




City of Richmond - Alexandria
S



2014 | Annual Report



Clean, efficient
energy, for now
and the future.

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■ MESSAGE FROM THE BOARD CHAIR

This report provides an overview of Lulu Island Energy Company's (LIEC) first year of operation, managing district energy utilities in Richmond on behalf of the City. City Council has articulated its vision for Richmond to transition into a sustainable, low carbon community. LIEC is an important contributor in achieving this vision, while providing quality energy services to customers at competitive prices.

With Council's support, 2014 saw the establishment of the new Oval Village District Energy Utility (OVDEU), as well as the execution of a Concession Agreement with Corix Utilities to implement the OVDEU, the first project in the corporation's portfolio. At full build out, the OVDEU will service 4,940,000 square feet, which will be designed, built, financed and operated by Corix Utilities and owned by LIEC. Council will be setting customer rates to ensure transparency and accountability for customer rates. It is estimated that the OVDEU will reduce 5,500 tonnes of GHG missions per year.

With leadership from Council, the dedication of our Board of Directors and staff, and with strong community support for creating a sustainable community, I look forward to overseeing the growth of district energy services in Richmond.

A stylized, handwritten signature in black ink, appearing to read 'George Duncan'.

George Duncan
Chair, Lulu Island Energy Company

■ MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

The City of Richmond has a long history of operating utilities and is continuously recognized for service and asset management excellence. Traditional utilities in Richmond that provide water, sanitation, diking, and drainage services to residents have operated to the highest industry standards for decades. With growing concern about climate change and interest in local clean energy development, Council directed staff to develop district energy utilities to supply efficient, low carbon energy to customers. Building on the success of the City's first district energy venture, the award winning Alexandra District Energy Utility (ADEU), Council established the OVDEU service area in 2014. OVDEU will be developed and operated in partnership with Corix Utilities, and managed by LIEC to ensure its financial viability.

Clean energy investments are key to supporting long term community sustainability. LIEC is Richmond's solution to providing "clean, efficient energy for now and the future." I am proud of the City's work to develop sustainable infrastructure that both serve customers' heat and hot water needs and reduces the overall environmental impact of the City. In 2015, I look forward to continuing our work under LIEC banner, and working with our partners and customers to ensure success.



Robert Gonzalez

CEO, Lulu Island Energy Company





MAXIMUM HEIGHT 6' 8"

4099

4099

Auto Sprinkler
Fire Dept. Connection

■ ABOUT THE COMPANY AND DISTRICT ENERGY IN RICHMOND

LIEC is a wholly-owned municipal corporation, established to operate district energy (DE) utility systems in the City of Richmond on the City's behalf.

The goals of LIEC are to:

- establish a highly successful district energy network providing heating and, in some cases cooling services to buildings at competitive rates;
- provide reliable, resilient local energy for the benefit of its customers;
- operate and maintain low carbon energy systems;
- position the City of Richmond to be a national and international leader in district energy utilities;
- develop and manage effective partnerships; and
- sustain long term financial viability.

LIEC was incorporated in August 2013. In 2014, LIEC had assets of \$275,310 of work-in-progress relating to the construction of the OVDEU, revenues of \$31,326 relating to district energy related permit fees collected from developers by the City of Richmond, and expenses of \$8,259 of interest related to the work-in-progress balance. The City of Richmond currently owns and operates the ADEU and, pending City Council approval, intends to transfer these assets to LIEC in 2015. More information about the ADEU is provided in Appendix B.

This report includes more information about LIEC and future plans for district energy in the City of Richmond.



■ SPOTLIGHT ON 2014: PROGRESS REPORT

District Energy Utilities Agreement with the City of Richmond

Under the Community Charter, a local government in British Columbia may provide services that the City considers necessary or desirable through another public authority, person or organization. To do so, the Community Charter requires that local government enter into a “partnering agreement” with the organization that is intended to carry out those services. Through the City’s district energy investments, the City saw the opportunity to establish LIEC as a wholly-owned corporation to provide district energy services on its behalf. As such, the City and LIEC entered into a District Energy Utilities Agreement to define each organization’s roles, responsibilities and accountability to each other and specify expectations, obligations and parameters of performance in the operation of district energy utilities. The agreement enables LIEC to fulfill its intended roles, and to make necessary and timely decisions related to the management and operation of district energy services that meet customer needs and expectations.

