

February 7, 2012

Mr. Robert Siddall  
Chief Financial Officer  
Metrolinx  
20 Bay Street, Suite 600  
Toronto, ON M5J 2W3

Dear Mr. Siddall,

**Re: PRESTO Farecard System Procurement**

I was asked by Metrolinx to review Metrolinx's contract with Accenture Inc. to design, build, operate and to a degree maintain what has come to be known as the PRESTO Electronic Farecard (e-fare) system. This letter reflects my conclusions after the completion of the review that I was asked to undertake.

I understand that, concurrent with this review, there is a value for money review being conducted by Grant Thornton LLP. This is a separate, differently focused review of the financial aspects of the contract. I will have more to say about its importance shortly.

In the course of this undertaking I reviewed the following documents related to the PRESTO procurement:

- the Request for Qualifications (RFQ);
- the Request for Proposals (RFP);
- the agreement between Accenture Inc. and the Province of Ontario;
- other PRESTO/Metrolinx materials that need not be detailed.

I also met with the following people who in one way or another have been, and in many cases still are, involved in the PRESTO procurement:

- Gary McNeil, President, GO Transit
- Ernie Wallace, former Executive Project Director, PRESTO
- Steve Zucker, Managing Director & Executive Vice President, PRESTO
- Bruce McCuaig, CEO, Metrolinx (PRESTO is an operating division of Metrolinx)
- Mary Martin, General Counsel and Corporate Secretary, Metrolinx
- Kent Kawall, CIO, Ministry of Transportation
- Alden Cuddihey, Partner, Accenture (PRESTO Engagement Partner)

In addition, at the outset of this review I met with several Metrolinx officials to discuss my mandate generally and the PRESTO initiative in particular.

I am grateful to all those who took the time to meet with me. All were fully cooperative in informing me about matters relevant to the PRESTO project and in answering my questions about it.

The contractual arrangements in question need to be addressed in context. I thus turn first to an overview of the PRESTO project.

PRESTO is a Government of Ontario initiative. It had its formal, small scale launch in May 2010. It is in operation in transit systems in Oakville, Burlington, Hamilton, Mississauga, Brampton, York Region, Durham Region, all GO Transit rail and bus lines and in twelve TTC subway stations. Thus the PRESTO project is not an on-paper only project. Quite the contrary, it is a well entrenched and successful e-fare program in those transit systems to which I have referred above.

PRESTO is a Provincial Government program, administered by Metrolinx, full responsibility having been transferred to Metrolinx effective June 30, 2011. Metrolinx is a Crown agency, non-share capital corporation. It was created by statute in August 2006. GO Transit is a division of Metrolinx. PRESTO is now also a division of Metrolinx as well as the Airport Rail Link.

PRESTO was born in recognition of a need for a cost efficient, consumer focused transit e-fare system. Eventually it was decided to proceed with a new fare system to be adopted in its original incarnation by GO Transit (the lead agency) and eight regional transit service providers. Significantly, the TTC has actively participated in many areas of the project in a qualified way from its early stages. The Ontario Ministry of Transportation (MTO) had the primary responsibility for the project.

Early on it was decided that outside coordination of the project was desirable. This eventually led to a Master Supply and Services Agreement between the Crown and Accenture. Among many other things it provided that, “[M]inistry desires to purchase and Contractor [Accenture] desires to provide all of the goods, equipment, hardware, software and services, which shall comprise the STA Fare System”.

Accenture secured the contract after it responded to a Request For Qualification (RFQ) and was found to be qualified. The RFQ was followed by a Request For Proposal (RFP) which set out what was required of proponents in considerable detail. As it turned out after evaluation monitored by a Fairness Advisor, Accenture was the successful proponent and as noted above it entered into a Master Supply and Services Agreement with the Crown to become System Integrator for the PRESTO Project. As System Integrator, Accenture became responsible for contractually defined deliverables which comprises most of the PRESTO program from a design, development and operations perspective. It was accountable to MTO and now Metrolinx for services it provides directly and the services of all subcontractors on the program.

I see no need to review the technical aspects of the PRESTO project. As a consumer and holder of a TTC Metropass I can readily see the benefits to the public of an enhanced cost efficient transit e-fare system—I recognize that there are cost considerations and value for money issues. I am advised that the PRESTO project’s base cost was \$250 million with \$130 million of add-ons. For reasons set out below, my only concern is the question of value for money, the subject matter of a separate independent review conducted by Grant Thornton for Metrolinx.

Both the RFP and the Accenture agreement contemplated potential changes in the contractual arrangements with Accenture throughout the life of the agreement. This is not surprising given the length of the Accenture agreement (10 years plus renewals), the speed with which technology changes and changes required to bring Ontario's two largest transportation service providers (the TTC and Ottawa) onto the PRESTO e-fare system. The prospect of this occurring, although not certain, was known from the beginning. Now that both of the TTC and Ottawa are a part of the PRESTO project, the project's dimensions have significantly expanded. But it is important to repeat that this expansion was contemplated in the RFP and the Accenture agreement. Thus, the expansion of the Accenture contract cannot be challenged on fairness grounds.

