



STAFF REPORT ACTION REQUIRED

Toronto Hydro Energy Services Inc. – Contract Amendment

Date:	March 21, 2007
To:	Government Management Committee
From:	Chief Corporate Officer
Wards:	All
Reference Number:	P:\2007\Internal Services\F&re\Gm07021F&re – (AFS 3271)

SUMMARY

This report provides a status of the sole source arrangements with Toronto Hydro Energy Services Inc. and recommends an extension of the current arrangements. The current policy is to sole source 30% - 40% of the energy retrofit work in City facilities to Toronto Hydro Energy Services Inc.

RECOMMENDATIONS

The Chief Corporate Officer recommends that:

1. City Council extend the current sole source arrangement with Toronto Hydro Energy Services Inc. for an additional five year period.
2. The Chief Corporate Officer review this arrangement at or before the end of five years and report back to the Government Management Committee.

Financial Impact

There are no financial impacts arising out of this report.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact statement.

DECISION HISTORY

City Council at its meeting April 16, 17 and 18, 2002 adopted Report No. 6 of the Policy and Finance Committee, titled Energy Retrofit Strategy for City-Owned Facilities (link: <http://www.toronto.ca/legdocs/2002/agendas/council/cc020416/pof6rpt/cl003.pdf>) with the following recommendations:

- (1) City Council adopt a mixed-model for implementing energy retrofits of City-owned facilities, to be implemented concurrently as follows:
 - (a) 30% to 40% of the energy retrofit work is to be sole-sourced through Toronto Hydro Energy Services Inc. (THESI); and
 - (b) 60% to 70% of the energy retrofit work is to be implemented through a competitive bid process;

The City Manager was to review this policy at or before the end of five years.

ISSUE BACKGROUND

The following rationale was given when the sole source arrangement was adopted by Council:

- It is important that the City promote the success of Toronto Hydro, its wholly-owned business corporation. Therefore, the objectives of an energy retrofit services strategy should encompass a role for THESI in providing retrofit services for City-owned facilities. This will contribute to an increase in shareholder value, enhance Toronto Hydro's ability to pay dividends to the City in the future, and help protect the City's original investment.
- The strategy for energy retrofit services needs to recognize the benefits of sole-sourcing from the City's wholly-owned business corporation, as well as the City's role in promoting a competitive pool of energy management firms. Adoption of a mixed-model for implementing energy retrofits, which balances the City's policy objectives, is recommended.

The following criteria was developed by the City Manager's Office to determine the share of retrofit work to be allocated to each of the streams of the mixed-model:

- (i) the allocation of retrofit work should support and balance the City's policy objectives;
- (ii) the allocation of retrofit work should allow for effective implementation and monitoring;
- (iii) the share of retrofit work to be sole-sourced should be sufficient to demonstrate clear confidence in THESI and contribute to shareholder value;

- (iv) the share of retrofit work to be implemented through a competitive bid process should be sufficient to encourage qualified firms to participate; and
- (v) the approach to allocating retrofit work should provide sufficient flexibility to define efficient parcels of retrofit work.

COMMENTS

The policy to sole source work to THESI was approved in April 2002 and now has been in place for five years. Council directed the City Manager review this policy at or before the end of five years. Since 2002 Toronto Hydro Energy Services Inc. has been involved in a number of City projects.

Projects Sole Sourced to Toronto Hydro Energy Services Inc.

Toronto Hydro Energy Services Inc. (THESI) has been sole sourced for two energy retrofit projects, namely, the Civic Centre project valued at \$4.2 million and the Community Recreation Centres project valued at \$6.0 million. These two projects amount to 33.7 percent of the \$30.2 million in energy retrofit work awarded to date.

The mixed model approach of sole-sourcing 30 – 40% of the City's energy retrofit work to THESI and using a competitive process for the other 60 – 70% has worked well for the City in advancing its energy retrofit program. It is therefore recommended that Council extend the current mixed model approach in addition to the work THESI is contracted to do in relation to the Ontario Power Authority (OPA) commitment.

The project management fees charged by THESI are competitive when compared against other energy service firms.

Other Projects involving Toronto Hydro Energy Services Inc.

THESI was also awarded a \$1.6 million energy retrofit project (ERP) at Exhibition Place through a competitive process and is also the principal engineer on the Tri-generation project at Exhibition Place valued at \$4.4 million. In total, THESI is involved in over \$16.2 million of energy retrofit work at the City.

THESI has also been sole sourced to manage the City's commitment to the Ontario Power Authority for approximately 20 MW of demand response measures, in order to reduce peak demand across Toronto by 90 MW.

Energy Retrofit Work

Retrofitting City facilities with energy efficient equipment will be an ongoing program. As buildings age and as energy prices escalate more energy retrofit work will be required. In 2004 City Council approved the Energy Retrofit Program (ERP) with initial funding of \$20 million. The ERP is a revolving loan fund to undertake energy efficiency projects in City facilities. In 2006 the fund was increased by \$15 million.

To date over \$28 million of the \$35 million ERP fund has been allocated and energy retrofits are being completed in over 250 City buildings. There is still some funding available in the additional \$15 million allocation starting in 2008 and in subsequent years. Divisions and ABCs are encouraged to identify potential energy reduction projects that could be implemented in City facilities.

The Energy Retrofit Program (ERP) has allowed the City to accelerate its energy conservation work and there will be an ongoing need to find ways to fund this initiative.

THESI has been directly involved in assisting the City in meeting its energy reduction targets by undertaking energy retrofits in many City buildings.

The criteria developed by the City Manager's Office for using the mixed model approach are still relevant and will be reviewed by staff in the Energy & Waste Management Office on a regular basis to ensure compliance. The mixed model approach seems to be working well allowing both THESI and the private sector access to City projects and to provide competitive pricing.

Rationale for Extending the Sole Source Arrangements

The sole source policy with THESI has allowed the City to take advantage of expertise available in its own company. There have been synergies when using THESI to undertake retrofits in City buildings since THESI was also able to develop demand response initiatives at the same time. This type of synergy is not available with other firms.

It is important that the City promote the continued success of Toronto Hydro, its wholly-owned business corporation. THESI provides competitive energy retrofit services and therefore should continue to have a role in providing retrofit services for City-owned facilities. This will contribute to an increase in shareholder value, enhance Toronto Hydro's ability to pay dividends to the City in the future, and help protect the City's original investment.

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SIGNATURE

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