Establishment of Oval Village District Energy Utility service area.

In April 2014, Council adopted the OVDEU Bylaw No. 9134 establishing the regulatory framework for the OVDEU service area. The Oval Village area has considerable potential for district energy expansion, and real estate development in the area represents an important opportunity for LIEC and the City. The ultimate energy source for this area is intended to be heat recovered from the Gilbert Trunk sanitary force main sewer. A similar technology is in operation today in the Gateway Theatre and Vancouver’s Neighbourhood Energy Utility. Short-term centralized natural gas plants will be used until there are enough buildings connected to the DE system to justify the expenditure for the plant to switch to renewable energy. The business which encompasses the OVDEU service area and the associated operations, assets, and liabilities is administered through LIEC. The OVDEU business was established on the concept that all capital and operating costs would be recovered through revenues from user fees, ensuring that the OVDEU business would be cost neutral over time.

Concession Agreement with Corix Utilities.

In October 2014, LIEC and Corix Utilities entered into a concession agreement whereby LIEC would own the OVDEU and its infrastructure, and Corix would design, construct, finance, operate and maintain the OVDEU. The City as the sole shareholder of LIEC sets rates to customers.

Alexandra District Energy Utility Phase 3 Expansion

Anticipated to be an asset of LIEC, the ADEU underwent planning for infrastructure and energy plant expansion in 2015. With ongoing growth and development in the West Cambie Neighbourhood, new buildings have been connected in 2014 and new connections are expected in 2015 and 2016. This new growth triggered the Phase 3 expansion, which includes expansion of the energy plant (located in the City's new park on Odlin St.), distribution piping network, and the new geothermal field. The ADEU expansion long term plan and detailed design of Phase 3 have been completed in 2014.

Communications to Customers and Richmond Residents

As a new company, LIEC distributed communication materials to residents and new customers in the City of Richmond to create awareness about the company and its goals and services. Buyers of new condominium apartments to be serviced by LIEC in the Oval Village received an information package about the company and its services. Pending the transfer of the ADEU's assets to LIEC, communications activities will involve informing current customers about the change in ownership and management, and the continuation of the excellent service that customers in the West Cambie neighbourhood have enjoyed to date.





LOOKING FORWARD IN 2014: WORK PLAN

Oval Village District Energy Utility Phase 1

The OVDEU is the first district energy project developed through LIEC. On the basis of the Concession Agreement, staff will be working with Corix to build the systems, and to provide service to the first customers in 2015: Carrera by Polygon and Riva by Onni, with Cadence by Cressey scheduled immediately afterwards. The following table represents anticipated development connection timelines for the next two years:

Table 1: Development Timing in RGDEU Service Area

	Anticipated Occupancy
Onni (Riva)	April 2015
Polygon (Carrera)	April 2015
Cressey (Cadence)	December 2015
Intracorp (River Park Place)	2016
Amacon (Tempo)	2016
Aspac (Parcel 9 & 12)	2016/2017

Alexandra District Energy Utility Expansion

The current ADEU system has the capacity to service three connected buildings: Remy, Mayfair Place and Omega. With the ongoing growth and development in the West Cambie Neighbourhood, new buildings will need to be connected in 2015. In order to service these buildings, both heating and cooling capacity and associated infrastructure will need to be expanded. Planning and detailed design have been completed. Construction of the Phase 3 expansion is underway, and scheduled to be completed by the end of 2015. The expanded energy plant will house new pumps and chillers to provide greater heating and cooling capacity, and the distribution pipes will extend south to new buildings. The new geothermal field will also be built to ensure that the system continues to use renewable energy.

