

**SEPTEMBER 21, 2022**

# August 25, 2022, Draft Expedited Process Procurement Materials (E-LT1 RFP and Contract) Question and Answer Session for Project Financiers and Legal Advisors

# Agenda

- A general update on IESO's ongoing long-term procurements, including timelines and key updates
- An overview of key aspects of the Expedited Process (E-LT1) draft Contract and RFP
- Questions, Answers and Discussion

# Purpose of Today's Webinar

- The purpose of this session is to make ourselves available for any questions members of the project finance and legal communities may have on the draft E-LT1 RFP and Contract materials that were posted for feedback on August 25
- Not intended to be a continuation of the general feedback webinar held on September 15

# Purpose of the Expedited Process

- The Expedited Process (E-LT1) is intended to help address an emerging system capacity need by acquiring new resources that are able to reach commercial operation as early as May 1, 2025
- Resources must be dispatchable and be able to provide at least 4 hours of continuous energy
  - A subsequent procurement, the LT1 RFP, will similarly be looking to acquire new capacity resources that are able to reach commercial operation by May 1, 2027

# E-LT1 and LT1 Schedule

Milestones	E-LT1	LT1
Qualified Applicants Announced	August 23, 2022	August 23, 2022
Draft RFP and Contract Posted	August 25, 2022	N/A
Deliverability Test Submission Deadline	August 30, 2022	January 4, 2023
Final RFP and Contract Posted	November 1, 2022	January 30, 2023
Deliverability Test Results	November 30, 2022	[April 14, 2023]  (Additional time may be required depending on volume of applicants)
Proposal Submission Deadline	December 20, 2022	[July 2023]
Contract Offer Announcement	February 28, 2023	[October 2023]



# E-LT1 Contract Overview

# Draft E-LT1 Contract Recap

- The draft E-LT1 Contract is a “capacity style” contract that will pay suppliers on a “pay-as-bid” basis to make their Contract Capacity available on a day-ahead basis for all Qualifying Hours (07:00 to 23:00 EST on Business Days, or such other continuous 16-hour period over a maximum of five (5) days in any calendar week, as prescribed by the buyer)
- ~22 year term, with facilities to be in-service by May 1, 2025 to May 1, 2026, subject to payment multipliers
- All other revenue opportunities, including from the real-time energy market and from the monetization of environmental attributes, will remain with the Supplier

# Performance Obligations: Must Offer

- Resources will be subject to must offer obligations, meaning they will be required to offer their contract capacity into the energy market day-ahead during the Qualifying Hours
- The IESO shall be entitled to exercise the right to prescribe a revised continuous 16-hour period to constitute Qualifying Hours with a 90 day written notice up to two times in each Contract Year
- After the completion of the second Contract Year, if the average of the Monthly Average Offered Quantity for each Settlement Month in any rolling 24 month period is less than 75% of the average of the Adjusted Monthly Contract Capacity for such Settlement Months, it will constitute a Supplier Event of Default



# Performance Obligations: Non-Performance

- If a Facility fails to meet its performance requirements, an Availability Non-Performance Charge will be assessed and charged to the Supplier for the applicable Settlement Month
- This charge will be equal to the Monthly Capacity Payment multiplied by the applicable percentage shortfall below the Minimum Offer Quantity, multiplied by the monthly non-performance factor

<b>Month</b>	<b>Factor</b>	<b>Month</b>	<b>Factor</b>
January	2.0	July	2.0
February	2.0	August	2.0
March	1.5	September	2.0
April	1.0	October	1.0
May	1.0	November	1.0
June	1.5	December	1.5

## Spread Mechanism for Electricity Storage 1/2

- The E-LT1 Contract is a **pay-as-bid** capacity contract, however, the IESO has introduced a spread mechanism that intends to reduce the uncertainty of future energy prices for storage resources

### Adjustment Up

Resources will be eligible for a capacity price top-up if average energy price spread between the 4 highest price and 4 lowest price Qualifying Hours are below \$10/MWh over the course of a settlement month

### No adjustment

Resources will not be eligible for a capacity price top-up or subject to a claw-back if average energy price spread between the 4 highest price and 4 lowest price Qualifying Hours are within the \$10/MWh to \$50/MWh over the course of a settlement month

### Adjustment Down

Resources will pay back a capacity price claw-back if average energy price spread between the 4 highest price and 4 lowest price Qualifying Hours are above \$50/MWh over the course of a settlement month

## Spread Mechanism for Electricity Storage 2/2

- The IESO analyzed historical daily HOEP spreads (4 lowest and highest priced hours) over a 5-year period to create a normal distribution. The extremes of this normal distribution were used to determine adjustment thresholds for the spread mechanism (\$10/MWh and \$50/MWh)
- Proponents will bid in a **single adjustment percentage** (revised since draft RFP) to serve as both the adjustment up and the adjustment down. (e.g. an adjustment bid of 10% would mean the monthly capacity payment is increased by 10% when monthly average spread is less than \$10/MWh and decreased by 10% when monthly average spread is greater than \$50/MWh)
- The maximum adjustment bid a proponent can submit is 20%. Note that proponents may opt out by bidding an adjustment of 0%

# Materials Cost Index Adjustment

- IESO has included indexing as a means to provide developers with a hedge against inflation and commodity price increases during the pre-construction phase
  - [**50%**] of materials costs to be indexed (applies up and down)
  - [Adjusted for change in index over the 3 consecutive calendar months, one year after contract execution, compared to the month immediately prior to the Proposal Submission Deadline]
  - IESO is proposing to leverage the StatsCan Industrial Product Price Index (IPPI) subcategories for ferrous and non-ferrous metals; feedback on this index or other indices that could be considered is welcome

