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October 3, 2019

Delivered by Courier, Email & RESS

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2701
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Energy+ Inc.
Motion to Review and Vary 2019 Distribution Rate Application Decision and Order (EB-2018-0028) dated June 13, 2019
EB-2019-0180
Energy+ Inc.'s Responses to Interrogatories

Pursuant to Procedural Order No. 2, please find enclosed Energy + Inc.'s Responses to Interrogatories in this proceeding. Paper copies of this letter and the accompanying response will be delivered to you by courier.

Yours very truly,

BORDEN LADNER GERVAIS LLP

Per:

Original signed by John A.D. Vellone

John A.D. Vellone

cc: Sarah Hughes, Energy+ Inc.
Ian Miles, Energy+ Inc.
Intervenors of record in EB-2019-0180

Energy+ Inc.
EB-2019-0180

Responses to Interrogatories

Filed: October 3, 2019

Table of Contents

Staff-CBRE-1

INTERROGATORY

Ref: Evidence of Neil Kelsey, pages 13-16, paragraphs 26-3

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 2018[1] 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.

RESPONSE

Melloul Blamey Estimate (December 10, 2018)	**$**
Area	21,496 (sf)
Work to Building	$4,580,203
Site Work	$305,525
Net Construction Cost (Excl. General Conditions, Fee & Contingencies (4Q 2018)	$4,885,728
$ / sf	$227
General Conditions	$681,477
Construction Management Fee	$420,000
Contingency	$600,000
Escalation	$508,848
Total Construction Cost (2020)	$7,096,053
$ / sf	$330
Allowances	$435,815
Professional Fees (Including LEED)	$617,772
Pre-Construction Fee	$30,000
Furniture Allowance	$400,000
Building Permit	$10,000
Total Project Costs (2020)	**$8,589,640**
$ / sf	**$400**

The Table above uses Escalation applied up to 2020 at a rate of 5.2% for 2018 to 2019 and then 2.4% for 2019 to 2020. This is per Table in D.5 of the Written Evidence document using

the Stats Can data to uplift to 2019 and then the forecasted rate of 2.4% per Table in D.8 of the Written Evidence document.

Staff-CBRE-1

INTERROGATORY

Ref: Evidence of Neil Kelsey, pages 13-16, paragraphs 26-3

Appendix B, 6.0 Financial Summary

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.

RESPONSE

The figure stated above of $889,000 for Contingencies within the CBRE Class C Estimate is correct.

The Estimate is at the Class C Stage and the information that the estimate is based on is circa 5% - 25% complete. A 15% Contingency allowance is typical for the current design stage. A Class D Estimate typically has an allowance of 25% - 30%, dependent upon design, complexity of the project, specification level etc., therefore 15% is reasonable and is a standard % allowance at this stage, given the author's knowledge gained in preparing estimates throughout the various design stages of a project.

The further 5% contingency for the works in connection with the existing shell is to cover for the additional risk associated with working in an existing building, particularly one that is older and has proposed amendments to the existing structure. The works to the existing shell include a new mezzanine, retention of the existing façade, creating openings in the existing façade and strengthening the existing roof structure, all of which represent additional risk at this stage of the design over and above the typical 15% allowance. CBRE have therefore, included for a further 5% to cover for such risks.

Melloul-Blamey have included a contingency of $600,000 in their revised budget of $8,099,792. In addition, they may have included risk / contingency allowance within the sub-trade work,

however, CBRE cannot confirm if this is the case without investigating and reviewing with Melloul-Blamey. We would also further indicate that the Construction Management Fee of $420,000 includes the management of change orders during construction and therefore there are to be no mark-ups to change order costs. This translates that Melloul-Blamey takes the risk on the number of changes, since it is typical for overheads and mark-ups to be charged on all changes. Given that the Construction Managers fee is higher than current market conditions, it could be viewed that this is an additional risk item priced accordingly by Melloul-Blamey.

Staff-CBRE-1

INTERROGATORY

Ref: Evidence of Neil Kelsey, pages 13-16, paragraphs 26-3

Appendix B, 6.0 Financial Summary

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.

RESPONSE

The estimated construction cost of the firewall is included. The value within the estimate is $269,315 for the wall inclusive of the foundations. This cost is net of General Conditions, Fee and Contingency.

Staff-CBRE-1

INTERROGATORY

Ref: Evidence of Neil Kelsey, pages 13-16, paragraphs 26-3

Appendix B, 6.0 Financial Summary

d) Please discuss whether a Class C cost estimate with +/-20% uncertainty appropriately reflects the current stage of the schematic design.

RESPONSE

The Estimate is at Class C Stage and based on the current design a +/- 20% is reasonable and typical for a Class C Estimate. This can deviate a little based upon the complexity of the project and the design information. The 20% +/- uncertainty appropriately reflects the current design stage in the authors opinion.