Opportunity for a new district energy node in the City Centre North

Over 8,500,000 sq.ft. of residential and commercial floor space is currently in different stages of development in the City Centre North area. This is 1.5 times the size of the ADEU and OVDEU capacity together at full build out. Through the development approvals processes, the City secures commitments that new developments in this area are “District Energy Ready.” Some developments are currently in construction, with occupancy forecasted to begin in 2016. A pre-feasibility study was completed to evaluate district energy concepts that could provide energy services at a competitive price for building owners, while reducing energy consumption and greenhouse gas emissions as well as providing other district energy benefits. This preliminary analysis determined the following heat sources to provide district energy heating services:

- River heat recovery;
- Sewer heat recovery;
- Biomass heating; and
- Biomass-fuelled combined heat and power, producing both heat and electricity.

Further feasibility studies are required to refine district energy concepts and develop a business case for the preferred system.

Development of these concepts and partnering procurement options is ongoing.



■ APPENDIX A—ALEXANDRA DISTRICT ENERGY UTILITY

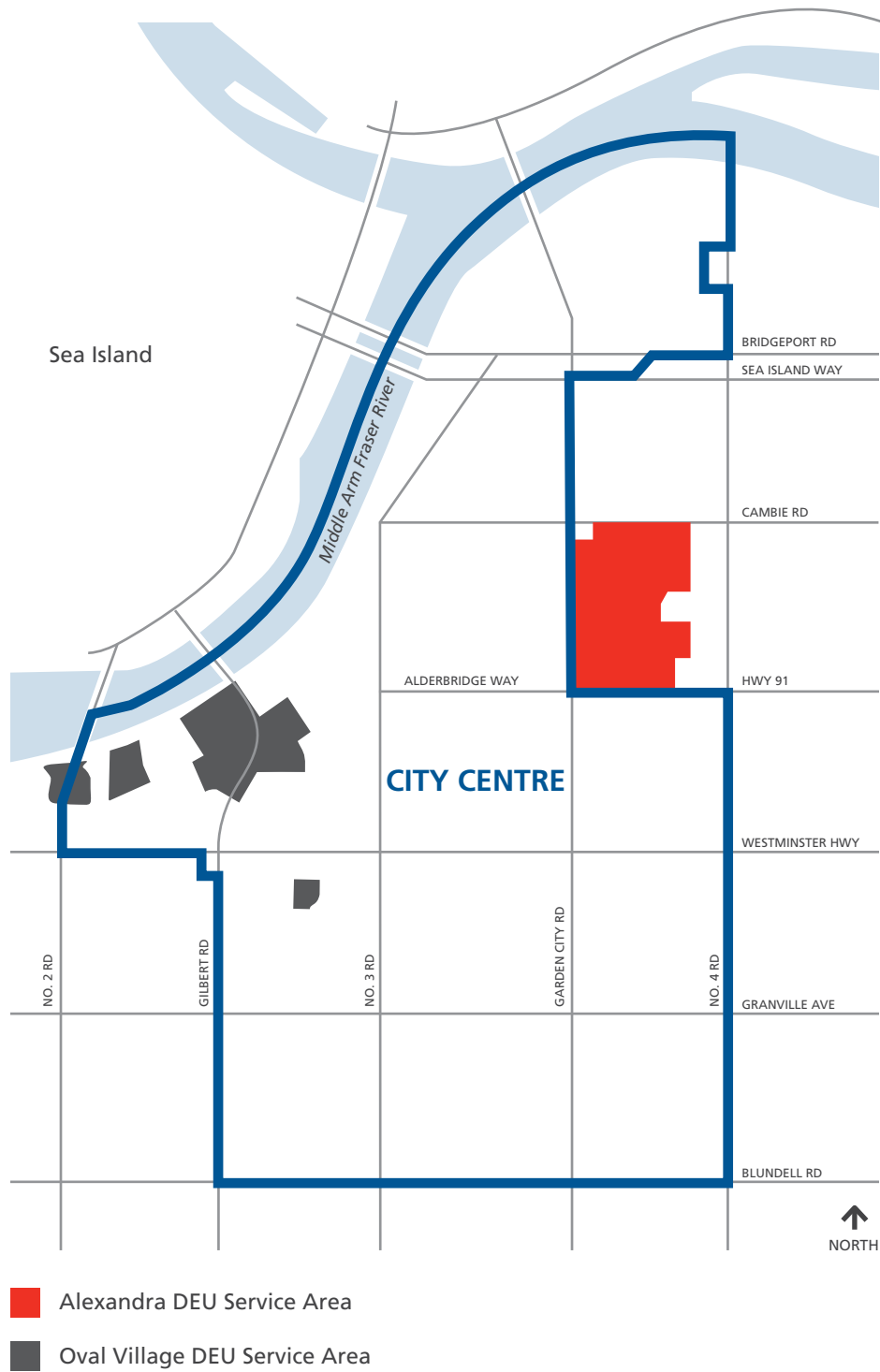
The ADEU was established in 2012 to provide renewable energy for space heating and cooling as well as heat for domestic hot water in the West Cambie neighbourhood. While it is owned and operated by the City, the first phase of the project was developed in partnership with Oris Geo Energy Ltd. Oris had prior experience and expertise in the design, construction and operation of similar energy systems in Richmond and other communities. Going forward, the expansion of ADEU will be carried out solely by the City, or LIEC if assets are transferred, in phases that are closely tied with the timing of new buildings in the service area.

