

OEB Staff Interrogatories

Motion to Review

Energy+ Inc. (Energy+)

EB-2019-0180

September 23, 2019

Staff-CBRE-1

Ref: Evidence of Neil Kelsey, pages 13-16, paragraphs 26-32

Appendix B, 6.0 Financial Summary

CBRE has performed an independent Class C estimate (CBRE Estimate) to assess the reasonableness of the Class C estimate prepared by Melloul Blamey for the Southworks project (MB Estimate).

- a) The MB Estimate was prepared in December 2018¹ and as stated in the cost summary of the Design Brief, the cost estimate does not include cost escalation for work and materials.² To compare with the MB Estimate, please prepare a revised 2018 version of section 6.0 Financial Summary using the Building Construction Price Index shown in the evidence.
- b) The estimate includes a 15% contingency for hard cost and a further 5% contingency for the works in connection with the existing shell. The total contingency estimate of \$889,000 represents approximately 13.4% of the total construction cost of \$6.636 million. In the MB Estimate, \$300,000 contingency (4.4% of the total \$6.753 million construction cost) was budgeted. Please explain why CBRE's contingency estimate was higher than the MB Estimate.
- c) Please confirm the construction cost estimate for the firewall was included in the net construction cost. Please also specify the estimated cost for the firewall.
- d) Please discuss whether a Class C cost estimate with +/-20% uncertainty appropriately reflects the current stage of schematic design.
- e) Please explain the difference between the square footage of 21,496 square feet shown in the Financial Summary with the 21,892 square feet shown in Energy+'s evidence.³

¹ EB-2018-0028, TCQ-SEC-2, Design Brief, Appendix H.

² EB-2018-0028, TCQ-SEC-2, Design Brief, page 13 of 14.

³ EB-2018-0028, TCQ-SEC-5.

- f) In the absence of detailed information supporting an acceptable cost per square foot benchmark for administrative buildings, how does CBRE determine that its estimated cost of \$7.8 million for the Southworks property is reasonable?

Staff-CBRE-2

Ref: Construction Management Contract

In section 3.0 Quantities and Methodology, CBRE stated that:

We understand that the project is to be procured utilizing a Construction Management form of procurement, via negotiations with Melloul Blamey Construction. This construction cost estimate assumes the sub-trade work packages will be procured on a competitive tender basis, with fixed prices based on the completed design information.

- a) Please confirm that Energy+ will enter into a standard CCDC 5B 2010 contract⁴ with Melloul Blamey.
- b) Please explain what prices are fixed in the Construction Management Contract.
- c) Please clarify:
 - i. If actual costs are higher than the budget, who will bear the incremental costs, Energy+ or Melloul Blamey?
 - ii. If actual costs are lower than the budget, will the savings be fully reimbursable to Energy+?

Staff-CBRE-3

Ref: Evidence of Neil Kelsey, pages 13-14, paragraphs 24-30

24. At CBRE we have seen construction costs steadily rise since 2008 in the GTA region within the Office Tenant Fit Out sector. **Within Toronto**, these costs have risen at an increased rate due to a greater impact of local market supply and demand.... (emphasis added)

25. The construction cost steady increase referred to above in paragraph 25, is demonstrated by the Table shown below in D.5, which illustrates the escalation over the period of 2008 – 2021 **in the Toronto region**, based on the Building Construction Price Index, produced by Stats Can...” (emphasis added)

⁴ EB-2018-0028, Appendix 2-Staff-12 c) (i)

28. “Previously Stats Can used to differentiate between Commercial Buildings, Industrial Buildings. However, the BCPI now differentiates between Residential and Non-Residential only. The Non-Residential covers for Office, Warehouse and Retail previously covered under the Commercial headings. **Therefore, the most appropriate Index to use is the Non-Residential.**”

29. There are eleven geographical areas that are listed within the Building Construction Price Indices. **The geographical area closest to the Southworks project is Toronto, which is approximately 60 miles to the West...** Therefore, based on published data, Toronto is the closest location. (emphasis added)

- a) Is the Building Construction Price Index (BCPI) the only guide used by professional quantity surveyors in determining the appropriate cost escalation rate applicable to a proposed development?
- b) Has CBRE considered any other indices, standards, guides or other sources of construction cost escalation rates to determine the appropriate escalation rate for a certain type of development in a given geographic region, i.e. Tri-City area (Kitchener, Waterloo, Cambridge) for the subject time period (2008-2021)?
 - i. If so, please provide the indices that were considered and provide links to sites where such sources are publicly accessible.
 - ii. If not, why not.
- c) Has CBRE considered any other indices, standards, guides or other sources that distinguish amongst different types of Non-Residential Buildings, e.g. private office buildings v. municipal government offices?
 - i. If so, please provide the indices that were considered and provide links to sites where such sources are publicly accessible.
 - ii. If not, why not.