Staff-CBRE-1

INTERROGATORY

Ref: Evidence of Neil Kelsey, pages 13-16, paragraphs 26-3

Appendix B, 6.0 Financial Summary

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]

RESPONSE

The square footage of 21,496 square feet was obtained from the Melloul-Blamey's Class C Cost Estimate provided as part of the Design Brief.[2] It is my understanding from my discussions with Energy+ Inc. that "the square footage of 21,892 shown in Energy+'s evidence was based on the original estimate of expected square footage of the property determined in March 2017, compared to the 21,496 square feet derived as part of the Design Brief prepared in January, 2019."

[1] EB-2018-0028, TCQ-SEC-5

[2] Response to SEC-TCQ #2, Appendix SEC-2, Page 101 of 251

Staff-CBRE-1

INTERROGATORY

Ref: Evidence of Neil Kelsey, pages 13-16, paragraphs 26-3

Appendix B, 6.0 Financial Summary

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?

RESPONSE

CBRE has performed an independent Class C Estimate that goes into detail using the information provided to CBRE. We have measured the majority of the building elements such as the partitions, doors, windows, floor, wall and ceiling finishes, along with mechanical and electrical installations. In addition, we have also measured the elements that relate to the existing shell, such as inclusion of new roof joists, removal and replacement of windows, new glazing frontage, replacement of roof coverings etc.

This is evidenced by the detail within the Class C Estimate included at Appendix B of the Evidence of Neil Kelsey, where, once each building element is measured, we have applied a market rate, which when added up provides the total value of the estimate.

Approaching the cost estimate in detail in this manner is how CBRE assesses the reasonableness of a cost estimate of this nature.

Staff-CBRE-2

INTERROGATORY

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 contract[4] with Melloul Blamey.

RESPONSE

It is my understanding from discussions with Energy+ Inc. that "Energy+ confirms that it will enter into a standard CCDC 5B 2010 contract with Melloul-Blamey. Please refer to Response to Interrogatory 2-Staff-12 c) i) whereby Energy+ has provided a copy of the Purchase Agreement, which includes Schedule C "Construction Management Engagement Letter" with Melloul-Blamey. "

Staff-CBRE-2

INTERROGATORY

Ref: Construction Management Contract

b) Please explain what prices are fixed in the Construction Management Contract.

RESPONSE

The prices fixed at the pre-design stage, will be the Pre-Construction Fee and the Construction Management Services Fee, subject to agreement between Melloul-Blamey and Energy+. This is the General Conditions and Fee and the Pre-Construction Fee within the CBRE Class C Estimate.

Once all of the sub-trades are awarded then the Construction Manager and Energy+ can agree to a fixed price contract.

Staff-CBRE-2

INTERROGATORY

Ref: 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+?

RESPONSE

i. If actual costs are higher than the values allowed within the budget, then this cost overrun is borne by Energy+.

ii. If actual costs are lower than the budget, then the savings are reimbursable to Energy+.

An accurate and realistic budget is therefore critical to indemnify against potential budget problems.

Staff-CBRE-3

INTERROGATORY

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

24. At CBRE we have seen construction costs steadily rise since 2008 I 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)

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, Waterhouse 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?

RESPONSE

The BCPI is a resource published by Stats Can and is an industry recognized resource for reference within the construction industry. This is a good source of information and one that we at CBRE use for reference to review historical costs.

The BCPI uses historical information prepared in indices form. As it is historical, it does not forecast future indices and is used more as a reference tool in terms of escalation.

RSMeans is another tool that can be used as a resource for cost and escalation information. RSMeans is an online subscription source which provides cost data for an annual fee. CBRE delivers a significant level of projects annually, with budgets and actual Construction Manager or General Contractor's costs tracked through the life of a project. It is our preference to use our own in-house cost data, which is based on projects we have delivered.

Staff-CBRE-3

INTERROGATORY

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

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

RESPONSE

i. CBRE is not aware of and did not consider any other indices or sources of information.

ii. Reasons for this are provided below:

CBRE have used their in-house data and information in pricing the Class C estimate included at Appendix B of my evidence. CBRE Project Management undertakes a large volume of construction projects annually. The author advises that having worked in the Cost Consultancy market for over 20 years, holding and retaining in house data is most certainly the best form of cost data to have, as we know the source, are aware of the market conditions at the time, have the relevant drawings and information at hand, etc.

The Class C Estimate was priced at 2019 rates, with an allowance for escalation to 3rd Quarter 2020. An escalation rate of 3.5% was used to uplift to 2020.

Staff-CBRE-3

INTERROGATORY

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

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.

RESPONSE

i. CBRE have considered other sources of data that distinguish between different office fit out projects. This is data that we have in-house and data which we sub-divide into various fit out sectors, such as Office, High End Law firms, Finance sector, Technological sector etc.

ii. The BCPI distinguishes between Residential and Non-Residential but does not go into detail of differing types of non-residential buildings. Our approach was to break the estimate down into various building elements that facilitate a Class C Estimate approach, in accordance with the quantification and methods used by the Canadian Institute of Quantity Surveyors.