Infrastructure Overview

Alexandra District Energy Utility

Energy Station	9600 Odlin Road, Richmond, BC V6X 1C9
Service	Space heating, cooling and domestic hot water
Technology	ADEU Phases 1 and 2 were commissioned in July 2012. The ADEU will potentially service up to 3100 residential units and 1.1 million sq. ft. of commercial uses at build out in approximately 10 to 15 years.
	Heating or cooling is provided to residential and commercial spaces through a hydronic (water) energy delivery system. In heating mode, ground source heat pump technology extracts heat (geothermal energy) from the ground via a network of vertical pipe loops. Built-in backup natural gas-fired boilers provide 100% back up in the event that the ground source heat pumps shut down or fail. This system cools buildings as well. During the summer months, the energy flow is reversed and heat is extracted from buildings and pumped into the ground. In this way, energy that was extracted from the ground for heating buildings is “recharged” allowing heat to be available for the next cold season.
	Individual buildings connected to the ADEU require smaller sized boilers for increasing the temperature of domestic hot water, reducing the overall cost of maintenance to buildings.
	The performance of the system is monitored continuously, providing a high level of reliability to customers.
Length of Distribution Network	640m (2,100 ft) of high-density polyethylene piping 385 vertical closed-loop boreholes, each 250 feet deep

Service Areas





Customers and Energy Rates

Customer energy rates are set in the City of Richmond Service Area Bylaws, which are enacted by City Council. This approach applies to the ADEU and future LIEC service areas, and does not depend on the ownership of assets. This approach ensures transparency and accountability is maintained for all DE projects in the City. The rate and bylaw provisions are reviewed and approved by Council on an annual basis.

Energy rates are set based on City Council's objective to provide customers with energy costs that are equal to or less than conventional system energy costs, based on the same level of service. In the absence of DE services, a typical building would be built with electrical baseboard heaters for heating, gas fired make-up air units for common space heating and gas fired boilers for hot water heating. This is referred to as a "business as usual" (BAU) scenario and is the basis for comparing DE rate costs with conventional utility, energy and maintenance costs. DE customer rates in Richmond have met this requirement. As with other energy utilities, this rate includes utility costs related to infrastructure development, operation and maintenance, energy (e.g. electricity for pumps and natural gas) and other administrative costs such as staffing.

2014 Rate Structure

Each building includes one master meter. Strata corporations are billed on a quarterly basis, at a rate that is comprised of three charges:

- Capacity Charge: Charge based on the gross floor area of the building (\$0.081 per sq. ft.).
- Peak Charge: Charge based on the annual peak heating load supplied by ADEU to the building (\$1.082 per kW).
- Volumetric Charge: Charge based on the energy consumed by the building (\$3.461 per MWh).

