investments	12,196,884	12,014,953
	23,694,239	19,319,821
Non-current assets:		
Plant and equipment	54,079,783	53,740,785
	$ 77,774,022	$ 73,060,606
Liabilities and Shareholder's Equity		
Current and non-current liabilities:		
Accounts payable and accrued liabilities	$ 1,528,051	$ 1,848,902
Deferred developer contributions	23,172,186	19,235,460
Government grants	403,026	403,026
Project Agreement liability	14,853,349	14,475,318
	39,956,612	35,962,706
Shareholder's equity:		
Share capital and contributed surplus	27,397,115	27,397,115
Retained earnings	10,420,295	9,700,785
	37,817,410	37,097,900
	$ 77,774,022	$ 73,060,606

Interim Income Statement (Unaudited)

	March 31 2024	March 31 2023	$ Changes	% Change
Revenues				
Metered billings (Quarterly)	$ 2,365,568	$ 1,971,217	$ 394,351	20%
Service fee	245,372	245,372	-	0%
	2,610,940	2,216,589	394,351	18%
Cost of Sales				
Contracts	446,645	311,704	134,941	43%
Utilities	631,070	453,305	177,765	39%
Amortization	440,495	362,760	77,735	21%
	1,518,210	1,127,769	390,441	35%
Gross margin	**1,092,730**	**1,088,820**	**3,910**	**0%**
General and administration expenses				
Salaries and benefits	274,430	289,357	(14,927)	(5%)
Administration expenses	91,224	92,045	(851)	(1%)
Insurance	87,538	70,159	17,379	25%
Professional fees	84,153	49,220	34,933	71%
	537,345	500,781	36,534	7%
Net income before other items	555,385	588,039	(32,654)	(6%)
Contributions and financing expense				
Developer contributions	167,033	111,092	55,941	50%
Other income	5,864	394	5,470	-
Net financing cost	(8,771)	(386)	(8,385)	-
	164,126	111,100	53,026	48%
Net Income	**$ 719,511**	**$ 699,139**	**$ 20,372**	**3%**

Earnings before interest, taxes and amortization (EBITA)

Net income per above	$ 719,511	$ 699,139	$ 20,372	3%
Net financing cost	8,771	386	8,385	-
Amortization expense	440,495	362,760	77,735	21%
EBITA	$ 1,168,777	$ 1,062,285	$ 106,492	10%

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Notes:

	Ending March 31 2024	Ending March 31 2023
Percentage of Revenue		
Gross margin percentage	42%	49%
General and administration percentage	21%	23%
Net income percentage	28%	32%
EBITA percentage	45%	48%

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

	2024 Q1 Budget	2024 Q1 Actual	$ Variance	%Variance
Revenues				
Metered Billings (Quarterly)	$ 2,286,531	$ 2,365,568	$ 79,037	3%
Service fee	245,372	245,372	-	0%
	2,531,903	2,610,940	79,037	3%
Cost of Sales				
Contracts	546,495	446,645	(99,850)	(18%)
Utilities	708,126	631,070	(77,056)	(11%)
Amortization	480,995	440,495	(40,500)	(8%)
	1,735,616	1,518,210	(217,406)	(12%)
Gross margin	**796,287**	**1,092,730**	**296,443**	**37%**
General and Administration Expenses				
Salaries and benefits	277,952	274,430	(3,522)	(1%)
Administration expenses	93,435	91,224	(2,211)	(2%)
Insurance	104,540	87,538	(17,002)	(16%)
Professional Fees	84,050	84,153	103	0%
	559,977	537,345	(22,632)	(4%)
Net income before other items	236,310	555,385	319,075	135%
Contributions and Financing expense				
Developer contributions	139,360	167,033	27,673	20%
Other income	6,000	5,864	(136)	(2%)
Net financing cost	(171,154)	(8,771)	162,383	(95%)
	(25,794)	164,126	189,920	
Net Income	**$ 210,516**	**$ 719,511**	**$ 508,995**	

Earnings before interest, taxes and amortization (EBITA)				
Net income per above	$ 210,516	$ 719,511	$ 508,995	
Net Financing cost	171,154	8,771	(162,383)	(95%)
Amortization expense	480,995	440,495	(40,500)	(8%)
EBITA	$ 862,665	$ 1,168,777	$ 303,112	35%