Our Approach

The building was divided into the Interior Fit Out work and the work to the Existing Shell, with a further separation of the Site Work. This breakdown facilitated a systematic approach in preparing the detailed estimate and also allowed for a benchmark exercise for the office fit-out element of the work, which is included within Section 4.0 of the Class C Construction Cost Estimate & Commentary on OEB Decision of CBRE's Report.

A Class C Estimate is defined below:

What it is: A Class C Estimate provides an outline project budget based on Schematic Design information, which the Design Team will have progressed to anywhere between 5 – 25% complete , based on the CIQS Quantity Surveying & Cost Consulting Services, Schedule of Services and Recommended Charges. In some instances, more information may be provided. The design will have progressed to such a stage where preliminary measures can be performed, and the design moves away from a simple plan (Class D Estimate information) and becomes more dimensional to such a level where drawings are produced showing scale and relationship with other building elements and components. This facilitates approximate take-off measures that we will prepare from the design information and forms an inherent part of the Estimate. Take-off measures is an industry term and means scaling or using dimensions from the drawing to compute the total for that measured element.

Typically, floor plans are provided, elevations, structural frame elements, if applicable, sections indicating height and wall elements / enclosures and outline specifications etc. are provided, which facilitates the estimate to be prepared in greater detail with less assumptions and an increased accuracy range. Details of finishes will be provided, though final selection of materials may not have occurred.

Activities:

- We quantify the estimate in greater detail as there is more information
- Each building element is measured to a level of detail as appropriate based on the design.
- Each building element once measured is allocated an appropriate market rate for the cost of constructing and then calculated to arrive at an amount for the total construction.
- Once the estimate is concluded in draft, we then benchmark against previous similar projects and review internally prior to formal issue.
- Our Report will advise upon what information our estimate is based on to provide clarity.

Level of Accuracy:

The level of accuracy for a Class C Estimate is generally + / - 20%, based on the updated design information. This can deviate a little based on the complexity of the project.

SEC-1

INTERROGATORY

Please confirm that all else being equal, a retrofit/renovation of an existing building are less costly than a new build.

RESPONSE

I can neither confirm nor deny what is being asked.

In simplistic terms, the retrofit of an existing building may encompass building elements such as new windows, new entrances, partitions, doors, floor, wall and ceiling finishes, upgrade / amendments to the mechanical and electrical installations and may involve site works, and then the general conditions and fee. There may also be some minor demolition or alteration work involved.

New build works involve the construction of a new building and the creation of a shell, structure, exterior enclosure, interior works, mechanical and electrical installations, site works and then the general conditions and fee.

For the purposes of answering the question, there are assumptions that have to be made.

For a comparison to be made on a more equal basis, then costs associated with the following should be excluded when considering retrofit / renovation works:

- Asbestos removal
- Hazardous material removal
- Costs in connection with Heritage Buildings
- Structural alterations
- Remedial work to the existing structure
- Shoring of existing structures

It should be noted that the above list is provided for information purposes only and is not

meant to be exhaustive.

Retrofit / renovation works involve work within the existing building and to assist in responding to the question we will have to assume that they already have an existing shell, structure and exterior enclosure, therefore theoretically, costs in relation to these elements are not incurred or are reduced.

Each project is unique, and this should be considered in reviewing the above answer. This uniqueness becomes more profound in relation to retrofit / renovation projects as the work required for each building retrofit will be unique to that particular building.

SEC-2

INTERROGATORY

Ref: [SEC-TCQ-5]

In Energy+'s evidence it provided its own benchmarking evidence to support its proposed new facility.

a) Please confirm that Energy+'s own benchmarking evidence did not include any adjustments for comparator facilities.

RESPONSE

It is my understanding from my discussions with Energy+ that Energy+'s own benchmarking evidence did not include any adjustments for comparator facilities. In its Argument in Chief, Energy+ noted that "Costs for the comparators are from 2011, 2012 and 2015, which have not been adjusted for known inflationary increases in materials or construction costs. Consequently, the costs of the comparators are understated when comparing to a Facilities Plan for the period 2020-2024."[3] Energy+ is not an expert in benchmarking and did not have readily available the applicable inflationary adjustments that are relevant to the construction industry.

[3] Energy+ Argument in Chief, page 16 (EB-2018-0028)

SEC-2

INTERROGATORY

Ref: [SEC-TCQ-5]

b) Please provide a revised table showing a similar cost per square foot which includes a Building Construction Price Index adjustment for each of the comparators. Please provide an explanation of all underlying calculations.

RESPONSE

Energy+ has provided the following table which presents each comparator's cost per square foot adjusted for the Building Construction Price Index.