Buildings

Address	Use	Area (sq. ft.)
Remy [4099 Stolberg St]	Residential	186,000
Mayfair [9399 Odlin Road]	Residential	351,000
Omega [9388 Odlin Road]	Residential	222,000
Total:		759,000

Customer Service

The ADEU provides support 24 hours a day, 7 days a week. Customers can contact customer service via a telephone hotline (604-605-7898).

Energy and Greenhouse Gas Emissions (GHGs)

The driving forces behind the establishment of district energy systems in Richmond were to reduce GHGs that cause climate change, develop renewable energy and support local green jobs.

Amount of Energy Consumed in 2014	4,293 MWh
Greenhouse Gas Performance in 2014	795 tonnes of CO ₂ e avoided, equal to removing 246 cars from City of Richmond roads

2014 Financial Summary

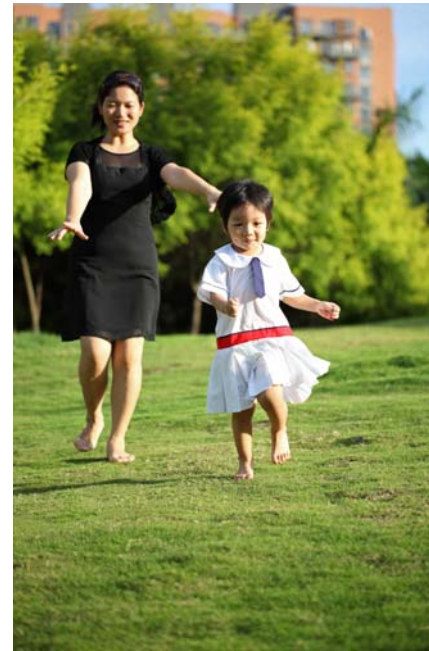
The ADEU is currently not an asset of LIEC, but this summary is provided as it relates to district energy activities in Richmond. The figures below were extracted from the City of Richmond's Financial Statements.

In 2014, Corix Utilities was engaged as the system operator under contract, to perform functional verification ensuring continuous operation of the system. Incoming revenue from ADEU customers has been gradually increasing in pace with the occupancy of serviced buildings. Total revenue for 2014 was \$600,504. Total expenses were \$145,512.

2014 revenue, when compared with the projected revenue in the ADEU financial model, is lower than expected due to the following reasons:

- The Omega building was connected in September vs. January 2014
- SmartCentres connection didn't happen in 2014

Projected expenses were lower as well, which resulted in a surplus of \$454,992. As per the financial model approved by Council, surpluses for up to ten years were planned in order to build a reserve fund for future capital replacement and to ensure the long-term financial sustainability of LIEC. For its second year of operations and in the context of a small customer base, ADEU financial, operational and environmental results show outstanding performance of the DEU as expected.





■ APPENDIX B—AWARDS & RECOGNITION

	Awarding Body	Award	Date	Comments
Alexandra District Energy Utility	Canadian Consulting Engineer Magazine & the Association of Consulting Engineering Companies—Canada	Award of Excellence (Natural Resources, Mining, Industry and Energy Category)	2013	This award is the most prestigious mark of recognition in Canadian engineering and is given to projects that exhibit a high quality of engineering, imagination and innovation.
	Public Works Association of British Columbia	Project of the Year	2013	This award is given to a municipality that constructs a major and complex public works or utilities project that meets specific criteria including innovative design with project benefits for the community and environment.
	International District Energy Association	Certificate of Recognition—Innovation Awards	2013	This program highlights examples of engineering, technology and operational innovation within the district energy industry.
	ENERGY GLOBE Foundation	Canadian Energy Globe National Award	2013	The national ENERGY GLOBE Awards distinguish best project submissions from a country. It is awarded annually to projects focusing on energy efficiency, renewable energies and the conservation of resources.

