Presentation to:	Board of Governors
Subject:	ESCO2 Status Update
Date:	December 10, 2012
Presenter(s):	D. McNair, VP Finance and Administration J. Tattersall, Director Physical Resources

Purpose:
To provide an update on the status of the ESCO2 project.

Background:
The Siemens ESCO 2 proposal received June 14, 2012 and the Letter of Intent (LOI) issued August 3rd called for the completion of the Detailed Feasibility Study (DFS) by December 2012. Since then two events have occurred: the Ontario Power Authority (OPA) may delay approval processing of the proposed new natural gas-fired co-generation plant; and, Ontario's Feed in Tariff (FIT) program that allows solar generated power (PV) to be sold back to the grid was effectively suspended when the OPA did not re-open the program on October 1, 2012.

The Siemens proposal is based on 3 pillars: utility savings; co-generation of electricity; and revenue from a Power Purchasing Agreement (PPA) or the FIT program. These measures target savings/revenues of $3.735 million.

Advocacy by the Algonquin-Siemens partnership for the approval of the co-generation application may be required/considered since there may be political resistance to gas-fired co-generation plants even though it would: reduce Algonquin's GHG emission by about half; provide reliable power for the digital college in the event of a grid outage; reduce our overall outstanding deferred maintenance; and allow Algonquin to become an "island" to support regional emergency management operations.

Discussion/Considerations:
Siemens continues to make good progress with its Detailed Feasibility Study to identify savings, co-generation and revenue opportunities for the Woodroffe Campus worth $3.735 million but regulatory issues with Ontario's Feed in Tariff Program (FIT) put at risk $1.583 million in revenues from the proposed 3 Meg-watt Photo-Voltaic (PV) project.

Siemens maintains its total savings/revenue target of $3.735 million as outlined in the RFP but is unable to fully commit until the results of applicable Provincial programs are known. Accordingly, Siemens proposes a three-phase process to minimize delays: (1) proceed with the proposals for the B, K building and most of

Woodroffe campus facility energy upgrades in December 2012, and (2) the Co-generation and remainder of Woodroffe campus portion of the DFS by about April 2013, and; (3) finalize the PV portion of the contract when the details are fully known possibly by April 2013.

Any delay past December 2012 for Phase 1 would push the implementation of B Building HVAC upgrades from 2013 to 2014 along with attendant risks of unexpected system failures; accepting phased implementation allows work to begin late in the summer of 2013.

Attached please find:

- Transmittal sheet to Board of Governors' Executive dated August 2, 2012 seeking approval to issue Letter of Intent to Siemens (Confidential)
- Appendix A to above-noted transmittal sheet summarising assessment of bids received (Confidential)
- Deloitte's letter dated July 26, 2012 assessing the Siemens bid per generally accepted accounting procedures as "off book"
- Slide deck to support the December 10, 2012 presentation to the Board of Governors

Recommendation

That the Board of Governors notes this update with intent to phase the ESCO 2 proposal:

- Intent to seek approval to award a contract to Siemens for phase 1 later in December 2012 once technical, financial and legal considerations are satisfactorily addressed; and,
- Future intent to seek approvals to award contracts for each of Phases 2 and 3 once technical, financial, legal and potentially provincial policy considerations are satisfactorily addressed.