LDC	Energy+ (Southworks, Bishop Street & Garden Avenue Combined)	Energy+ (Southworks)	Energy+ (Garden Ave)	Energy+ (Bishop St.)	Waterloo North Hydro Inc	InnPower	Milton Hydro Distribution Inc	PUC Distribution Inc.	PowerStream (now part of Alectra)	Enersource (now part of Alectra)
OEB Docket	EB-2018-0028				EB-2015-0108 EB-2010-0144	EB-2014-0086	EB-2015-0089	EB- 2012-0162	EB-2008-0244	EB-2012-0033
Year of Occupancy	2020/2022/2024	2022	2020	2024	2011	2015	2015	2012	2008	2012
Functions	Administration & Operations	Administration	Operations	Operations	Administration & Operations	Administration & Operations	Administration & Operations	Administration & Operations	Administration	Administration
Type of Project	Purchase/ Refurbish	Purchase/ Refurbish	Purchase	Refurbish	Custom Build	Custom Build	Purchase/ Refurbish	New Build	New Build	Purchase/ Refurbish
Capital Cost	$14,500,000	$8,100,000	$4,400,000	$2,000,000	$26,682,000	$10,896,704	$12,524,798	$23,000,000	$27,700,000	$18,000,000
Class of Estimate		Class C	Class D	Not Applicable						
Highest Class Estimate %		+20%	+30%	Assume 30% - Similar to Class D						
Square Footage	88,243	21,892	13,251	53,100	105,000	36,172	91,872	110,382	92,000	79,000
FTEs	131	67	13	51	125	41	61.5	87	250	150
Square Foot per FTE	674	327	1,019	1,041	840	882	1,494	1,269	368	527
Capital Cost per FTE	$110,687	$120,896	$338,462	$39,216	$213,456	$265,773	$203,655	$264,368	$110,800	$120,000
Capital Cost/Square Foot	$164.32	$370.00	$332.05	$37.66	$254.11	$301.25	$136.33	$208.37	$301.09	$227.85

Capital Cost with Building Construction Price Index ("BCPI")	$ 34,335,151	$ 13,094,357	$ 15,050,806	$ 28,647,586	$ 37,577,710	$ 22,419,850
Capital Cost with BCPI /Square Foot	$ 327.00	$ 362.00	$ 163.82	$ 259.53	$ 408.45	$ 283.80

The inflated capital cost was calculated consistent with the methodology utilized in response to D.8 in the Evidence of Neil Kelsey. The following table summarizes the inflation calculations.

			Capital Cost					
Year	Price Indices	% Difference	Waterloo North Hydro Inc	InnPower	Milton Hydro Distribution Inc	PUC Distribution Inc.	PowerStream (now part of Alectra)	Enersource (now part of Alectra)
2008 Q1	83						27,700,000	
2009 Q1	86.7	4.5%					28,934,819	
2010 Q1	84.6	-2.4%					28,233,976	
2011 Q1	87.5	3.4%	26,682,000				29,201,807	
2012 Q1	90.4	3.3%	27,566,318			23,000,000	30,169,639	18,000,000
2013 Q1	91.1	0.8%	27,779,774			23,178,097	30,403,253	18,139,381
2014 Q1	91.8	0.8%	27,993,230			23,356,195	30,636,867	18,278,761
2015 Q1	93.7	2.1%	28,572,610	10,896,704	12,524,798	23,839,602	31,270,964	18,657,080
2016 Q1	95.3	1.7%	29,060,510	11,082,774	12,738,669	24,246,681	31,804,940	18,975,664
2017 Q1	98.9	3.8%	30,158,283	11,501,430	13,219,878	25,162,611	33,006,386	19,692,478
2018 Q1	102.1	3.2%	31,134,082	11,873,570	13,647,619	25,976,770	34,074,337	20,329,646
2019 Q1	107.4	5.2%	32,750,249	12,489,925	14,356,065	27,325,221	35,843,133	21,384,956
2020 Q1 *		2.4%	33,533,338	12,788,571	14,699,332	27,978,592	36,700,175	21,896,290
2021 Q1 *		2.4%	34,335,151	13,094,357	15,050,806	28,647,586	37,577,710	22,419,850

* Assumed rate of 2.4%

SEC-3

INTERROGATORY

Please confirm that the expert was not asked and has not provided an opinion on the on appropriateness of Energy+ selecting the Southworks facility as its dedicated administration office.

RESPONSE

The instructions that I received from Energy+ Inc.'s legal counsel were outlined in the filed Evidence of Neil Kelsey document as part of A.7, Pages 5-6.

I have not provided an opinion on the appropriateness of Energy+ selecting the Southworks facility.

VECC-1

INTERROGATORY

Reference: Exhibit, page 6

a) Did the author site visit any comparable buildings to the Southwork-Gaslight building proposal?

RESPONSE

There were no comparable buildings visited during the engagement of CBRE. The author, has however, been involved in several projects that involve conversions of existing buildings in mixed-use developments over the course of his career, both in Canada and the UK. One of the projects, was the renovation work to Union Station, Toronto, ON, which included transport, office, and retail sector work in an existing Heritage building.

Other projects are listed below:

- Canadian Museum of Immigration, Halifax, NS
- Scotiabank Arena re-brand, Toronto, ON
- Various University Fit Out projects, UK
- Central Exchange Buildings, UK
- Numerous retro Office Fit Out projects, GTA, ON

VECC-1

INTERROGATORY

Reference: Exhibit, page 6

b) Please describe the risks in renovating an existing historical building (where those renovations are in part contingent on associated condominium buildings) and green or brown field new construction. How are any additional risks quantified?