# Form of Proposal Security

- Should be in the form of one or more irrevocable and unconditional standby letters of credit issued by a financial institution listed in either Schedule I or II of the Bank Act (Canada) or such other financial institution having a minimum Credit Rating of (i) A- with S&P, (ii) A3 with Moody's, (iii) A (low) with DBRS Morningstar, or (iv) A- with Fitch IBCA, in substantially the form attached as Appendix D of the E-LT1 RFP or in a form acceptable to the IESO, acting reasonably
- The IESO will only accept a Letter of Credit as the form of Proposal Security, as has been the case in previous IESO procurements.
- The same form of Letter of Credit can be used as Proposal Security and be converted to Completion and Performance Security

# Force Majeure

- Force Majeure means any act, event, cause or condition that prevents a Party from performing its obligations (other than payment obligations) hereunder, and that is beyond the affected Party's reasonable control, and shall include the acts/events etc. listed in the E-LT1 Contract, consistent with those defined in past IESO procurements, including acts of god, fires or explosions, amongst others.
- The E-LT1 RFP is key to helping meet system needs that emerge in 2025/2026 and targets Proponents who are confident of meeting these timelines. Some Proponents have raised concerns surrounding macroeconomic volatility and suggested there may be additional considerations that the IESO should contemplate as part of Force Majeure in the E-LT1 Contract, that would deviate from past procurements.

**If applicable please provide feedback as to what additional considerations may apply, while aligning with the IESO's reliability based timelines.**

## Additional Discussion Topics

- Through this system reliability based procurement, the IESO is trying to strike a balance between system operations, ratepayer and proponent risks. Are there aspects of the draft contract that are particularly supportive or challenging from a project financing perspective?
- What financing structures are being considered for the E-LT1 RFP? What debt to equity ratios are currently being financed?
- Please comment on the draft contract in the context of macroeconomic trends.
- Are there additional topics for discussion?



# E-LT1 RFP Overview



# Procurement Targets and Resource Eligibility

- As previously indicated, the IESO will introduce separate procurement targets for the Storage and Non-Storage Categories of the E-LT1 and LT1 RFPs
  - Exact ratios are yet to be finalized, however based on the breakdown of projects submitted into the deliverability testing process and the IESO's desire to ensure supplier diversity it can be expected that, at a minimum, more than half of the Target Capacity will be allocated to the Storage Category
- Further, policy direction on resource eligibility and the treatment of emitting resources is expected after October 7, after the IESO reports back to the government
- The final allocation of procurement targets will reflect any government policy decisions and direction to the IESO

## Next Steps

- The IESO is seeking written feedback on the draft E-LT1 RFP and Contract, in addition to the E-LT1 RFP and LT1 RFP Summary of Differences Document, by **September 30, 2022**
- Please send written feedback to [engagement@ieso.ca](mailto:engagement@ieso.ca)



## Appendix:

# Summary of Key Differences between the E-LT1 and LT1 RFP and contract

# Summary of Differences: E-LT1 RFP and LT1 RFP

<b>E-LT1 RFP</b>	<b>Proposed change in LT1 RFP</b>
1.2 (d) Procurement Targets	The LT1 procurement target will be up-to 2500 MW which will be sub-divided into different procurement targets for the Storage Target Capacity and Non-Storage Target Capacity.
2.2 (e) Commercial Operation	<ul style="list-style-type: none"><li>• Early COD Payment Multiplier will not be present in the LT1 Contract</li><li>• Milestone Date for Commercial Operation (MCO) of May 1, 2027</li><li>• Early Operation to result in additional term, but no early COD bonus multiplier</li></ul>
2.2 (k) Completion and Performance Security	Amounts for LT1 RFP are as follows: <ul style="list-style-type: none"><li>• Base Amount Small-Scale LT1 Project: \$30,000/MW of Maximum Contract Capacity</li><li>• Base Amount Large-Scale LT1 Project: \$40,000/MW of Maximum Contract Capacity</li><li>• From COD to End of the term: \$25,000/MW of Maximum Contract Capacity (for both Small-Scale LT1 Projects and Large-Scale LT1 Projects)</li></ul>
4.3 Stage 3 Rated Criteria	The LT1 RFP may reflect modified Rated Criteria values and/or Priority Zones for location.

# Summary of Differences: E-LT1 Contract and LT1 Contract

## E-LT1 Contract

## Proposed change in LT1 Contract

2.3 Milestone Date for Commercial Operation

Early COD Payment Multiplier will not be present in the LT1 Contract

- Milestone Date for Commercial Operation (MCOD) of May 1, 2027
- Early Operation to result in additional term, but no early COD bonus multiplier
- Contract to expire on or before twentieth anniversary of the MCOB

2.13 Materials Cost Index Adjustment

Subject to change prior to finalization of LT1 RFP, depending on macroeconomic conditions and further IESO analysis.

6.1 Completion and Performance Security

Amounts for LT1 RFP are as follows:

- Base Amount Small-Scale LT1 Project: \$30,000/MW of Maximum Contract Capacity
- Base Amount Large-Scale LT1 Project: \$40,000/MW of Maximum Contract Capacity
- 1.5 X Base Amount Small-Scale LT1 Project: \$45,000/MW of Maximum Contract Capacity
- 1.5 X Base Amount Large-Scale LT1 Project: \$60,000/MW of Maximum Contract Capacity
- From COD to End of the term: \$25,000/MW of Maximum Contract Capacity (for both Small-Scale LT1 Projects and Large-Scale LT1 Projects)