Presentation to:	Board of Governors Executive Committee
Subject:	Energy Services Company Performance Contract (ESCO2)
Date:	August 2, 2012
Presenter(s):	Duane McNair, Vice President, Administration John Tattersall, Director, Physical Resources Cathy Dempsey, Director, Finance and Administrative Services

Purpose:

To update the Board of Governors Executive Committee on the results of the Request for Proposals for the Energy Services Company Performance Contract and to recommend proceeding with a Letter of Intent to complete a Detailed Feasibility Study (DFS).

Background:

Energy Services Company Performance Contracts are contracts where a private company modifies an institution's facilities, operating methodologies and awareness of energy consumption to generate guaranteed energy savings and revenue which pay for the modifications. These contracts are typically executed through a leasing arrangement where the institution utilizes the existing base budget provisions and/or new revenues streams to compensate the energy services company.

Algonquin College's current Energy Services Company Performance Contract (ESCO1) construction was completed in February 2008, with the payback period expiring in February 2018. The ESCO initiative implemented energy savings solutions (including equipment) on the Woodroffe campus and, to date, savings are tracking in accordance with the original proposal. Management researched and verified the appropriate accounting treatment and accounted for this transaction as an 'off balance sheet' transaction. At the end of the 10-year term, the College will purchase the equipment for a nominal sum of $1. As a result, the College did not realize additional debt or assets and is remitting a percentage of savings (recorded as an expense on the income statement) to the energy savings company over the 10-year term of the contract. The College auditors (KPMG at that time) reviewed the transaction and concurred with management's accounting treatment as an off balance sheet transaction.

A Request for Proposal (RFP) was issued on April 23, 2012 for a new Energy Services Company Performance Contract (ESCO2).

The selection committee, made up of John Tattersall (PEng), Director, Physical Resources, Udo Friesen (PEng), Manager, Facilities Operations and Maintenance Services, Grant Perry (CGA), Manager, Business Systems Team and Rodney Wilts (LEED), BuildGreen, evaluated the proposals to determine the best proposal for the College. The terms and conditions of the two leading proposals were subsequently reviewed by Cathy Dempsey (CGA), Director, Finance and Administrative Services and Duane McNair (CGA), Treasurer and Vice-President, Administration. A summary of the highlights of each proposal is attached as Appendix A.

Discussion/Considerations:

A public tender competitive procurement process was conducted by the College to identify an ESCO with which to enter into an agreement. Eight companies submitted proposals at the Request for Qualification stage, which resulted in four companies being invited to submit proposals. Two of the four companies subsequently withdrew from the competition: Direct Energy, winner of ESCO1, citing a new business model which precludes long term ESCOs; and, MCW citing insufficient profit margin to satisfy their shareholders. For the purpose of establishing proposals, three College buildings (B, K, and M) were selected for the two remaining bidders, Ameresco and Siemens, to examine with the understanding that they were to formulate projections for all buildings on Woodroffe campus. Following examination of Buildings B, K and M and formulating projections for the remainder of Woodroffe Campus, Ameresco and Siemens submitted proposed scopes of work valued at $19 and $72 million, respectively (including financing charges). Both proposals include a payback term of 20 years. Ameresco's projected annual savings and revenue generation is $1.04 million, whereas Siemen's projected annual savings and revenue generation is $3.6M, with the College benefitting from any further savings discovered.

The winning proposal will be validated through a Detailed Feasibility Study (DFS) of the entire Woodroffe campus that will take up to 90 days to complete. Upon conclusion of the DFS, both parties (the ESCO and the College) have the option to choose not to enter into an ESCO performance contract. If the ESCO elects to not proceed with the agreement, then the ESCO is responsible for the cost of the DFS (estimated at $625k). If the College elects to not proceed, then the College would be responsible for the DFS costs.

Similar to ESCO1, implementation of this proposed contract will not result in the College assuming additional debt or assets to be reported on its balance sheet. The College's new auditors, Deloitte, were consulted regarding the accounting treatment for this proposed contract. Deloitte concurs with management's proposed accounting treatment (a copy of

the letter from Deloitte, dated July 26, 2012, is attached).

The selection committee is recommending moving to the next phase with the Siemens proposal. Among this proposal's most powerful benefits are:

- An estimated $22M reduction in the College's deferred maintenance liability (approximately half of the total deferred maintenance liability currently registered with the Ministry);
- A project to address the critical need to renew B Building systems that may be implemented in one construction year; and
- Implementation of a co-generation power station allowing the campus to function independently with its own power source if needed and realize alternative revenues through the sale of excess power generation to the Provincial power grid

(refer to attachment for further details on the Ameresco and Siemens proposals)

Next Steps:

In order to move forward, the following actions are required:

1. Approve the selection of Siemens as the successful proponent; and
2. Issue a Letter of Intent to Siemens to initiate the Detailed Feasibility Study and incentive applications.

Timing is critical and in order to be considered in the next round of the FIT program, applications should be submitted as soon as possible, concurrent with initiating the Detailed Feasibility Study.

Recommendation:

That the Board of Governors Executive Committee approve the selection of Siemens as the successful proponent of the RFP for an ESCO performance contract and that management be directed to issue a Letter of Intent to Siemens to begin the Detailed Feasibility Study.

The results of the Detailed Feasibility Study (DFS) and recommendations from management will be presented to the Board of Governors (tentatively scheduled for December) upon conclusion of the DFS.