RESPONSE

We understand that the building is not a Heritage Building, but it is historic and there are risks associated with renovation of such a building. The above query appears to be posing the question of identifying those risks within an existing historical building and then contrasting with the risk associated with new build construction on a greenfield site and new build construction on a brownfield site.

Firstly, new build projects and renovation projects differ from one another and a renovation project will contain different risks to a new build project. Furthermore, a greenfield new build and a brownfield new build contain different risks.

A new build construction project at Class C typically includes a 15% contingency amount. This covers for those elements of the design that are not yet designed, specified or known yet.

The additional risks for works in the existing building within the CBRE Class C Estimate include the replacement of windows, a new frontage to the building entrance which comprise of a large glazed façade, the insertion of a new mezzanine, roof strengthening of existing roof, removal of existing and new roof coverings, re-pointing existing masonry etc. These risks are measured and quantified within the Class C Estimate included at Appendix B of my evidence where the information permits quantification.

Due to the additional risks of working on and within the existing shell, we have included for a further 5% contingency over and above the 15% contingency. This portion of the work represents a greater level of risk due to the nature of the work involved (i.e. structural modifications and strengthening, large glazing frontage).

VECC-2

INTERROGATORY

Reference: Exhibit, page 9

a) What are the current average/ median, high/ low square footage costs for business office rental within the Cambridge-Preston area?

RESPONSE

The instructions provided to Mr. Kelsey in respect of his evidence are set out in paragraph 8, pages 5-6 of the Evidence of Neil Kelsey filed September 13, 2019.

These instructions are focused on ensuring that Mr. Kelsey provided helpful evidence on the comparators that the OEB utilized in their Decision and Order. This is evidence that would have been supplied had the comparators been properly introduced into evidentiary record in EB-2018-0028, so they could have been tested.

The purpose of the motion to review is not to introduce a host of new potential hypothetical comparisons.

Parties, including VECC, had numerous opportunities during multiple rounds of discovery on the Southworks facility to elicit information about relevant comparators.[4]

It appears that VECC wishes to utilize the motion to review to re-litigate the entire case.

This motion to review is not the appropriate forum to do so.

We would refer VECC to the Motions to Review Decision for the Natural Gas Electricity Interface Review (EB-2006-0322, EB-2006-0338, EB-2006-0340). In this decision, the Board clearly stated that, "With respect to the question of the correctness of the decision, the Board agrees with the parties who argued that there must be an identifiable error in the decision and that a review is not an opportunity for a party to reargue the case."[5]

[4] The first round of written interrogatory responses were filed on September 14, 2018. A technical conference was held on January 23, 2019. An oral hearing was held March 7 and 8, 2019.
[5] EB-2006-0322, EB-2006-0338, EB-2006-0340 Motion to Review the Natural Gas Electricity Interface Review Decision, Decision with Reasons dated May 22, 2007 at page 18.

VECC-3

INTERROGATORY

Reference: Exhibit, page 11

a) The PowerStream and Enersource are integrated office and operation facilities. Southworks is strictly office facilities located in the urban area of Cambridge. Why has the author not provided comparables of office space recently build in or around Cambridge, Ontario?

RESPONSE

The instructions provided to Mr. Kelsey in respect of his evidence are set out in paragraph 8, pages 5-6 of the Evidence of Neil Kelsey filed September 13, 2019.

These instructions are focused on ensuring that Mr. Kelsey provided helpful evidence on the comparators that the OEB utilized in their Decision and Order. This is evidence that would have been supplied had the comparators been properly introduced into evidentiary record in EB-2018-0028, so they could have been tested.

The purpose of the motion to review is not to introduce a host of new potential hypothetical comparisons.

Parties, including VECC, had numerous opportunities during multiple rounds of discovery on the Southworks facility to elicit information about relevant comparators.[6]

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decision and that a review is not an opportunity for a party to reargue the case."[7]

[7] EB-2006-0322, EB-2006-0338, EB-2006-0340 Motion to Review the Natural Gas Electricity Interface Review Decision, Decision with Reasons dated May 22, 2007 at page 18.

VECC-3

INTERROGATORY

Reference: Exhibit, page 11

b) Please provide the locations of the five most recent commercial office buildings constructed in the Cambridge-Preston area capable of accommodating 100 people at an average office space of 200 sq. ft. per person (i.e. approximately 20,000-square feet).

RESPONSE

The instructions provided to Mr. Kelsey in respect of his evidence are set out in paragraph 8, pages 5-6 of the Evidence of Neil Kelsey filed September 13, 2019.

These instructions are focused on ensuring that Mr. Kelsey provided helpful evidence on the comparators that the OEB utilized in their Decision and Order. This is evidence that would have been supplied had the comparators been properly introduced into evidentiary record in EB-2018-0028, so they could have been tested.

The purpose of the motion to review is not to introduce a host of new potential hypothetical comparisons.