I should add that in addition to the expansion of the Accenture agreement the parties to that agreement<sup>1</sup> have discussed changes in contractual set-up. Under the agreement in its original incarnation Accenture acted as System Integrator for the PRESTO system. In that role Accenture was the equivalent of a prime contractor responsible to Metrolinx for a defined scope of work.

As the project has matured Metrolinx has considered another project delivery mode thought to remedy deficiencies in the original contract structure and provide a more sustainable operating platform going forward. Among other things use of the original model meant that Metrolinx was tied to a single vendor, Accenture, for risk assessment purposes, instead of distributing risk over multiple vendors. It also limited Metrolinx's budget flexibility and cost management opportunities.

Thus, PRESTO concluded that moving to a "Thin Integrator" vendor and open architecture model was appropriate. Under the Thin Integrator model Accenture's role will change, but it will still be the technical authority and delivery lead for the project. As such it will remain responsible for ongoing service integration and it will be accountable for services it delivers directly. PRESTO will assume a direct contractual accountability for a broader scope of financial back office function, technical management, vendor services, with an enhanced capacity for vendor contract management and relationships. This more direct control of supplier relationships should provide PRESTO with the benefits of increased vendor competition, lower vendor costs, and more direct ownership of assets without compromising Accenture's role as overall service manager/integrator.

In my meetings with those familiar with the Thin Integrator model, I was advised that Accenture and all of Accenture's current subcontractors accept moving to that model. New subcontractors can also be brought within the Thin Integrator model without difficulty or impact to the existing program.

Without claiming the remotest technical expertise, the movement to the Thin Integrator model seems to me to make considerable sense, as does the PRESTO card concept. I am advised that Metrolinx has a transition plan and timetable in place for purposes of moving to the Thin Integrator model starting April 1, 2012.

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<sup>1</sup> Metrolinx represents Her Majesty the Queen in the right of the Province of Ontario.

To summarize and conclude, there is no doubt that the expanded scope of the PRESTO project is substantial, as is the magnitude of the accompanying change orders. If these changes were not contemplated in the RFP and the Accenture contract, fairness problems with the procurement process would be rampant. However, as I have said, the RFP and the Accenture contract both contemplate expansion of the PRESTO project; for example, adding other transit service providers, new modes of payment like open payments (credit/debit cards) and mobile giving the transit rider greater choice. For ease of reference I am attaching as Schedule A to this letter some excerpts from the source specification documents and the operative contract that clearly confirm the contractual expectation that the PRESTO project would be expanded during the life span of the agreement.

Although it is not determinative, going back to the market with some or all of the change orders would manifestly cause significant delay and probably increased project costs. I see no fairness concerns in dealing with the contract changes by change orders subject to one reservation. My only concern is the value for money issue. That concern brings me back to the concurrent value for money review which I understand has recently been completed. In my view, if the independent value for money review is positive in the sense that it concludes value for money in all of the current circumstances has been achieved, I see no compelling reason to re-start the procurement process, likely with another RFQ, followed by another RFP, and then an agreement with the successful proponent.

If anything further is required please let me know.

Yours very truly,



Coulter A. Osborne

## SCHEDULE A

### 1. MSSA Excerpts

- Article 1.1: . . . The GTA Fare System will be scaleable to any number of Service Providers in Ontario. The GTA Fare System will be usable by all members of the public in Ontario. . .
- Article 1.2 (e): . . . collectively the "Service Providers" which defined term as used throughout this Agreement shall also include new service providers as they may be added . . .
- Article 1.4 (a): . . . The scope of this Agreement may be extended or minimized from time to time in accordance with this Agreement, to enable other municipalities and service providers to avail themselves of the goods and services provided herein and to enable Ministry, the Service Providers (current and future) or municipalities to procure certain other goods and services in accordance with the RFP, or to enable Service Providers to no longer be participants in the Project. Any such changes to scope of services shall amend this Agreement in accordance with the Change Management Procedures in Schedule B.
- Article 10.2 (b) (ii): . . . to provide to the Ministry Group and members of the public, rights to access any and all parts of the GTA Fare System for all operational purposes within the geographical territory of Ontario . . .

### 2. Part 1 – Scope of Work Excerpts

- Article 3, bullets 8 &9:
  - To minimize the technical and commercial risks of introducing new forms of fare payment and to seamlessly phase in the progressive expansion of the GT A Fare System across all modes of public transit
  - To accommodate future technological developments

### 3. Part 2 – Central System Specifications Excerpts

- Article 15 (4):  
In this context, the term scalability means the capability to grow the capability of the Central System to support the addition of future Ontario municipal transit service provider participants, including the TIC and municipal service providers outside the GTA.

### 4. Part 11 – Open Interface Specification Vol. 1 Excerpts

- Article 1.0 (1):  
Note that the design of the fare system shall provide for future potential extension of system functionality to include a general e-purse payment application for non-transit goods and/ or services. However, the OIS currently only addresses the needs of the GT A Fare System for transit.
- Article 1.1 (2):  
The purpose of the OIS is to guarantee interoperability between Farecards, Devices and the Central System, and allow the GTA Fare System to be maintained and expanded using multiple suppliers, vendors, Devices or Farecards, if required.