



City of Richmond

Report to Committee

To: Finance Committee

Date: August 10, 2021

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

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

Re: Lulu Island Energy Company – 2nd Quarter June 30, 2021 Financial Information

Staff Recommendation

That the Lulu Island Energy Company report titled “Lulu Island Energy Company – 2nd Quarter June 30, 2021 Financial Information”, dated August 10, 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
& Chief Financial Officer,
Lulu Island Energy Company
(604-276-4064)

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



6911 NO. 3 ROAD
RICHMOND, BC V6Y 2C1

Report

DATE: July 13, 2021

TO: Board of Directors

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

Re: Lulu Island Energy Company – 2021 2nd Quarter Financial Information

Staff Recommendation

That the 2nd Quarter Financial Information as presented in the report titled “Lulu Island Energy Company – 2021 2nd Quarter Financial Information” dated July 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 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 the financial position as of June 30, 2021 (Attachment 1) and the interim income statement for the period ended June 30, 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) \$15,892,773 and non-current assets (plant and equipment) \$38,400,609. The total assets are \$54,293,382. The total liabilities of \$20,705,071 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, 2020, LIEC’s shareholder equity is \$33,588,311, 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 year to date metered billings revenue is \$1,314,894 from the Alexandra District Energy Utility (ADEU) and \$1,342,687 from the Oval Village District Energy Utility (OVDEU). Overall, the first six months of metered billing revenue of \$2,657,581 increased by 20% over 2020. This reflects the addition of two new building connections, increased energy use from customers due to increased occupancy, and the approved annual increase for the 2021 rates. The year-to-date metered billings revenue is in line with the 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 9% over 2020 with more buildings being serviced, resulting in 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-exchange heat 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 23% compared to 2020. The amortization expense increased due to capital asset additions. The year-over-year cost of sales has increased by 17%.

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 12% compared to Q2 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. Insurance expense increased due to the general insurance rate increase and additional DEU assets being insured. The professional fees increased compared to 2020 due to additional costs as a result of the delayed completion of the year end third party audit. Overall, the G&A expenses as a percentage of revenues are at 17%, which is in line with last year's Q2 results.

Contributions and Financing

The contributions and financing expense section represents other sources of income and costs for the business. The current energy modeling review fee revenues are higher than 2020's due to larger than anticipated building permit reviews. 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 20% compared to the first six months of 2020. Q2 EBITA as a percentage of revenue is at 59% for 2021 and was 57% in 2020.

The year-to-date net income of \$851,810 has exceeded the budget by 19%, though, the net income as a percentage of revenue decreased to 27% for 2021 compared to 30% 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 as at June 30, 2021 (unaudited)
- Attachment 2: Interim Income Statement for the period end June 30, 2021 (unaudited)
- Attachment 3: Year-To-Date Budget vs. Actual Comparison (unaudited)

Interim Statement of Financial Position (Unaudited)

	As at June 30 2021	As at December 31 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 11,410,854	\$ 8,604,504
Accounts receivable	2,462,819	3,034,510
Other investments	2,019,100	4,014,336
	15,892,773	15,653,350
Non-current assets:		
Plant and equipment	38,400,609	37,359,845
	\$ 54,293,382	\$ 53,013,195
Liabilities and Shareholder's Equity		
Current and non-current liabilities:		
Accounts payable and accrued liabilities	\$ 640,416	\$ 1,790,919
Deferred developer contributions	7,134,390	7,352,360
Concession liability	12,930,265	11,133,416
	20,705,071	20,276,695
Shareholder's equity:		
Share capital and contributed surplus	27,397,115	27,397,115
Retained earnings	6,191,196	5,339,385
	33,588,311	32,736,500
	\$ 54,293,382	\$ 53,013,195

Interim Income Statement (Unaudited)

	June 30 2021	Restated June 30 2020	\$ Changes	% Change
Revenues				
Metered Billings (Quarterly)	\$ 2,657,581	\$ 2,213,926	\$ 443,655	20%
Service fee	490,500	490,743	(243)	0%
	3,148,081	2,704,669	443,412	16%
Cost of Sales				
Contracts	379,091	347,326	31,765	9%
Utilities	522,417	424,064	98,353	23%
Amortization	683,830	579,469	104,361	15%
	1,585,338	1,350,859	234,479	17%
Gross margin	1,562,743	1,353,810	208,933	15%
General and Administration Expenses				
Salaries and benefits	421,130	376,932	44,198	12%
Administration expenses	39,262	43,504	(4,242)	(10%)
Insurance	44,004	39,211	4,793	12%
Professional Fees	28,718	24,004	4,714	20%
	533,114	483,651	49,463	10%
Net income before other items	1,029,629	870,159	159,470	18%
Contributions and Financing expense				
Developer contributions	107,432	72,871	34,561	47%
Energy modeling review fee	23,813	10,136	13,677	135%
Net financing cost	(309,064)	(139,647)	(169,417)	121%
	(177,819)	(56,640)	(121,179)	
Net Income	\$851,810	\$813,519	\$38,291	5%
Earnings before interest, taxes and amortization (EBITA)				
Net income per above	\$ 851,810	813,519	\$ 38,291	5%
Net Financing cost	309,064	139,647	169,417	121%
Amortization expense	683,830	579,469	104,361	18%
EBITA	\$ 1,844,704	1,532,635	\$ 312,069	20%

Notes:

	As at June 30 2021	As at June 30 2020
Percentage of Revenue		
Gross margin percentage	50%	50%
General and administration percentage	17%	18%
Net income percentage	27%	30%
EBITA percentage	59%	57%

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

	2021 Q2 Budget	2021 Q2 Actual	\$ Variance	%Variance
Revenues				
Metered Billings (Quarterly)	\$ 2,640,082	\$ 2,657,581	\$ 17,499	1%
Service fee	490,743	490,500	(243)	0%
	3,130,825	3,148,081	17,256	1%
Cost of Sales				
Contracts	373,752	379,091	5,339	1%
Utilities	618,164	522,417	(95,747)	(15%)
Amortization	692,877	683,830	(9,047)	(1%)
	1,684,793	1,585,338	(99,455)	(6%)
Gross margin	1,446,032	1,562,743	116,711	8%
General and Administration Expenses				
Salaries and benefits	423,946	421,130	(2,816)	(1%)
Administration expenses	67,015	39,262	(27,753)	(41%)
Insurance	57,500	44,004	(13,496)	(23%)
Professional Fees	37,270	28,718	(8,552)	(23%)
	585,731	533,114	(52,617)	(9%)
Net income before other items	860,301	1,029,629	169,328	20%
Contributions and Financing expense				
Developer contributions	106,752	107,432	680	1%
Energy modeling review fee	19,500	23,813	4,313	22%
Net financing cost	(271,984)	(309,064)	(37,080)	14%
	(145,732)	(177,819)	(32,087)	22%
Net Income	\$714,569	\$851,810	\$137,241	19%
Earnings before interest, taxes and amortization (EBITA)				
Net income per above	\$ 714,569	\$ 851,810	\$ 137,241	19%
Net Financing cost	271,984	309,064	37,080	14%
Amortization expense	692,877	683,830	(9,047)	(1%)
EBITA	\$ 1,679,430	\$ 1,844,704	\$ 165,274	10%