Parties, including VECC, had numerous opportunities during multiple rounds of discovery on the Southworks facility to elicit information about relevant comparators.[8]

It appears that VECC wishes to utilize the motion to review to re-litigate the entire case.

This motion to review is not the appropriate forum to do so.

We would refer VECC to the Motions to Review Decision for the Natural Gas Electricity Interface Review (EB-2006-0322, EB-2006-0338, EB-2006-0340). In this decision, the Board clearly stated that, "With respect to the question of the correctness of the decision, the Board agrees with the parties who argued that there must be an identifiable error in the

[8] The first round of written interrogatory responses were filed on September 14, 2018. A technical conference was held on January 23, 2019. An oral hearing was held March 7 and 8, 2019.

decision and that a review is not an opportunity for a party to reargue the case."[9]

[9] EB-2006-0322, EB-2006-0338, EB-2006-0340 Motion to Review the Natural Gas Electricity Interface Review Decision, Decision with Reasons dated May 22, 2007 at page 18.

VECC-4

INTERROGATORY

Reference: Exhibit, page 15

a) Please provide a table in the same format as shown on page 15 but providing the inflation rates for the City of Ottawa.

RESPONSE

The Table below is an extract from the Non-Residential Building Indices from Stats Canada for the City of Ottawa.

Construction Prices Indexes for Non-residential Buildings

Geography: Ottawa-Gatineau

Year	Price Indices	% Difference
2008 Q1	81	
2009 Q1	85.1	5.1%
2010 Q1	85.8	0.8%
2011 Q1	90.0	4.9%
2012 Q1	93.7	4.1%
2013 Q1	94.1	0.4%
2014 Q1	94.2	0.1%
2015 Q1	95.9	1.8%
2016 Q1	97.6	1.8%
2017 Q1	98.9	1.3%
2018 Q1	102.0	3.1%
2019 Q1	109.2	7.1%

The results of the Ottawa construction index applied to the PowerStream (2008) and Enersource (2012) costs per square foot are summarized in the following table. The 2020 and 2021 inflation rate has been assumed at 2.4%, consistent with the Written Evidence document. The PowerStream cost per square foot is $425, or 4% higher, than the $409 cost / sf from the Written Evidence using the Toronto inflation index. The Enersource.cost per square foot is $279, or 2% lower, than the $284 cost / sf from the Written Evidence using the Toronto inflation index.

Year	% Difference	PowerStream 2008 $301 / sf	Enersource 2012 $228 / sf
2008 Q1		$ 301	
2009 Q1	5.1%	$ 316	
2010 Q1	0.8%	$ 319	
2011 Q1	4.9%	$ 334	
2012 Q1	4.1%	$ 348	$ 228
2013 Q1	0.4%	$ 350	$ 229
2014 Q1	0.1%	$ 350	$ 229
2015 Q1	1.8%	$ 356	$ 233
2016 Q1	1.8%	$ 363	$ 237
2017 Q1	1.3%	$ 368	$ 241
2018 Q1	3.1%	$ 379	$ 248
2019 Q1	7.1%	$ 406	$ 266
2020 Q1*	2.4%	$ 415	$ 272
2021 Q1*	2.4%	$ 425	$ 279

VECC-5

INTERROGATORY

Reference: Exhibit, page 6

a) A number of professional associations and government agencies provide standards or "rules of thumb" for office accommodation. For example the Manitoba government provides the following standards for office space:

Occupancy	Target Sq Ft per Occupant
1–5 people	250
6–10	220
11–20	215
21–40	200
40+	194

Office Space Planning Standards, February 2018, Government of Manitoba): https://www.gov.mb.ca>finance>accomm>pub>office_space

a) Does the author agree that these are reasonable standards for typical office space requirements? If not please provide the Canadian Institute of Quantity Surveyors standard or rule of thumb for planning office space.

RESPONSE

I am unable to agree or disagree as office accommodation design is not my area of discipline. Since this is a design issue, the Canadian Institute of Quantity Surveyors do not have standard or rule for planning office space.

This type of work is performed by designers or personnel involved in workplace strategy, which is design based and utilizes information from the Client to provide the optimum design or a range of design solutions that enable a Client to make a decision on office layout etc.

CBRE have personnel that perform this service, but this is not in the Cost Consultancy division or Project Management.

VECC-6

INTERROGATORY

Reference: Exhibit, page 8

a) Please provide a table showing the criteria for Class A through D estimates along with the associated contingency range for each class.

RESPONSE

Classification of Estimate	Level of Information	Estimate Description	Contingency Level (Typical)
Class D	Conceptual	An outline project budget based on design information provided where preliminary measures may be performed, if the design information permits.	25% - 30%
Class C	5% - 25%	An estimate based on limited design information, which is usually 20 – 33% complete. The design will have progressed to such a stage where preliminary measures can be performed and becomes more dimensional to such a level where drawings are produced showing scale and relationship with other building elements and components.	15% - 20%
Class B	25% - 66%	Based on Schematic Design information, progressed to 50 – 66% complete (assumed). The design moves away from a more basic level of information (Class C Estimate information). The design becomes more dimensional showing scale and relationship with other building elements and components. This facilitates take-offs and measures in greater detail that we will prepare from the design information and forms an inherent part of the Estimate.	10 - 15%

Class A	90% - 99%	A Class A Estimate provides a budget based on Pre-Tender Design information, which is typically 90 – 99% complete. Detailed measures can be performed due to the level of detail provided, as the General Contractor and their supply chain must be able to submit a fixed price based on the provided drawings and specification.	2% - 5%

The Table above is representative for a typical project. Contingency allowances should be reviewed on a project by project basis.