Awarding Body	Award	Date	Comments
Canadian GeoExchange Coalition	Excellence Award	2014	The Canadian Geo-exchange Coalition Excellence Award recognizes regional geothermal heat pump projects that showcase both complexity and quality of installation and design.
Association of Professional Engineers and Geoscientists of British Columbia (APEGBC)	Sustainability Award	2014	APEGBC's Sustainability Award was created to recognize the important contribution that engineering and geoscience make to the well being of human life and the ecosystems on which we all depend.

■ APPENDIX C—MANAGEMENT'S DISCUSSION AND ANALYSIS

About the Company

LIEC is a wholly-owned municipal corporation, established to operate district energy utility operations in the City of Richmond on the City's behalf. LIEC was incorporated in August 2013 for the purposes of managing the district energy system in future years.

On October 30, 2014, LIEC and Corix entered into a 30 year Concession Agreement (the "Agreement"), which is a public-private partnership project, where Corix will design, construct, finance, operate, and maintain the infrastructure for the district energy utility at the Oval Village community. The total estimated capital construction cost of the Oval Village District Energy Utility is \$31,964,000 and will accrue interest which will be repaid over the term of the agreement. The payment schedule is dependent on the timing and amount of the capital construction.

The Corporation will make payments to Corix based on Corix's Annual Revenue Requirement. The Annual Revenue Requirement is based on the utility cost of service rate-setting principles in British Columbia utilizing forward test years. The Annual Revenue requirement combines a fixed charge amount to recover Corix's fixed costs (the "Capacity Charge") and a volumetric charge expressed as an amount per megawatt hour of energy provided to the Corporation in order to recover Corix's variable costs (the "Commodity Charge"). The Capacity Charge includes maintenance, labour, depreciation, interest, Return of Equity and other selling, general and administration costs. The Commodity Charge includes natural gas and electricity costs. These costs will be repaid over time by revenue generated through future customer rates.

Financial Summary

Financial statements (Appendix D) provide information about the financial position, performance and changes in the financial position of the company. The financial statements demonstrate accountability by providing information about the company's resources, obligations and financial affairs.

For the year ended December 31, 2014, LIEC had a surplus of \$23,067 (2013—\$1) and net financial debt of \$252,242 (2013—\$1 net financial asset).

The 2014 surplus is the net result of a \$31,326 contribution from the City of Richmond for district energy related permit fees collected from developers offset by \$8,259 of interest expense on the work-in-progress. The OVDEU was not in operations during 2014, and as a result, there were no customer rate revenues or costs for operation and maintenance.

The 2014 net financial debt position of \$252,242 is mainly the result of the \$275,310 liability for the tangible capital asset representing the work-in-progress. This amount relates to assets in construction as at December 31, 2014 and is payable to Corix inclusive of interest. Once the OVDEU is operational in 2015, the customer rates will be used to pay Corix for the costs to finance, construct and operate the utility over the term of the concession agreement.

■ APPENDIX E—FINANCIAL STATEMENTS OF LULU ISLAND ENERGY COMPANY LTD.

Period of incorporation on
January 1, 2014 to December 31, 2014





KPMG LLP
Chartered Accountants
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 Canada

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Lulu Island Energy Company Ltd.

We have audited the accompanying financial statements of Lulu Island Energy Company Ltd., which comprise the statement of financial position as at December 31, 2014 and the statements of operations, changes in net financial assets (debts) and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Lulu Island Energy Company Ltd. as at December 31, 2014, and its results of operations, and its changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Accountants
 April 29, 2015
 Burnaby, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

LULU ISLAND ENERGY COMPANY LTD.

Statement of Financial Position

December 31, 2014, with comparative figures for 2013

	2014	2013
Financial Assets		
Due from City of Richmond (note 5)	\$ 31,327	\$ 1
	31,327	1
Liabilities		
River Green District Energy Utility ("RGDEU") concession liability	275,310	-
Accrued interest on concession liability	8,259	-
	283,569	-
Net financial assets (debt)	(252,242)	1
Non-Financial Assets		
Tangible capital assets (note 8)	275,310	-
	275,310	-
Accumulated surplus	\$ 23,068	\$ 1

See accompanying notes to financial statements.