VECC-6

INTERROGATORY

Reference: Exhibit, page 8

b) Please explain what steps Energy + would need to take to acquire a Class B construction estimate.

RESPONSE

Energy+ would need to instruct their Design Team to progress the design to the next stage, which would provide a greater level of detail to the current design. This would take time and would cost Energy+ additional design fees, beyond what they have already incurred.

CBRE can then provide a fee proposal to Energy+ to undertake a Class B Estimate. Given that Energy+ propose to negotiate with Melloul-Blamey for the work, it would be prudent to get an updated budget from them also and any difference between the CBRE independent Class B Estimate can be reviewed with the Melloul-Blamey Class B Estimate.

VECC-6

INTERROGATORY

Reference: Exhibit, page 8

c) Please explain any differences between the estimate criteria shown in response to a) and the standard AACE classes 1 through 5 estimate criteria as shown in the table below:

	Primary Characteristic	***Secondary Characteristic***			
STIMATE CLASS	**LEVEL OF PROJECT DEFINITION** Expressed as % of complete definition	**END USAGE** Typical purpose of estimate	**METHODOLOGY** al estimating method	**EXPECTED ACCURACY RANGE** Typical variation in low and high ranges [a]	**PREPARATION EFFORT** Typical degree of effort relative to least cost index of 1 [b]
Class 5	0% to 2%	Concept Screening	Capacity Factored, Parametric Models, Judgment, or Analogy	L: -20% to -50% H: +30% to +100%	1
Class 4	1% to 15%	Study or Feasibility	Equipment Factored or Parametric Models	L: -15% to -30% H: +20% to +50%	2 to 4
Class 3	10% to 40%	Budget, Authorization, or Control	Semi-Detailed Unit Costs with Assembly Level Line Items	L: -10% to -20% H: +10% to +30%	3 to 10
Class 2	30% to 70%	trol or Bid/ Tender	Detailed Unit Cost with Forced Detailed Take-Off	L: -5% to -15% H: +5% to +20%	4 to 20
Class 1	50% to 100%	ck Estimate or Bid/Tender	Detailed Unit Cost with Detailed Take-Off	L: -3% to -10% H: +3% to +15%	5 to 100

RESPONSE

The above Table is from the AACE, which is the American Association of Cost Engineers. This is a predominantly US professional body and Cost Consultancy firms in Canada tend to use the Canadian Institute of Quantity Surveyors as the professional body of choice.

The Table does indicate however, that as the design progresses accuracy should increase, and contingency level reduces, which is indicative of the greater level of detail and correlates with what we would advise Clients and how we would approach our estimates.

VECC-7

INTERROGATORY

Reference: Energy +

a) In its Decision with Reasons the Board stated: *"The OEB also notes that only a small portion of the Southworks construction contract (construction management and architectural components, representing about 13% of the total estimated cost) has been awarded. The remaining 87% is yet to be awarded based on a competitive tender process. This presents a significant uncertainty regarding the reliability of the estimated cost of the facility and also raises questions as to whether the $400,000 project contingency is adequate."* (Pages 13-14)

Is it still the case that about 87% of the project remains untendered?

RESPONSE

Energy+ estimates that approximately 16% of the construction project has been awarded, leaving approximately 84% untendered. The % awarded includes the construction management, architectural components, as well as the completion of the firewall. The firewall expenditure of $269,477 was paid in June 2019 as part of the closing of the purchase of the land for $1.

VECC-8

INTERROGATORY

Reference: Energy +

a) The Board in its Decision approved $6.5 million in ACM spending. The new evidence suggests a cost of $7.8 million. Please show the annual revenue requirement shortfall that would be associated with the $1.3 gap for each year subsequent to the date the facilities are project to go into service until the date of the next cost of service rebasing year for the Utility.

RESPONSE

Energy+ has provided a table which summarizes the annual revenue requirement impact from a $1.3 million shortfall in approved ACM spending, assuming a cost of $7.8MM.

The estimate of $7.8 million provided as part of the CBRE evidence was prepared for benchmarking purposes. Based upon Energy+'s proposed costs of $8.1 million, the annual revenue requirement impact from a $1.6 million shortfall is $133,352.

	Impact	
Revenue Requirement Component	**$1.3M Shortfall**	**$1.6M Shortfall**
Depreciation	$ 21,667	$ 26,667
Interest	$ 34,086	$ 41,952
Regulated ROE	$ 46,696	$ 57,472
Grossed Up PILS	$ 5,899	$ 7,261
Total	**$ 108,348**	**$ 133,352**

With an expected in-service date of 2022, and based upon Energy+'s next scheduled Cost of Service rebasing in 2024, the cumulative annual revenue requirement shortfall would be approximately $266,000, based on a $1.6MM shortfall.

A $1.6MM shortfall in the capital expenditure amount approved for prudency creates significant uncertainty with respect to whether any amounts spent in excess of the OEB's approved amount of $6.5MM would ultimately be approved as part of its future rebasing.

A shortfall of $1.6M in future rebasing, based on the Southworks project proceeding as planned, would ultimately be borne by the shareholders of Energy+, with an annual revenue

shortfall of $133,352 in perpetuity, resulting in a lower return for its shareholders, despite Energy+ having followed what it considered a prudent approach to its overall facilities plan.

Energy+ is now facing this significant uncertainty as a result of the Board's reliance upon benchmark comparisons of other LDC facilities plans that were not filed on evidence and that are not truly representative of the Southworks project, and an inflation index that was not grounded in evidence; both of which have resulted in an decision on prudence that is grounded in error.

Based upon the Class C estimates prepared by both Melloul-Blamey and CBRE, the construction of the Southworks facility is expected to cost in the range of $7.8MM and $8.1MM. The OEB's Decision on the ACM was an approved capital amount of $6.5M which, based upon the evidence filed by Energy+, cannot be achieved in the current construction market.

Energy+ expects that the actual costs of this project will come in at an amount greater than $6.5MM. Energy+ has filed detailed evidence to support its cost estimate. Energy+ has followed best management practices with respect to developing a facilities plan, implementing a construction and procurement process, and ultimately filing an ACM application for the approval of an investment that is expected to occur during the IRM term.

Under the revised Capital Module policy, the purpose and intent of the ACM is to (emphasis added):

- advance the review of eligible discrete capital projects and facilitate enhanced pacing and smoothing of rate impacts;
- assist in large part to preserve the regulatory efficiency of IR applications;
- **more importantly, it provides greater assurance of recovery for prudent and appropriately prioritized capital projects regardless of when the investments might be made.**

The ACM policy also includes the following context:

Following any approvals in a cost of service application, the distributor would still have to file

information in the applicable IR application to confirm that the ACM is on schedule to be completed as planned, that the costs of the projects have not significantly changes from the **original forecast** (emphasis added), and to determine the appropriate rate riders for approval.

In general, the details and need for a project that has received ACM approval in a previous cost of service application should not need to be re-examined in an IR application, however, if the forecasted costs (or timing) are significantly different than what was in the DSP, the onus is on the distributor to support the changes. In particular, if costs are 30% (or more) above what was documented in the DSP, the distributor has the option of seeking approval for the incremental costs but would typically treat the project as a new ICM and re-file the business cases and other relevant material in the applicable IR year. This would provide the applicant and parties an opportunity to argue for a different (higher or lower) percentage depending on the nature of the project. If costs are less than 30% above what was documented in the DSP, the distributor shall still explain the need for the increased costs, whether and how re-prioritizing of capital projects has been considered, how impacts on the rates and bills of the distributor's rate payers have been taken into account, and finally, whether the project is still the best option. [10]

Based on the ACM policy as outlined above, the OEB's Decision with respect to the Southworks project has increased the amount of uncertainty that Energy+ faces with respect to managing this project, particularly with respect to: (i) providing assurance with respect to rate recovery; and (ii) regulatory efficiency.

Energy+ has filed evidence that provides for a total capital cost of $8.1MM. The OEB has reduced that amount to $6.5MM without a reasonable factual basis to do so. Under the ACM policy, if the actual costs come in at $8.1MM (as estimated by Energy+), Energy+ would be subject to a detailed review as part of the IR application in the year that the Southworks facility is placed into service, even though the details and need for the project were already examined. Energy+ fails to see how filing the ACM with this outcome has provided any assurance to Energy+ on the recovery of its estimated costs or has resulted in a more

[10] Report of the Board *New Policy Options for the Funding of Capital Investments: The Advanced Capital Module,* EB-2014-0219, Page 12.

efficient regulatory process.

Using the 30% threshold, and assuming that the OEB approved amount of $6.5MM is the base for the threshold, an actual expenditure amount of $8.45MM ($6.5MM x 1.30) would result in Energy+ having to treat the project as a new ICM and re-file the business case and other relevant material, despite the fact that the estimate was originally filed as $8.1MM. Again, Energy+ fails to see how filing the ACM with this outcome has provided any assurance to Energy+ on the recovery of its estimated costs or has resulted in a more efficient regulatory process.

In the case whereby the OEB would approve the $8.1MM as originally requested, and as supported by the evidence, an overage of $0.35MM would require Energy+ to explain the need for the increased costs, however, the entire business case and other relevant materials would not be subject to re-examination.

Energy+ submits that on the basis of the outcomes outlined above, Energy+ would have been better off (consumed less resources – internal and third-party costs) if Energy+ had forgone the ACM application request and instead chosen to include the facility investment in rate base in its next rebasing.