Approved on behalf of the Board:



Director



Director

LULU ISLAND ENERGY COMPANY LTD.

Statement of Operations

Year ended December 31, 2014, with comparative figures for 2013

	Budget 2014	2014	2013
	(note 4)		
Revenue:			
Contribution from City of Richmond (note 5)	\$ -	\$ 31,326	\$ 1
	-	31,326	1
Expenses:			
Interest expense (note 6)	-	8,259	-
	-	8,259	-
Annual surplus	-	23,067	1
Accumulated surplus, beginning of year	-	1	-
Accumulated surplus, end of year	\$ -	\$ 23,068	\$ 1

See accompanying notes to financial statements.

LULU ISLAND ENERGY COMPANY LTD.

Statement of Changes in Net Assets (Debt)

Year ended December 31, 2014, with comparative figures for 2013

	Budget 2014 (note 4)	2014	2013
Annual surplus for the year	\$ -	\$ 23,067	\$ 1
Acquisition of tangible capital assets	-	(275,310)	-
Change in net asset (debt)	-	(252,243)	1
Net financial assets (debt), beginning of year	-	1	-
Net financial assets (debt), end of year	\$ -	\$ (252,242)	\$ 1

See accompanying notes to financial statements.

LULU ISLAND ENERGY COMPANY LTD.

Statement of Cash Flows

Year ended December 31, 2014, with comparative figures for 2013

	2014	2013
Cash provided by (used in):		
Operations:		
Annual surplus	\$ 23,067	\$ 1
Change in non-cash working capital:		
Due from City of Richmond	(31,326)	(1)
River Green District Energy Utility ("RGDEU") concession liability	275,310	-
Accrued interest on concession liability	8,259	-
Net change in cash from operating activities	275,310	-
Capital activities:		
Acquisition of tangible capital assets	(275,310)	-
Net change in cash from capital activities	(275,310)	-
Net change in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -

See accompanying notes to financial statements.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

For the year ended December 31, 2014

1. Incorporation and nature of business:

The Lulu Island Energy Company Ltd. (the "Corporation") was incorporated on August 19, 2013 under the Business Corporations Act of British Columbia as a municipal corporation wholly-owned by the City of Richmond (the "City"). The business of the Corporation is to manage and operate district energy utilities, including but not limited to energy production, generation or exchange, transmission, distribution, maintenance, marketing and sale to customers, customer service, profit generation, and financial management.

2. Significant Accounting Policies:

(a) Basis of presentation:

The financial statements of the Corporation are the representation of management prepared in accordance with Canadian generally accepted accounting principles as prescribed by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants, Canada.

(b) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the value of tangible capital assets, determination of provisions for accrued liabilities, allowance for doubtful accounts, and provisions for contingencies. Actual results could differ from these estimates. The estimates are reviewed periodically and as adjustments become necessary, they are recorded in earnings in the year in which they become known.

(c) Income taxes:

The Corporation is not subject to income taxes as it is a municipal corporation wholly-owned by the City of Richmond.

(d) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(i) Tangible capital assets:

Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development, or betterment of the asset. The cost, less residual value, of the tangible capital assets, is amortized on a straight-line basis over their estimated useful lives.

Amortization is charged over the asset's useful life commencing when the asset is acquired or when it is available for use.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

For the years ended December 31, 2014

2. Significant Accounting Policies (continued):

(d) Non-financial assets (continued):

(i) Tangible capital assets (continued):

For the year-ended December 31, 2014, all tangible capital assets are work-in-progress and are not amortized.

(ii) Interest capitalization:

The Corporation does not capitalize interest costs associated with the construction of a tangible capital asset.

(iii) Impairment of tangible capital assets:

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Corporation's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The net write-downs are accounted for as expenses in the statement of operations.

(e) Revenue recognition:

Revenue is recorded as revenue in the period that the services are rendered, with any unearned portion recorded as deferred revenue.

(f) Public-private partnership project:

Public-private partnership ("P3") projects are delivered by private sector partners selected to design, build, finance, and maintain the assets. The cost of the assets under construction are estimated at fair value, based on construction progress billings and also includes other costs, if any, incurred directly by the Corporation.

The asset cost includes development costs estimated at fair value. Interest during construction is not included in the asset cost. When available for operations, the project assets are amortized over their estimated useful lives. Correspondingly, an obligation for the cost of capital and financing received to date, net of the contributions received is recorded as a liability and included as debt on the statement of financial position. The interest rate used is the project internal rate of return.

3. Share capital:

Authorized: 10,000 common shares without par value.

Issued: 100 common shares for \$1.

4. Budget data:

There is no budget data approved by the Board of Directors for fiscal 2014.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

For the years ended December 31, 2014

5. Due from the City of Richmond:

The amount due from the City of Richmond relates to share capital (note 3) and contribution from the City of Richmond for work completed by the Corporation to ensure buildings are designed to be compatible with the district energy system.

	2014	2013
Share capital	\$ 1	\$ 1
Contribution from the City of Richmond	31,326	-
	\$ 31,327	\$ 1

6. River Green District Energy Utility Concession Agreement (Public-private partnership project):

On October 30, 2014, the Corporation and Corix entered into a 30 year Concession Agreement (the "Agreement"), which is a public-private partnership project, where Corix will design, construct, finance, operate, and maintain the infrastructure for the district energy utility at the River Green community. The total estimated capital construction cost of the RGDEU is \$31,964,000 and will earn interest which will be repaid over the term of the agreement. The payment schedule is dependent on the timing and amount of the capital construction.

The Corporation will make payments to Corix based on Corix's Annual Revenue Requirement. The Annual Revenue Requirement is based on the utility cost of service rate-setting principles in British Columbia utilizing forward test years. The Annual Revenue requirement combines a fixed charge amount to recover Corix's fixed costs (the "Capacity Charge") and a volumetric charge expressed as an amount per megawatt hour of energy provided to the Corporation in order to recover Corix's variable costs (the "Commodity Charge"). The Capacity Charge includes maintenance, labour, depreciation, interest, Return of Equity and other selling, general and administration costs. The Commodity Charge includes natural gas and electricity costs. These costs will be repaid over time by revenue generated through future customer rates.

The information presented below shows the anticipated cash outflow for future obligations for the Capacity and Commodity Portions of the agreement of \$6,096,000 from January 2015 to December 2019. Future obligations will be disclosed when the amounts can be readily estimated.

LULU ISLAND ENERGY COMPANY LTD.

Notes to Financial Statements

For the years ended December 31, 2014

6. River Green District Energy Utility Concession Agreement (Public-private partnership project) (continued):

	Capacity Charge	Commodity Charge	Total Charge
January 2015 to December 2015	\$ 168,300	\$ 62,700	\$ 231,000
January 2016 to December 2016	689,270	462,730	1,152,000
January 2017 to December 2017	815,790	564,210	1,380,000
January 2018 to December 2018	819,520	615,480	1,435,000
January 2019 to December 2019	973,290	924,710	1,898,000

7. Corix Utilities Inc. and City of Richmond Limited Guarantee Agreement:

On October 30, 2014, Corix and the City of Richmond entered into a Limited Guarantee Agreement. The City of Richmond is the Guarantor and guarantees the performance of some of the Corporation's obligations under the Concession Agreement to a maximum of \$18 million (note 6).

8. Tangible capital assets:

Cost	Balance, December 31, 2013	Additions	Disposals	Balance, December 31, 2014
Work-in-progress	\$ -	\$ 275,310	\$ -	\$ 275,310
	\$ -	\$ 275,310	\$ -	\$ 275,310

Accumulated amortization	Balance, December 31, 2013	Disposals	Amortization	Balance, December 31, 2014
Work-in-progress	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -

Net book value	Balance, December 31, 2013	Balance, December 31, 2014
Work-in-progress	\$ -	\$ 275,310
	\$ -	\$ 275,310

Lulu Island Energy Company

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